

## **University College of Matara – 2017**

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The audit of financial statements of the University College of Matara of the University of Vocational Technology for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 47(2) of the University of Vocational Technology Act, No. 31 of 2008 and Section 17(2) of the sets of rules of University of Vocational Technology Notification No. 01 of 2014 published in the Gazette Extraordinary No.1882/51 of 03 October 2014. My comments and observations which I consider should be published with the Annual Report of the University College in terms of Section 49(1) of the University of Vocational Technology Act appear in this report. A detailed report relating to this was issued to the Director of the University of College on 10 May 2018.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## 2 Financial Statements

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### 2.1 Opinion

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In my opinion, the financial statements give a true and fair view of the financial position of the University College of Matara as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Lack of Evidence for Audit

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No source documents or other evidence was submitted to the audit to ensure the advertisement expenses of Rs. 459,425 actually incurred for the college which was adjusted by journal entries during the year under review.

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Following non-compliances had been observed in audit.

<b>Reference to Laws, Rules, Regulations</b>	<b>Non – compliance</b>
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<b>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>	
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(i) Financial Regulation 381 (1)	Even though the Treasury approval should be obtained for opening of an official bank account, approval had not been obtained as per for opening college bank current account.
(ii) Financial Regulation 386 (4)	Validity period of all cheques issued should be 30 days from the date of issuing and it should be mentioned on the cheque clearly. But the validity period had not been mentioned on the cheques used since beginning by the College.
(iii) Financial Regulation 386 (6)	According to the regulation it should be crossed all the cheques, the College had used open cheques since the beginning.

- (iv) Financial Regulation 751 Goods and equipment valued at Rs. 4,289,080 relating to 118 items had not been included in Inventories of related sections.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, financial results of the institute for the year ended 31 December 2017 had resulted in a deficit of Rs.6,356,875 against the corresponding surplus of Rs.2,223,799 for the preceding year thus indicating an deterioration of the financial results by Rs.8,580,674 in the year under review as compared with the preceding year. Even though Government Grant for recurrent expenditure was decreased by Rs. 2,338,317, due to an improvement of Rs. 3,040,053 had been shown in the other income and differed revenue amortization operating income had been increased by Rs.701,736. However, increase of actual expenses by Rs.9,282,410 had mainly attributed to the above deterioration.

A deficit in the year 2015 and a surplus in the year 2016 and a deficit again in the year 2017 had been seen in analyzing the financial results of the year under review and previous 2 years. However, after the adjustments to employees' emoluments, tax payment to Government and depreciation on non-current assets, an improvement had been indicated in contribution in the year 2016 and again it was decreased in contribution in the year 2017 comparing with the year 2015. Accordingly, Contribution of Rs. 47,013,252 of the year 2016 had been reduced by 8 per cent and shown Rs. 43,423,410 in the year 2017.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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Even though a corporate plan for minimum 3 years should be prepared in terms of paragraph 5 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the College had not prepared a corporate plan.

##### **4.1.2 Functionality and Review**

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- (a) Even though another 19 equipment valued Rs. 6,903,573 had been received in the year 2015 for use of activities of the students of Food Technics Section had been dumped without being using, due to lack of facilities to place those equipment.

- (b) Action had not been taken to obtain Tertiary and Vocational Education Commission acceptance certificate even by 31 March 2018 for five Diploma courses in the fields of automobile technology, cosmetology, food technology, care services management and refrigeration and air conditioning technology. There were 23 final year students who were following those 5 courses and the students are expected to complete the Diploma courses in July 2018.
- (c) Although it was aimed to developing the infrastructure facilities of the College, the extension of the land and the improvements of the room facilities that could not be achieved as a result the enrollment of new students for the year 2018 had to be postponed until the departure of the group of students enrolled in the beginning of 2015.
- (d) Although 30 students per each course could be enrolled for the courses conducted by the College, only 89 students were enrolled for 04 courses in the year 2017. Of these, only 10 had applied for the Cosmetology course, and there was no methodology had been followed by the College for attracting students to these courses.
- (e) Out of the 630 students enrolled from the first batch of students enrolled in 2015 up to the last student batch enrolled in 2017, 105 students had left courses by 31 March 2018.

#### **4.2 Management Activities**

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Following observations are made.

- (a) At the end of the year 2017, the total number of students studying at the college was 525 and although action had been taken to acquire a land area of 0.6608 hectares due to the inadequacy of lecture halls and other facilities for the students, those activities had not been completed even by 30 May 2018.
- (b) Since the Ministry had not handed over 0.5854 hectares of land and buildings where the College is situated until 8 May 2018, it was not possible to include land and buildings value in financial statements. Further action had not been taken to change rate Nos. 688 and 688/1 in the name of the College name and Municipal Council of Matara had issued the Rate bills in the name of Commissioner of Food.
- (c) The monthly remuneration paid for the Chief Executive Officer recruited on contract basis from 02 October 2017 was Rs. 100,000 and the College contribution of Rs. 15,000 to the Employees' Provident Fund and Employees' Trust Fund had been paid add to the above allowance on her request on a board decision of the Board of Control without remit to the above funds. The total contribution was such paid from October 2017 to January 2018 was Rs. 60,000.
- (d) There were excess in 19 items relating to 08 categories of goods and shortage in 77 items relating to 31 categories of goods as per the Board of Survey conducted as at the end of the year under review.

### **4.3 Operating Activities**

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Following observations are made relating to conducting theoretical and practical lectures by the visiting lecturers.

