

Eastern University of Sri Lanka – 2017

The audit of financial statements of the Eastern University of Sri Lanka 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 statement of cash flows 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

The 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 judgment, 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 University's 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 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 financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 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 2.2 of this report, the financial statements give a true and fair view of the financial position of the Eastern University of Sri Lanka 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 Sri Lanka Public Sector Accounting Standards (SLPSAS)

The following observations are made.

- (a) Even though land and buildings were acquired together, in terms provisions in the SLPSAS 07 the land and buildings should be accounted for separately. However, the value of land and buildings of the University as at 31 December 2017 amounting to Rs.3,627,071,868 had been shown together without showing the value of land separately. As a result provisions for depreciation had been overstated.

- (b) The University has failed to disclose a brief description with regard to nature of the contingent liabilities arise from thirteen legal cases filed against the University as per SLPSAS 8.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Direct credits and debits amounting to Rs.509,820 and Rs. 3,925,059 respectively made by the Bank during the period from 2000 to 2017 had not been identified and make necessary adjustments in the accounts.

- (b) Completed construction works during the period of 2010 to 2012 relating to Trincomalee Campus worth Rs. 113,508,496 had been continuously shown in the financial statements as work in progress instead of being capitalized and made provision for depreciation thereon in the accounts even in the during the year under review.

2.2.3 Un-explained Differences

According to the ledger accounts, the balance of loans granted under the University Provident Fund as at the end of the year under review was Rs. 113,391,627. However, this loan balance had been shown in the financial statements as Rs.112,243,299. Hence, an unexplained difference of Rs.1,148,328 was observed between these two balances.

2.2.4 Accounts Receivable

According to the financial statements presented a sum of Rs. 9,751,892 and Rs.1,408,946 shown as receivables from the Swami Vipulananda Institute of Aesthetics Studies (SVIAS) and University Grants Commission respectively. However, the corresponding balances had not been shown as payable in the financial statements of the above Institutions. Hence, the recoverability of those balances was doubt in audit.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka	

Financial Regulation 134(3)	The copies of internal audit reports had not been furnished to the Auditor General.
Financial Regulation 880	Security deposits had not been obtained from Vice Chancellor, Deputy Registrar, Bursar, Senior Assistant Bursar, Assistant Bursar and Store Keeper of the University.
(b) Public Finance Circular No.03/2015 dated 16 July 2015.	(i) Ad-hoc sub-imprest aggregating Rs. 1,574,556 had been provided to five officers in 08 instances exceeding the maximum limit of Rs.100,000.
	(ii) Although an officer who obtained ad-hoc sub imprest should be settled immediately after completion of the relevant works, such sub-imprest totaling Rs. 1,827,556 had been settled in 14 instances after a delaying a period ranging from 16 to 99 days.

- (c) National Budget Circular No. 1/2016 dated 17 March 2016 Although all government agencies are advised to purchase vehicles under the operating lease method, the University had purchased three vehicles during the year under review for Rs. 47,150,000 under finance lease method.
- (d) University Grants Commission Circular No.04/2016 dated 01 March 2016
- (i) Section 5.1.6 Although 0.01 per cent on the income of self-financing courses after deducting the direct cost should be remitted to the University Grants Commission, it had not been remitted to the University Grants Commission as requested.
- (ii) Section 5.5 Income and Expenditure Account on self-financing courses had not been prepared in terms of Format No.1 of the Circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University for the year under review had resulted in a deficit of Rs.335,047,226 as compared with the corresponding deficit of Rs. 107,259,847 for the preceding year, thus indicting a deterioration of Rs. 227,787,379 in the financial results during the year under review as compared with the preceding year. The increase of depreciation and amortization expenses by Rs. 122,804,666 and personnel emoluments by Rs. 108,767,458 had mainly attributed for this deterioration.

In analyzing the financial results of the year under review and 02 preceding years, net deficits of Rs. 157,502,871 and Rs. 107,259,847 in the years 2015 and 2016 respectively had further deteriorated to Rs. 335,047,226 in the year under review. However, after adjusting the employees' remunerations and the deprecation for the property, plant and equipment to the above financial results, the value addition of the University in the year under review was Rs. 1,213,169,104 and it was increased by Rs. 3,824,878 as compared with the previous year.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Payment of Research Allowances

Conducting research by a University will help to upgrade the standard of the University and it will be provided an immense contribution to the national economy as well. Hence, the University has allocated a sum of Rs.44.5 million as research grants to the academic and academic support staffs during the period under review. The following observations are made in this connection.

