

University of Moratuwa – 2017

The audit of financial statements of the University of Moratuwa 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 equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Sub-section 107(5) of the Universities Act, No.16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of 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 University'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 the financial statements. Section 111 of the Universities Act, No.16 of 1978 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the University of Moratuwa 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

2.2.1 Transactions with related Parties

The agreement entered into with the Council of the University regarding the transfer of patent right of inventions of the researches carried out by the University, to the Codegen International (Pvt) Ltd had not been disclosed in the financial statements.

2.2.2 Accounting Policies

The effective lifetime of assets purchased from Government grants and the assets received as donations should be based in identifying the Government grants and donations as deferred income on a systematic basis. On the contrary, the University had identified a policy for depreciating the capital grants, donations and generated funds by 10 per cent and sums amounting to Rs.81,085,033 and Rs.7,397,820 being 10 per cent of the value of assets received as donations and assets purchased from generated funds respectively in the year under review had been identified as deferred income.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.1,005,799 paid for the Construction Project of Building for Faculty of Architecture - Phase IV in the year under review had been capitalized under buildings instead of accounting for as work in progress.
- (b) Even though the hostel valued at Rs.667,104,496 received as a donation in the year 2017 should be depreciated since the date available for use, the adjustments of depreciation relating to the year 2017 had not been made.
- (c) The useful life time of assets costing Rs.4,366,962,846 as at 31 December 2013 had not been stated in the Valuation Reports on assets submitted by the Department of Valuation.

As such, depreciation had been made based on the useful life time considered at the beginning of the asset valued.

- (d) Items of graduation cloaks, garlands and caps had been shown in one Account and the value of only the garlands and caps had been assessed as Rs.1,724,300 by the Department of Valuation without revaluating the total balance of the said Account as at 31 December 2013. As the total balance of the said Account was brought to the Revaluation Account in the year 2013, the value of cloaks had omitted from the financial statements since the year 2013. Even though a sum of Rs.344,860 should be depreciated in respect of the new revalued value of garlands and caps totalling Rs.1,724,300 for the year 2017, the adjustments therefor had not been made.
- (e) A sum of Rs.70,000,000 invested in the year under review had been debited to the Consultancy Services Reserve Fund Account instead of being debited to the Investment Account. The interest of Rs.253,290 receivable for the said investment relating to the year under review had not been brought to account.

2.2.4 Unexplained Differences

The following observations are made.

- (a) According to the Final Accounts as at 31 December 2017, the value of continuous work for the Building for Faculty of Architecture Phase IV amounted to Rs.97,216,592. Nevertheless, it had been Rs.98,198,390 according to the information made available by the sector of capital activities, thus a difference of Rs.981,798 was observed.
- (b) Even though the depreciation balance of three items of assets shown in the financial statements as at the end of the year under review amounted to Rs.654,903,732, it had been Rs.683,684,440 as per the Ledger Accounts, thus a difference of Rs.28,780,708 was observed.
- (c) Even though according to the financial statements, the stock balance of stores as at 31 December 2017 amounted to Rs.16,018,174 , it had been Rs.15,759,988 as per the schedules, thus a difference of Rs.258,186 was observed.
- (d) Even though depreciation for the assets purchased from Government grants relating to the year under review totalled Rs.569, 749,583, the amortization of the year under review amounting to Rs.577, 147,403 had been identified as income in the statement of performance, thus a difference of Rs.7,397,820 was observed.

2.2.5 Lack of Evidence for Audit

The files and original documents pertaining to the purchase of 07 generators had not been made available to audit and as such, the date of installation of those generators could not be identified. Further, those had not been entered in the Register of Fixed Assets even by 24 August 2018.

2.3 Accounts Receivable and Payable

Thirty one lecturers who proceeded abroad by obtaining study leave had violated their agreements and a total sum of Rs.51,788,857 was recoverable from 29 lecturers out of the above, as at 25 July 2018. The amount to be recovered from other two lecturers had not been computed. Even though 08 lecturers had given the consent over a period of two years to recover the dues from relevant lecturers amounting to Rs.7,573,815 from their Provident Fund, no action had been taken to recover the said money. Further, no action whatsoever had been taken to recover a sum of Rs.1,473,002 due from 06 lecturers over a period of 10 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed in audit.

