

## **University of Colombo – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of University of Colombo for the year ended 31 December 2018 comprising the Statement of Financial Position as at 31 December 2018 and statement of Financial Performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the University's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No. 19 of 2018, the University is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the University.

#### **1.4 Responsibility of the Auditor in relation to the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is great than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the University and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University has complied with applicable written law, or other general or special directions issued by the Board of Governors of the University;
- Whether the University has performed according to its powers, functions and duties; and
- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the Preparation of Financial Statements

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Accounting Deficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Even though the prepayments of the Faculty of Finance and Management related to the year under review was Rs.487,670, the amount was stated as Rs. 431,051 in the financial statements and thereby, it had been understated by an amount of Rs. 56,619.	The balance of prepayment account had been understated by Rs. 56,619.	Accounts should be accurately identified and brought to accounts.

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| (b) | An amount of Rs. 955,718,850 incurred from the Fund of the University for the construction of the building of the Faculty of Medicine had been brought to accounts as receivables from the General Treasury under miscellaneous debtors without getting the consent of the General Treasury to the effect that the said amount would be granted by the General Treasury. | The amount of Rs. 75,437,445 had been received to the University in April 2019. Accordingly, the balance amount of Rs. 879,999,997 was the amount receivable from the General Treasury for the 17 storeyed building. Discussions are being held among the Ministry of Higher Education, Department of Foreign Resources and the Department of National Budget of the General Treasury in relation to this amount from May 2018 and the approval of the Cabinet had been granted for the provision of a loan to the contractor in the year 2019. Accounting had been done in this manner due to the situation prevailed by 14 March 2019, which was the date of presenting accounts. | Should be brought to accounts accurately and disclosed in accounts accurately.   |
| (c) | An amount of Rs. 139,240,643 incurred for the Faculties and the other Departments of Study of the University had been stated as receivables under debtors.   | Amount of Rs.1,053,332 receivable to Research Management Unit, amount of Rs. 1,132,417 receivable to the Faculty of Medicine, amount of Rs. 124,710 receivable from the Research Management Unit, amount of Rs. 55,577 receivable from the Faculty of Graduate Studies, amount of Rs. 136,808,614 receivable for the building of Faculty of Graduate Studies, amounts of Rs. 65,993, Rs. 1,053,332, Rs. 124,710 , Rs. 55,577 and Rs. 65,993 receivable from NEREC have already been received from each Division.  | Should be brought to accounts accurately.<br><br>Since the balances receivable from each Department of Study of the University are internal transactions, it is not accurate to state them in the financial statements in that manner. |
| (d) | Even though the loss of disposing assets in the year under review was Rs.621,955, the loss had been brought to accounts as Rs.4,175,980 in the financial statements and the profit of the year had been decreased by Rs. 3,554,025.  | Action will be taken to rectify it in the year 2019.  | Accounting should be done accurately.  |

### 1.5.3 Unreconciled Control Accounts and Reports

Item	Value as per the Financial Statements	Value as per Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Investments	1,783,693,156	1,783,293,156	400,000	This had been created from an error made in the ledger account of the College House in transferring the accounts, maintained at the College House during the year 2005, to the Faculty of Medicine. Action will be taken to rectify the error in the year 2019.	Accounting should be done accurately.

### 1.6 Receivable and Payable Accounts

#### 1.6.1 Advances

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Library advances amounting to Rs.152,672 provided by the University in the years 2016 and 2017 had not been settled even at the end of the year under review.	The settlement of advances had been delayed as journals had not been received to the University due to the non-availability of stocks of journals and non-publication of the journals. Action will be taken to settle advances after receiving all journals.	The advances received should be settled immediately after the completion of the relevant activity.
(b)	Even though advances should be provided on proper forecasts when advances are provided, an amount of Rs. 2,877,187 had been provided in 52 occasions for incurring an expense of Rs. 1,144,606. The balance remaining was in the range of Rs. 1,800 to Rs.86,365.	Officers have been instructed to properly execute rules on advances.	Financial Management should be properly maintained.

## 1.6.2 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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The following observations are made.

