

South Eastern University of Sri Lanka – 2017

The audit of financial statements of the South Eastern University of Sri Lanka (“the University”) 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 statement of cash flows 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 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 Section 108 (1) of the Universities Act appear in this report.

1.2 Management’s Responsibilities 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 Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Auditing 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 misstatement 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 the financial statements. Section 111 of the Universities Act, No 16 of 1978 gives 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 given a true and fair view of the financial position of the South 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 the Sri Lanka Public Sector Accounting Standards.

2.2. Comments on Financial Statements

2.2.1 Consolidated Financial Statements

The Centre for External Degrees and Professional Learning (CEDPL), Postgraduate Unit of Faculty of Arts and Culture and Postgraduate Unit of Faculty of Management and Commerce of the University had earned a net income of Rs.10,692,846 by conducting external degree and master degree programmes during the year under review and generated total assets of Rs. 125,004,717 as at the end the year under review. However, the transactions of those Units had not been incorporated with the financial statements of the University. Hence, the accumulated fund and total assets of the University as at the end of the year under review had been understated by Rs.125,004,717.

2.2.2 Compliance with Sri Lanka Public Sector Accounting Standards (SLPSAS)

The following non-compliances were observed.

- (a) Out of 16 legal cases initiated against the University by outsiders since year 2005, four cases were pending in the Courts and University Services Appeal Board as at 08 August 2018. However, the proper disclosures thereon had not been made in the financial statements as per paragraph 129(d) (i) of SLPSAS 01.
- (b) The fully depreciated assets costing Rs. 101,385,503 procured during the previous years are being continuously used by the University without taking action to reassess the useful economical lifetime of such assets and accounted accordingly. Further, the estimated error thereon had not been revised in terms of SLPSAS 03.

2.2.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Action had not been taken to account the amortization over the useful life of the assets acquired by utilizing Government capital grants even though, the assets acquired by utilizing those grants had been depreciated up to the amount of Rs.1,500.74 million as at the end of the year under review.

- (b) Depreciation for the years from 2012 to 2016 had not been provided for the furniture and equipment valued at Rs.65,568,093 which received from the Higher Education for the Twenty First Century (HETC) Project. As a result, the net assets and the accumulated fund as at 31 December 2017 had been overstated by Rs. 22,421,768.
- (c) Capital works carried out and completed by the HETC Project on behalf of the University to the value of Rs. 4,067,868 in the year 2016 had not been brought to the accounts even up to 31 December 2017.
- (d) One hundred and thirty one stock items to the value of Rs. 1,430,552 as at the end of the year under review had been treated as recurrent expenditure instead of being shown under current assets.

2.2.4 Accounts Receivable

Loan balances aggregating Rs. 293,734 receivable from 02 academic staff and 02 non-academic staff who had vacated their posts and a sum of Rs. 3,735,746 recoverable from 03 Lecturers and a Library Assistant due to the breach of agreements for foreign study had remained outstanding for a period ranging from 02 to 18 years without being recovered. Further, the impairment on those balances had not been made.

2.3 Non - compliance with Laws, Rules and Regulations

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulations	Non - compliance
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(a) Section 8J(1), 8K(2) of the Urban Development Authority Act, No. 41 of 1978 as amended by Act, No. 4 of 1982.	Permits and Certificate of Conformity for 21 buildings constructed in the premises of the University had not been obtained.
(b) Section 16:5:3 of the Chapter VI of the Establishment Code of the University Grants Commission and the Higher Educational Institutions as amended by Circular No. 720 of 17 October 1997.	Covering up duties of a vacant post should be limited to a period of 03 months. However, an Instructor in Physical Education had been appointed to attend the duties of Director/ Physical Education since 01 July 2016 and the allowance equivalent to 10 per cent of basic salary of Director / Physical Education is being paid up to the date of this report.
(c) Circular Letters of the University Grants Commission.	
----- (i) No. 04/2013 dated 10 April 2013	The Annual Boards of Survey for the year under review should be conducted and the report thereon should have been furnished to the Auditor General on or before 17 March 2018. However, such report had not been furnished to audit even up to 08 August 2018.