Reference to Laws, Rules, etc.	Non-compliance
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(a) Economic Service Charge Act, No.13 of 2006 Section 3(b)	Economic Service Charge amounting to Rs.809,834 had been underpaid for the second and third quarters of the year 2017/18 on the income generated from self-financial activities of the University .
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulation 128	The Accounting Officer of an institution is responsible for financial control and should take action to ensure that an adequate system of internal check for receipts, payments and issues is maintained and tested from time to time. Nevertheless, the Cash Book and Bank Reconciliation Statements pertaining to the Current Account No.306795 maintained in the Bank of Ceylon by the University had not been prepared up to the standard due to the lack of proper supervision and only the Cash Book had been prepared based on the transactions of the Bank Statement.
(ii) Financial Regulation 507(I)	The stock belonging to the Maintenance Division of the University had not been included in the stock value of Rs. 16,506,308 shown in the financial statements and the maintenance stores had not carried out a stock verification as at 31 December 2017.

- (c) Presidential Circular No. CSA/81/40 dated 28 February 2007 issued on Management of Public Expenditure Contrary to the Circular, the University had paid a sum of Rs.3,871,682 to Hotels as charges on food and accommodation for conducting meetings, seminars, work shops etc.
- (d) State Accounts Circulars
- (i) State Accounts Circular No.842 of 19 December 1978 Registers of Fixed Assets had not been updated in respect of fixed assets owned by the institution amounting to Rs.9,886,061,960.
- (ii) State Accounts Circular No.IAI/2002/02 dated 28 November 2002 A separate Register of Fixed Assets had not been maintained in respect of computer accessories and software owned by the institution.
- (e) Circular letter No. 13/2015 dated 16 September 2015 under the circulars of University Grants Commission Even though the fuel allowance for officers entitled for official vehicles of the University should be paid by adding it to the monthly salary, a total sum of Rs.752,926 had been paid in cash as fuel allowances to 10 officers from January up to October 2017.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the University for the year ended 31 December 2017 had been a deficit of Rs.58,682,610 as compared with the corresponding deficit of Rs.229,602,809 in the preceding year, thus indicating an improvement of Rs.170,920,199 in the financial result of the year under review as compared with the preceding year. Even though the revenue had increased by Rs.543, 679,722, the increase of expenditure by Rs.372, 759,523 had mainly attributed to the said improvement.

In analysing the financial results for the year under review and the 05 preceding years, the deficit of Rs.64,407,671 in the year 2012 had continuously deteriorated up to the year 2014 and had converted in to an improvement in the year 2015. Nevertheless, it had deteriorated up to Rs.229,602,809 in the year 2016 while improved again to a deficit of Rs.58,682,611. However, after being readjusted the employees' remuneration and depreciation on the property, plants and equipment to the financial result, the contribution of the University in the year 2012 amounting to Rs.665,988,174 had increased to Rs.1,538,431,528 by the end of the year under review.

3.2 Legal Action initiated by the Institute or against the Institute

The University had filed a case in the District Court of Moratuwa against an external entity claiming a compensation of Rs.5 million and the Defence of this case had made an appeal to the High Court. Similarly, 06 external and internal parties had filed cases in the courts of law against the University.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

- (a) A provision of Rs.40 million made for research grants by the Budget for the year 2017 had subsequently been revised up to Rs.55 million. Nevertheless, a sum of Rs.12,700,127 had been spent exceeding the said limit as at 31 December 2017.
- (b) The number of research grantees who conducted at least one research project during the year 2017 stood at 72. The examination carried out on the sample of 30 researches out of 169 researches approved by the Research Committee of Senate as at 31 December 2017 had revealed that 14 researches totalling Rs.12, 385,150 to be completed in the year under review had not been completed.
- (c) According to the Webometrics indicators applied in ranking of World Universities, the researches should enormously contribute to improve the knowledge generated by the University and as such the researches conducted annually affect the position in ranking the World Universities. According to the world ranking conducted in January and July of every year, the University of Moratuwa had secured the places 2,647 and 2,681 in the year 2017 respectively while it had secured the places 2,809 and 2,717 in the year 2018 respectively.
- (d) According to the Action Plan of the year 2017, even though number of local and foreign students expected to be conducted researches of the University had been 350 and 15 respectively, only 108 local students had conducted researches. In accordance with the information made available in the Action Plan, the number of local and foreign students conducted researches in the year 2017 had shown a decline by 61 per cent and 100 per cent respectively as compared to the year 2016. Further, the delay in process of annual research evaluations had also discouraged the researchers.
- (e) Even though it was expected to provide training for the empowerment of researchers under a provision of Rs. 1 million in the year 2017, it had not been so done.
- (f) According to the Circular Letter No.15/2015 of 17 November 2015 issued by the University Grants Commission, the results of examinations conducted by the Universities should be issued within three months. Nevertheless, it was observed that out of 169 internal examinations conducted in the year under review, results of 06 examinations had not been issued while there was a delay over 03 months in issuing the results pertaining to 90 examinations. Accordingly, failure to issue results including the 06 examinations of which the results were not issued, had been a significant rate of 57 per cent. Further, out of these courses, results of 3 examinations for 3 groups of one course was delayed for 8 months and results of 3 examinations for 3 groups of another course was delayed for 6, 10 and 6 months respectively as at 20 June 2018, the date of audit.