- (i) As per the provisions in the Management Service Circular No. 02/2014, the University had not taken any action to establish a Research Management Committee (RMC) and Research Supervision Committee (RSC) and set out the Terms of References (TOR) thereof for accelerate and effective implementation of the University research activities.
- (ii) According to Sub-section 1.7 of the Guidelines for Award of Researches and Publication Grants, an agreement should be signed between the University and the researcher who had been awarded the grants. However, the University had approved 06 research proposals valued at Rs. 1,390,500 and paid amounting to Rs. 1,364,347 out of them without entering with any agreement.
- (iii) The University had allocated a sum of Rs. 10,676,062 for 05 lecturers who had presented their research proposals during the period from the year 2015 to 2016 and out of that, a sum of Rs 3,496,875 had been obtained by the respective lecturers as research grants. Nevertheless, the aforesaid lecturers had not forwarded the research reports even by 25 July 2018 and this delay had existed over a period ranging from 10 month to 12 months.
- (iv) Sum of Rs. 3,000,000 and Rs. 295,000 had been allocated for two research proposals which had been submitted to the evaluators for evaluation in 2016. Even though, the evaluation reports and recommendations of the evaluators should be submitted within 2 weeks as per request made by the University, these evaluation reports had not been submitted even up to 31 March 2017 As a result, these projects had been abandoned and strengthen of the research capacity of the University was affected.
- (v) The relevant Divisions of the Faculties of the University had not maintained the files relating to research grants in an updated manner to reveal the comprehensive details on the payment of research grants.
- (vi) Non submission of research proposals on due date, failure to submit research reports and delays in presenting progress reports by lectures who obtained research grants, it is difficult to identify whether researches had been authentically carried out and how far it is effective.

(b) Students Performance in the Final Examinations

Details of final examinations for the academic years 2010/2011, 2011/2012 and 2012/2013 conducted by four faculties during the year under review is given below.

Name of Faculty	Programme Study/Course	of	Number of Students sat for Examination	Number of Students Passed	Number of Students Failed	Failed, as a percentage of Students sat for the Examination
Arts and Culture	B.A (General)		373	259	114	31
Commerce & Management	B.B.A(General)		53	24	29	55
	B.Com(General)		75	28	47	63
	B.Com(Special)		30	20	10	33
Health Care Science	BMBS		45	30	15	33
Business Studies Campus)	Management (Trincomalee (General)	B.A in Communication (General)	17	05	12	71
Total			593	366	227	38

It was observed that 593 students sat for the final examination during the year under review, 366 students have passed and 227 students which represent 38 per cent have failed in the final examination. The Faculty of Commerce and Management and Faculty of Business Management Studies had mainly contributed to this higher rate of student failure. As a result, these failed students have to wait for another year to complete their degree and unable to enter into the employment market in ample time.

(d) External Degree Courses

According to University Grants Commission Circular No. 932 dated 15 October 2010, the curriculum for the external degree and extension study programme must be developed on the basis of predetermined graduate profile/qualification descriptors. However, the University had not completed the curriculum process for the external degree and extension study programme up to 31 December 2017.

As a result, new admissions had not been called for the external degree programmes for the Faculties of Commerce and Management and Arts and Culture since 2013. Further, the Faculty of Science and Faculty of Agriculture had stopped their external B.Sc. degree programmes. Due to the above circumstances the University could not contribute to the current and emerging market demands of the nation.

4.2 Management Activities

The following observations are made.

- (a) Loans recoverable from 98 officers who had resigned and vacated from their post, retired and transferred to other institutions from the service aggregating Rs.3,644,418 had remained outstanding for over a period of 10 years. However, the University had not taken prompt action to recover these outstanding balances.
- (b) Loan balances aggregating Rs. 540,144 relating to 15 deceased officers had not been recovered from their sureties.
- (c) It is the common practice of the staff of the University to violate the agreements after obtaining study leave with pay to follow master degrees in foreign countries. However, the University had not taken actions up to 31 March 2018 to obtain valid surety from them or to obtain consent to deduct the bond value from their Provident Fund. Accordingly, a total sum of Rs. 177,002,812 had remained outstanding for more than 10 years from 74 officers. However, the University was unable to recover those outstanding balances due to non-obtaining of valid securities from them.
- (e) The University had purchased four 10KVA UPSs for the use of Computer Labs of the Center for Information and Communication Technology Unit at a cost of Rs.910,200 in June 2015, which were out of order in September 2016 within the warranty period and had not been repaired until up to the date of this report. As a result, the lecturers had to divide students in to more groups to perform the practical sessions and this also delayed the practical sessions and disturbed the teaching and learning activities. Further, the computer labs could not be utilized effectively due to shortage of UPSs with the above capacity.

4.3 Operating Inefficiencies

4.3.1 Purchase of Chemicals

The University had spent a sum of Rs.4,520,802 for purchase of Chemicals for the Department of Bio System Technology from six suppliers during the period under review. In this regard, the following matters were observed.