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| (ii) No. 10/2017 dated 10 July 2017 | All staff should be entered their arrivals and departures in the finger print scanner. However, the academic staff had refused to enter their arrivals and departures in the finger scanners and as such there was no satisfactory control system in that connection. |
| (iii) No. 03/1996 dated 06 February 1996 | According to the newspaper advertisement published on 11 June 2017 and 05 July 2017 for the recruitment of Bursar and Director/ Physical Education, the age limit for the applicants had been determined as 45 years contrary to the provisions in the Circular. As a result, the opportunity for recruiting competent and prompt persons for the above posts had been lost to the University. |
| (d) Public Finance Circular No.03/2015 dated 14 July 2015 | Advances totaling Rs. 4,064,580 had been granted to 13 Officers in 22 instances exceeding the maximum limit of the ad-hoc advance of Rs.100,000.

Whatever amount requested by the staff as advance had been granted by the University without ascertaining the nature and reasonableness of the amount requested. As a result, more than 50 per cent of the advances aggregating Rs.479,084 paid in 16 instances had been settled by cash. This practice will provide room for misappropriating the public funds. |
| (e) Treasury Circular No. IAI/2002/02 dated 28 November 2002. | A Register of Fixed Assets had not been maintained for computers and computer accessories. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University during the year under review had resulted in a net deficit of Rs. 442,000,801 as compared with the corresponding net deficit of Rs. 253,157,673 for the preceding year, thus showing a deterioration of Rs. 188,843,128 in the financial results for the year under review. Increase of depreciation and personal emoluments by Rs. 133,856,772 and Rs. 102,555,276 respectively were the main reasons attributed for this deterioration.

In analyzing the financial results for the year under review and four preceding years, the deficit had continuously increased from Rs. 71,860,462 in the year 2013 to Rs.442,000,801 in the year 2017. However, after taking in to account the personal emoluments and the depreciation aggregating Rs.1,097,853,391, the value addition of the University for the year under review was Rs. 655,852,590 and it was Rs.608,283,670 in the previous year, thus showing an improvement of Rs. 47,568,920 in the value addition as compared with the previous year.

4. Operating Review

4.1 Performance

4.1.1 Achievement of Targets

The following observations are made on the achievement of targets set out in the Strategic Plan prepared for the period of 2014 - 2018.

- (a) The University had not reported the progress with regard to 14 Key Performance Indicators (KPI) out of 45 KPIs and the periodical review had not been carried out by the University during the year under review.
- (b) According to the progress submitted to audit for the year under review, the University had only able to achieve around 50 per cent of the expected targets with regard to 31 KPIs set out in the Strategic Plan.
- (c) According to the webometric ranking, the University had able to obtain only 8,510th place in the year 2017 even though it was targeted to achieve the place below the rank of 5,000 as at the end of the year 2017. Further, the University has been ranked at 8,437th place in the previous year and thus showing that the ranking of the University had gone down as compared with the previous year.

4.1.2 Degree Courses

The number of students enrolled for each Faculty during the last three years is shown below.

Faculties	Number of Students Enrolled		
	2017	2016	2015
Applied Science (FAS)	245	228	329
Arts and Culture (FAC)	326	306	239
Management and Commerce (FMC)	362	334	369
Islamic and Arabic Language (FIA)	435	480	362
Engineering (FE)	88	092	101
Faculty of Technology (FOT)	<u>150</u>	<u>-</u>	<u>-</u>
Total	<u>1606</u>	<u>1,440</u>	<u>1,400</u>

The following observations are made in this connection.

- (a) Enrolment of students to the FAC and FIA during the year under review as compared with the year 2015 had increased by 36 per cent and 20 per cent respectively whereas, enrolment of students to the FAS, FMC and FE during the year under review as compared with the year 2015 had decreased by 26 per cent, 2 per cent and 13 per cent respectively. The Faculty of Technology had newly established during the year under review.

- (b) Enrolment of Students for all Faculties during the year under review had increased by 15 per cent as compared with the year 2015.

4.2 Operating Inefficiencies

The following observations are made.

(a) Conducting Lectures at the Department of Islamic Studies

The following observations were made.

- (i) At the audit test check carried out with regard to 14 subjects of Semester II of Academic Year 2015/2016 at the Department of Islamic Studies, it was revealed that, no lecture had been conducted by the Lecturers-in-charge for 7 subjects and lecture hours ranging from 3 hours to 16 hours had been completed by the Lecturers-in-charge for remained 7 Subjects. Hence, most of lectures had been conducted by Temporary Assistant Lecturers. It was further observed that 112 lecture hours had not been conducted by the Lecturers with regard to above 14 subjects.
- (ii) Temporary Assistant Lecturers had been provided the letters of appointment with the condition of undertaking at least 20 hours of teaching / practical per week. However, the University had not introduced a proper mechanism to prove whether those Lecturers had undertaken 20 hours of teaching / practical per week.