- (g) Sixty eight students' vacancies as a total of each course and 30 vacancies existed in the academic years 2016/17 and 2017/18 respectively. As such, 68 and 30 students not received admission to university, had lost the opportunity for higher education during the two preceding years respectively due to the failure in admitting the total number of students that could be admitted to the University.

4.2 Management Activities

The following observations are made.

- (a) The case filed for the recovery of Rs.1,122,267 pertaining to the violation of Agreement by a lecturer proceeded abroad in the year 1989 on study leave had been dismissed subject to cost due to the failure in following the proper administrative procedure in consenting the lecturer to proceed abroad for the second time by the University. Even though sums totalling Rs.820,611 comprising an amount of Rs.703,311 for the violation of Agreement and legal fees incurred amounting to Rs.117,300 was further recoverable, the loss suffered by the Government due to the negligence, inefficiency and offence of the officers, had not been recovered from the relevant officers even by 30 June 2017.
- (b) According to case filed for the recovery of Rs.4,093,176 to be recovered from a lecturer who had violated the Agreement from the guarantors, the value of guarantee in the agreement signed by the guarantors was stated in words as four hundred ninety three thousand and one hundred seventy five rupees and fifty three cents and as Rs.4,093,176 in figures and as the amount written in words is generally accepted and *prima facie*, the person who had completed the other parts of the Agreement had not written in words or figures in the Agreement while the University of Moratuwa had failed to prove the accuracy of value written in figures despite being the correct value. Further, as the agreement on guarantors was signed on 05 January 2004 and the main Agreement was signed on 14 January 2004, the main Agreement was not signed at the time of signing the agreement on guarantors and as such the judgement had been delivered that the guarantors were not liable to the matters included in the Agreement not valid as at 05 January 2004. Accordingly, it is observed that the negligence and the irresponsible action of the officers concerned of the University caused the said situation.
- (c) The initial cost of Rs.1,273,329 incurred on the planning stage of the Project of Proposed Multipurpose Auditorium of which the construction work was commenced in the year 2002 and abandoned halfway due to weaknesses in planning, had been included in the value of work-in-progress even by 31 December 2017.

4.3 Staff Administration

The approved academic and non-academic staff of the University as at 31 December 2017 had been 954 and 881 respectively while the actual staff stood at 514 and 667, thus 440 and 214 vacancies existed respectively. Academic and non-academic staff of 86 and 71 had been recruited respectively on contract basis to fill the said vacancies. Further, 230 vacancies of lecturers had been filled by obtaining the service of visiting lecturers and a sum of Rs.47,059,364 had been spent therefor in the year under review.

5. Sustainable Development

Every Government Institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations and the University had not been aware of the manner in implementing the functions that come under its scope pertaining to the year under review.

6. Accountability and Good Governance

Procurement and Contract Process

The following observations are made.