- (a) According to the Master Procurement Plan of the University for the year 2016 it was revealed that, a sum of Rs. 20 million was estimated for the purchase of chemicals for the Laboratory and teaching tools on priority basis. Although this procurement should be performed between the periods of February to April 2016, the procurement activities had commenced only on 15 October 2016 with a delay of 6 months. Therefore, the Master Procurement Plan had not made use of as an efficient and effective management tool.

- (b) According to the Government Procurement Guidelines – 2006, the Procurement Planning Committee had not been established. As a result, the requirements for procurement had not been properly identified.
- (c) According to Section 2.8.1 of the Government Procurement Guidelines, the Department Procurement Committee should have a Technical Evaluation Committee to assist the Procurement Committee. However, action had not been taken to appoint a Technical Evaluation Committee for the above procurement.
- (d) At the physical verification carried out on 26 October 2017 at the Bio System Technology Laboratory it was revealed that, expiry dates for 82 chemical items had not been mentioned. As a result, the possibility for using expired items had not been ruled out in audit and it may cause hazards during the Laboratory experiments.

4.3.2 Providing Cleaning and Janitorial Services

The University had awarded two contracts for providing Cleaning and Janitorial Services at University and students hostels during the year under review and a sum of Rs. 80,830,221 had been spent by the University up to end of the year under review. The following observations are made in this regard.

- (a) According to the condition of bids clause No. 05, the bidders should submit documentary evidence to prove the payment of EPF and ETF for the employees at least 06 months. However, the Technical Evaluation Committee of the University had failed to check this condition and selected a bidder who had not submitted documentary evidence for payment of EPF and ETF to the employees.
- (b) Although, the arrival and departure of 195 employees involving in the Cleaning and Janitorial Services should be recorded in a register, no registers had been maintained for this purpose in the relevant Divisions and payments are made based on monthly bills prepared by service providers without verifying the arrival and departure of the employees.
- (c) According to the General Instructions of the bidding documents No. 04 and 05, service providers should use standard cleaners, disinfectants and fragrance and maintain stock of consumables for a period of 01 month. However, the Maintenance Division of the University had failed to check the quality and quantity of the materials used for Cleaning and Janitorial Services by the service providers. As a result, there were some complaints made by the students and sub wardens at the student's hostels regarding the poor cleaning and bad smell in the bath rooms and toilets.

4.4 Idle and Underutilized Financial and other Assets

The following observations are made.

- (a) Fund received from Norwegian University of Science and Technology (NTNU) linked with foreign funded project for the Human Capital Development of the Academic Staff of the University amounting to Rs. 6,307,139 had been kept in the current account of the Bank account since 28 February 2011 without utilizing for intended purpose.

- (b) A current account is maintained by the University in a commercial bank for operating the transactions relating to collection of money from various parties on behalf of services provided. An amount approximately Rs. 32 million had been lying in that current account throughout every month without investing excess money in an income generating source.
- (c) The University had purchased 1,300 plastic chairs to the value of Rs.908,700 on 26 May 2017. Out of that 478 plastic chairs valued at Rs. 328,530 were remained idle in the stores due to purchase of chairs without considering the actual requirements.
- (d) Two thousand three hundred and fourteen consumable items to the total value of Rs.1,827,900 belongs to 77 types which seem to be absolute had been kept in the stores without utilization for more than five years.

4.5 Staff Administration

There were 76 vacancies existed as at the end of the year under review for the post of professors and lecturers without being filled. Further, the post of Registrar had remained vacant since January 2015. However, it had not been filled even up to the date of this report.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Public Institution should act in compliance with the 2030 Agenda for United Nations Sustainable Development Goals and having adopted the Sustainable Development Act No. 19 of 2017 on 03 October 2017, all the public Institutions had been made aware on the above matter by Circulars. Accordingly, all public Institutions should aware as to how it should take action in respect of functions coming under the purview of the respective Institution. Nevertheless, since the University was unaware of the above matter, the goals and targets relating its functions and the indicators required for measuring the achievement of those targets had not been recognized.

6. Accountability and Good Governance

6.1 Corporate and Action Plan

The Corporate Plan for the period 2014-2018 had not properly incorporated with strategic management plan of the six Faculties and nine Operational Units. Further, the University has conducted two workshops for review of Action Plan and Corporate Plan as well as the present status and future directions in June 2016 and April 2017 at a cost of Rs.1,019,175. However, the above Corporate Plan had not been updated as revolving plan with 3-5 year cycle for the year 2017-2021 as per above requirements.

7. Systems and Controls

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

Areas of System and Control	Observations
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(a) Settlement of Advances	Long delays in settlement of advances.
(b) Staff Administration.	Not filling the vacancies for senior managers by appointing permanent staff and not recording the arrival and the departure of the academic staff.
(c) Maintenance of Funds	Un-utilization of funds in respect of specific purposes for which the Funds were established.