(b) Commencement of External Degree Programme

The Centre for External Degree and Professional Learning (CEDPL) of the University had collected a sum of Rs. 41,680,000 from 1,042 students at a rate of Rs.40,000 per student for conducting the first year external degree programme in the year 2017. The following observations were made in this regard.

- (i) The degree programme had not been commenced even up to 08 August 2018. As a result, the students were badly affected due to delay in commencement of the degree programme.
- (ii) The approval of the Finance Committee and Council of the University for the collection of fee from the students had not been obtained in terms of University Grants Commission Circular No. 01/2016 dated 01 January 2016.

(c) Releasing Results of the Examinations of External Degree Programmes

The results of the examinations conducted during the year under review for the Semester II of first, second and third years external degree programmes of BA, BBA and B.Com had been released after a delay of 5 to 11 months. In the meantime, the results of the examination conducted in November 2016 for the Semester I of first year external degree programme of BA had not been released for over 20 months. As a result, the degree programme had delayed over one and half years.

(d) Establishment of Laboratory for the Faculty of Applied Sciences

The construction works of a Laboratory Block for the Faculty of Applied Science had been commenced on 31 October 2011 and completed on 15 February 2014 with the cost of Rs.84,156,395. Further, a sum of Rs. 1,856,467 had been spent for the electrical fittings such as Ceiling Fans and Bulbs in year 2016. However, the Laboratory Block had not been utilized for the intended purpose even up to 10 July 2018 and allowed to be idle for over 2 years due to the delays in the procurement of necessary laboratory equipment. As a result, the students had been faced difficulties in their practical and research projects due to the insufficient laboratory space and equipment.

(e) Working Capital Management

The CEDPL of the University had kept considerable amount of money in the Bank Current Account at the end of each month of the year under review ranging from Rs. 1 million to Rs. 44 million without investing the excess fund in proper investments sources. It was further observed that the University could have been earned an income approximately Rs.2,000,000 if this money was invested in a fixed deposit.

4.3 Transactions of Contentious Nature

A lecture appointed on 01 October 2010 to the Department of Accountancy and Finance of the University has taken medical leave since 27 June 2016 for 3 month periods due to his serious illness and he was reported to the duty on 28 September 2016 and the University had allowed to conduct lecture since that date without obtaining a medical fitness report from a recognized medical officer. Although he was not conducted any lecture since that date, salaries amounting to Rs.3,037,050 had been paid to him for 21 months.

4.4 Idle and Under-utilized Assets

The following observations are made.

- (a) Five fingerprint machines purchased on 10 December 2014 at a total cost of Rs.308,000 for the use of students and lecturers of the Faculty of Islamic Studies and Arabic Languages had not been used for the intended purposes even up to 08 August 2018.
- (b) Hundred and four tyres and 27 tubes purchased during the period of 2008 to 2017 at a cost of Rs.1,932,646 had been kept idle in the store without being utilized for the intended purpose due to various issues such as unnecessary purchasing, mismatched size with the requirements etc.
- (c) The road mark paints purchased at a cost of Rs. 148,227 in year 2016 had been lying idle in the store for over 22 months due to not considering the items already included in the BOQ of the contract awarded for the road works.

4.5 Management Weaknesses

One hundred and thirty one items worth Rs. Rs. 1,430,552 and over 100 items which value not made available had been kept in the Maintenance Store for over 2 years without utilizing for the intended purposes. Further, those items had not been included in the register due to non-maintenance of stock register in the store. Hence, the possibility for misplace these items could not be ruled-out in audit.

4.6 Human Resources Management

The following observations are made.

- (a) Hundred and forty two vacancies out of 382 approved cadre for Academic and library staff were existed as at the end of the year under review without being take proper action.
- (b) The vacancy for the post of Director/ Physical Education had not been filled over 17 years.

5. Achievement of Sustainable Development Goals (SDG)

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030 with respect to the year under review according to the Sri Lanka Sustainable Development Act, No. 19 of 2017. The following observations are made in this regard.