- (a) Although, it was scheduled to conduct 4,071 theoretical lecture hours and 2,090 practical lecture hours, according to the Lesson Plan for 09 courses in the year 2017, only 2,868 hours and 844 hours respectively had been conducted during the year. Accordingly, action had not been taken to conduct 1,203 and 1,246 theoretical and practical lecture hours or 30 per cent and 60 per cent respectively.
- (b) Even though 90 and 10 theoretical and practical lecture hours respectively should be conducted relating to the lesson of “Quantity Surveying Practice” for the first semester of the NVQ 6 Course, there were no lectures had been conducted during the year.
- (c) Even though 38 and 27 theoretical and practical lecture hours respectively should be conducted relating to the lesson of “Event Promotion and Public Relations” and “Planning work to be performed at work place” for the second semester of the NVQ 5 Course and first semester of the NVQ 6 Course, not a single lecture had been conducted during the year under review.
- (d) Even though 20 theoretical lecture hours should be conducted relating to the lesson of “Event Leadership and Communication” for the first semester of the NVQ 6 Course, not a single lecture had been conducted during the year.
- (e) Eleven persons were appointed as Visiting Lecturers of the College and although only their letters of appointment were included in personal files, there were no certificates confirming the education and professional qualifications. Even though appointments had been given effective from 29 May 2017, the ending dates of the appointment were not mentioned in that letters.

### **4.4 Transactions of Contentious Nature**

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Following observations are made.

- (a) Including the Value Added Tax amount of Rs. 94,842 on the purchase of mechanical equipment amounting to Rs. 727,120 had been paid to a supplier who was not registered for the Value Added Tax.
- (b) Six number of Self-study computer software valued at Rs. 1,636,286 for the English Language Unit was purchased on 10 June 2016 and even though the Course Coordinator informed by written that software were installed to 11 computers, it was observed during the audit conducted on 27 March 2018 that such software were not installed in computers.

#### **4.5 Idled and Under Utilized Assets**

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Following Observations are made.

- (a) Nine items of machinery and equipment valued at Rs.18,931,596 had been idled and underutilized from 2 years to 4 years. Further out of 810 T-shirts received from the Line Ministry on 20 November 2014 to distribute to the students free of charge 433 T-shirts existed in the stores without being distributed until 30 April 2018.
- (b) The various equipment valued at Rs. 4,761,510 which was received in the years 2014 and 2015 for the purpose of practical activities of the students of food technology and automobile technology of the College were idling until 31 March 2018 due to lack of sufficient electricity to use those equipment.

#### **4.6 Staff Administration**

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Following observations are made.

##### **(a) Academic Staff**

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Vacancies in 08 posts of Lecturer and 04 post of Temporary Demonstrator were existed from the year 2015 and action had not been taken to fill those vacancies even by 31 March 2018.

##### **(b) Non- academic Staff**

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Even though 5 vacancies including the post of Registrar of the College was existed during the year under review, action had not been taken to fill those vacancies even by 31 March 2018.

#### **5. Non-achieving the Objectives and Goals of Sustainable Development**

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Action had not been taken to identify Objectives and Targets to be achieved by the College, points to achieve those targets and the indexes for measure the achievements of the targets according to the “Sustainable Development Agenda 2030” of United Nations Organization.

#### **6. Accountability and Good Governance**

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##### **6.1 Internal Audit**

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An internal audit unit had not been established in the college as per Financial Regulation 133 and an internal audit had not been carried out in the year under review.

## **6.2 Audit Committee**

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In terms of Public Enterprises Circular No. PED/55 of 14 December 2010, the College had not established an Audit and Management Committee.

## **6.3 Budgetary Control**

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Annual budget Prepared by the College for the year 2017 had been amended again on 29 August 2017 and variances ranging between 15 per cent and 185 per cent were observed between the budgeted estimate and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## **6.4 Unresolved Audit Paragraphs**

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Following observations are made.

- (a) Courses are conducted free of charge in University Colleges from the second batch and the course fees amounting to Rs.1,227,000 charged from the first batch of students and sent to the Line Ministry and although inquiries had been made by the letter UCMT/ADM/CEO/SS/2016/03 dated 28 April 2016 from the Line Ministry, reply had not been received even by 30 April 2018.
- (b) (i) Even though according to instruction of the Department of Management Services it had informed that the ratios mentioned in their letter No, DMS/1670 dated 10 February 2014 could not be applied for the levels less than NVQ level 7, a sum of Rs.3,105,188 had been paid in the year 2016 for 25 Lecturer hours of courses in level 5 and 6 for 1640 Lecture hours in the rate of Rs. 1,500 per hour and for 859 Lecture hours in the rate of Rs.750 per practical lectures
- (ii) A sum of Rs. 2,630,524 had been paid as Rs. 1,500 per lecture hour and Rs.600 per practical hour for 2,668 lecture hours and 844 practical hours not compliance with the directions of the above letter and Rs. 684,105 had been accounted as accrued expenses for unpaid vouchers which were submitted. Further, an assumption amount of Rs. 1,793,100 had been accounted as accrued lecture fees.

## **6.5 Fulfilling of Environmental and Social Responsibility**

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The staff and the students were not adequately informed and encouraged to use alternative packaging system instead of plastic, polythene bags and lunch sheets which were used for bringing food to the college and adequate attention had not been paid for implement programmes conducted by other Government Institutions to minimize the direct and indirect health, environmental and social issues by using plastic and polythene.

## 7. Systems and Control

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of the College from time to time. Special attention is needed in respect of the following areas of control.

<b>System and Control area</b> -----	<b>Observation</b> -----
(a) Fixed Assets Control	Value of land and building complex had not been shown in financial statements and some property, plant and equipment had been idled and underutilized..
(b) Accounting	Provision had been made for some expenses without accounting as accrued expenses which were identified as expenses.
(c) Maintaining Bank Accounts	Opening current accounts without approval and using uncrossed cheques.
(d) Staff Management	Actions not taken for fill vacancies. .
(e) Budgetary Control	Preparing budget without a specific forecast.