- (a) According to the Cabinet Memorandum No.HE/ID/2012/03 of 23 March 2012 , the total cost estimate of Rs.171 million for the Administration Building of University of Moratuwa should be revised up to Rs.282 million and completed as a five storied building with an extent of approximately 3,950 square meters and further, the project should be commenced in the year 2012 and completed in the year 2016. On the contrary, it was completed as a four storied building in the year 2017.
- (b) (i) In terms of Guideline 8.13.4 of the Government Procurement Guidelines -2006 and provisions in the Supplement 14 issued on 03 October 2007, when the total cost estimate exceeds 10 per cent, the revised cost estimate should be submitted for the approval of Ministry Procurement Committee and the approval of the Chief Accounting Officer should be obtained before issuing Variation Orders. On the contrary, the relevant approval had not been obtained despite the total cost estimate being exceeded by 22 per cent and the approval of Chief Accounting Officer had not been obtained for 16 Variation Orders issued in respect of a total sum of Rs.44,317,130.
- (ii) Even though payments had been made for 10 Variation Orders issued totalling Rs.41,906,020 , the prior approval of the Consultancy Firm had not been obtained for special rates.
- (iii) The deficiencies identified in the spot test check carried out on 30 August 2017 in the aforesaid building opened on 06 September 2017 had not been rectified even by 31 July 2018.
- (c) Despite the University being an institution which provides consultancy services on construction work to other institutions, consultancy services had been obtained from a private institution by spending a sum of Rs.4,545,000 for the construction of its Administration Building without applying its own knowledge on skills and technical services. Furthermore, the consultancy services regarding the construction of proposed Building for Faculty of Architecture Phase II, had also been obtained from a private institution by spending a sum of Rs.5 million (excluding VAT).

- (d) In terms of Guideline 5.4.4 (iii) of the Procurement Guidelines, the mobilization advance paid should be fully recovered before 90 per cent of the payments are made to the contractor. Nevertheless, a sum of Rs.16,995,389 paid as mobilization advances in respect of Construction Project of proposed Building for Faculty of Architecture Phase II of which the contract value amounted to Rs.97,672,271(excluding Tax), had been recovered only on 06 August 2015 after a delay of 17 months since the completion of project.

6.1 Unresolved Audit Paragraphs

- (a) A methodology to legalize the Uni Consultancy Services Company established within the University premises without an approval, had not been formulated even by 13 August 2018 as pointed out by the Committee on Public Enterprises held on 04 April 2018.
- (b) According to an examination carried out on failure to conduct a Board of Survey after the year 2013, it was observed that a survey on library books had not been conducted even by 31 July 2018.
- (c) Even though a comprehensive report on the Agreement entered into by the University of Moratuwa and the Codegen International (Pvt) Ltd should be submitted to the Committee within a month, no such report had been submitted. However, the following matters were also observed regarding the said Agreement.
- (i) Electronic mail had been used as the medium of exchanging information with regard to this Agreement and in terms of matters in viii of the Intellectual Property Policy approved by the Council of the University, the Vice Chancellor of the University is the sole “arbitrator” in any matter of two parties regarding intellectual property. On the contrary, the Vice Chancellor had taken the initiative in entering into the said Agreement.
 - (ii) The Chairman being the Executive Officer of the Codegen International (Pvt) Ltd had been appointed as a member of the Council of the University on 20 April 2015 and it was revealed that his membership was cancelled by the letter dated 16 July 2016 issued by the Vice Chancellor of the University due to the failure in attending the Council for 3 sessions.
- (d) Even though a report on obtaining chairs and tables required for the new cafeteria on hire basis deviating from the process of Government Procurement Guidelines should be submitted to the Committee within 03 months, it had not been so done even by 10 August 2018. According to the Report of Preliminary Investigation held by the University on 10 July 2011, it had been recommended to call for explanation from 04 persons including the Bursar and take proper action thereon and further, approval had been given to issue charge sheets against those officers by the Decision 430 dated 07 December 2016 of the Council. Nevertheless, according to the Decision 431 dated 04 January 2017 of the Council, approval had been given to issue charge sheets against other three officers except the Bursar. Even though acceptable evidences so as to exonerate him from the charges had not been made available, the Council had given the approval to withdraw the charge sheets against him.

7. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Control	Observations
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(a) Accounting	Failure to take action in terms of Public Sector Accounting Standards.
(b) Fixed Assets Control	Failure to update the Register of Fixed Assets
(c) Funds Management	Failure in taking action to achieve the objectives of establishing Funds.
(d) Stores Control	Failure to update Stock Books and bin cards and lack of proper supervision.
(e) Staff Administration	Failure to make recruitments for vacant posts.
(f) Procurement Process	Non-compliance with provisions in the Procurement Guidelines -2006.
(g) Board of Survey	Failure to conduct surveys covering all sections of the University including Library books.
(h) Construction Contracts	Failure to apply consultancy knowledge of the University for its process of Construction Contracts.