- (a) Due to failure of the University is being aware of the said Agenda for the year 2030, action had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.
- (b) Even though the existence of accurate statistical data is compulsory for evaluating the performance of a certain activity, it was observed that the University had not taken action to maintain an accurate collection of data in view of evaluating the achievement of sustainable development goals. It was further observed that the reasons such as, lack of non-availability of trained staff on behalf of the SDG had attributed thereto.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements Plan

Although a Procurement Plan had been prepared for the year under review, an adequate attention had not been paid on the time schedule in the procurement plan. As a result, an amount aggregating Rs.130,457,247 or 17 per cent of total capital expenditure had been spent for procurement of capital expenditure on 28 December 2017.

6.1.2 Procurement of Multimedia Projectors

Ten ultra-short throw multimedia projectors with installations of cable and brackets at a cost of Rs. 2,737,500 and 28 multimedia projectors with brackets to the cost of Rs.1,946,000 had been procured during the year 2017. The following observations are made in this regard.

- (a) The amount paid for procurement of 28 multimedia projectors had been included the cost for supply, installations and commissioning of multimedia projectors with brackets. However, the supplier had not completed the installation and commissioning even up to 12 July 2018.
- (b) Six multimedia projectors including an Ultra Short Throw had not been utilized for the intended purpose and 10 multimedia projectors had been used without installed by Wall Mount Brackets.
- (c) The payment of Rs.287,500 had been recommended by TEC for installations of Wall Mounting Brackets and Cables and other accessories even though the extended cables connection from the Projector to PC Desk relating to the HDMI, Audio in, Audio out, VGA out, RJ 45, RS 232, Mic in and USB had not been done by the supplier even up to 18 July 2018.
- (d) The capacity of lecture hall, outside brightness, distance between screen and projectors were not considered when preparing the specifications for this purpose and the recommendation of relevant specialist on such specifications was also not obtained. Further, the Projectors had been used without proper awareness with regard to the special features.

6.1.3 Construction of Building Complex for Faculty of Management and Commerce

The University had awarded contract to construct a Building Complex to the Faculty of Management and Commerce in 2010 at a contract value of Rs.112 million. The following observations are made in this regard.

- (a) According to the contract agreement, the construction works with extended should have been completed on or before 28 February 2014. Although the construction works were completed on 20 April 2014, the liquidated damages amounting to Rs. 2,977,412 had not been recovered from the contractor as per the agreement.
- (b) A sum of Rs. 985,000 had been paid to the contractor for non- adjustable element for preliminary items contrary to the clause 13.7 of condition of the contract agreement.
- (c) According to the contract agreement, the University should pay the consultant fee at a rate of 5.25 per cent on the total contract price excluding Value Added Tax (VAT). However, the University had calculated this fee by using two different rates. As a result, a sum of Rs.413,723 had been over paid to the Consultant.

6.1.4 Construction of Building Complex for Main Library

The University had paid a sum of Rs. 1,510,837 to the contractor for non-adjustable element for preliminary items in the construction of Building Complex for Main Library contrary to the clause 13.7 of condition of the contract agreement. Further, the consultant fee should be paid at a rate of 5.25 per cent on the total contract price excluding Value Added Tax (VAT). However, the University had calculated this fee by using two different rates. As a result, a sum of Rs. 245,415 had been over paid to the Consultant.

6.2 Unresolved Matters Pointed out in Previous Audit Reports

The University had sustained a loss of Rs. 1.73 million due to the negligence of the responsible officers who had delayed for more than six years to take action for recoveries of the bond value for breaching agreement by a lecturer. However, no action had been taken against such officers even up to 08 August 2018.

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 the 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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(i) Fixed Assets Management	Failure to update the Register of Fixed Assets.
(ii) Management of Self Financing Courses.	Failure to use surplus money properly and existence of accounting deficiencies.
(iii) Control over Agreements and Bonds	Not paying adequate attention to expedite the recoveries.
(iv) Maintenance of Student Attendance Sheet	Due attention is needed in signing the Attendance Sheet by the lecturers and HOD and daily submission of them.
(v) Personnel Administration	Incurring a very large cost for the service of Visiting Lecturers due to failure in filling the vacancies of the academic staff.
(vi) Stocks Control in Maintenance Store	Un-availability of proper recording and reporting system in the store