	<b>Reference to Non-compliance Laws, Rules Regulations etc.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	FR 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 3/2015 of 14 July 2015.	The advances received should be settled immediately after the completion of the activity for which it is granted. Nevertheless, the settlement of advances totalling to Rs.3,801,491 granted in 48 occasions had been delayed from 60 days to 291 days and miscellaneous advances totalling to Rs. 5,528,964 granted in 17 occasions had not been settled even at the end of the year under review.	Officers have been instructed to properly execute rules on advances. Action should be taken in compliance with the laws, rules and regulations.
(b)	Establishments Code of Universities		
(i)	Section 1.9 of Chapter X	It was revealed that a leave register had not been maintained for the academic staff of the Faculty of Science at the audit test check conducted in the audit.	Discussions were held at the 88 <sup>th</sup> Audit Committee for implementing this. It was proposed to maintain that by creating awareness through the Deans Committee and to implement this in all the Faculties of the University. Action should be taken in compliance with the laws, rules and regulations.

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| (ii) | Sections 3.1 and 3.2 of Chapter XX   | Salaries and allowances amounting to Rs. 677,219,763 had been paid in the year under review without confirming attendance and leave of 618 members of the Academic staff even though time in and time out of all the officers in the academic staff and non-academic staff should be stated.  | Duties of the academic staff cannot be limited to 08 hours. Likely, signatures of the students who take part in the lectures conducted by the relevant lecturers have to be stated and it is a confirmation that the relevant lecturer has attended lectures. Likely, lecturers function in accordance with directives resolved by the Senate. | Action should be taken in compliance with the provisions stipulated in the Establishments Code of Universities and in compliance with rules and regulations enacted by the Government. |
| (c)  | Circular of the University Grants Commission No. 13/2015 of 18 September 2015. | Even though the fuel allowance related to the official vehicles should be added to the monthly salary and paid to the officers who are entitled to get official vehicles, 10 officers had been provided fuel through fuel orders of the University in contrary to that. Fuel amounting to Rs. 1,905,898 had been provided in the year under review through fuel orders to officers exceeding the monthly fuel allowance entitled by the officers. | For this purpose, action has been taken in accordance with the approval granted by the Governing Board.  | Action should be taken in compliance with the rules and regulations.   |

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review was to a surplus of Rs. 283,376,912 and the corresponding surplus in the preceding year amounted to Rs. 100,379,281. Therefore, an improvement in the financial result amounting to Rs. 182,997,631 was observed. The major reasons for the improvement are the increase in government grants for recurrent expenditure by Rs. 739,168,000 and the increase in the personal emoluments and rehabilitation expenditure by Rs. 507,820,748 and Rs. 33,344,325 respectively.

### 3. Operational Review

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#### 3.1 Management Inefficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) General activities of the institution had been impeded due to the delay from 02 months up to 11 months in supplying goods worth Rs. 16,434,490 in relation to 28 orders for goods pertaining to the year 2018.	There are delays in receiving goods. Action has been taken to charge late payment penalties from all the suppliers from January 2019 after making amendments to agreements entered in to with the suppliers.	More attention should be paid to conditions of agreements in entering in to supply agreements.
(b) A senior Professor of the Faculty of Science had obtained medical leave, vacation leave, sabbatical leave from time to time due to his illness and salaries and allowances amounting to Rs. 3,397,055 had been paid for a period of 09 months even though lecture hours had not been allocated for this Professor in the study timetable of the year 2018. Likely, an amount of Rs. 1,012,674 had been paid for 5 months as salaries and allowances without conducting lectures after the date of the retirement of a lecturer from the same Faculty.	<ul style="list-style-type: none"><li data-bbox="770 891 1212 1462">• The Professor had sent the Report with the approval of the Faculty of Science pertaining to the relevant research activities for the period of his sabbatical leave (from 01.11.2015 to 31.10.2017) through the letter dated 19.03.2019. Further, this lecturer has informed by his letter dated 21.02.2019 that he would resign from the service with effect from 21.05.2019. The 551<sup>th</sup> Governing Council of the University held on 10.04.2019 has approved his request.</li><li data-bbox="770 1514 1212 1852">• The service of this lecturer has been extended up to 14.01.2018, which is the last date of the academic year of the Faculty of Science and the University Grants Commission has informed the Faculty of science that the service of the lecturer has been extended up to 30.09.2018.</li></ul>	The Management should establish an appropriate programme and methodology for internal control suitable for the substantiation of the accomplishment of the functions of the lecturers.



- (c) Even though the capacity of students that should be enrolled to the Faculty of Science and Faculty of Management in the year under review was 515 and 520 respectively, the number of students enrolled was 501 and 515 and as a result, 19 students had been deprived of the opportunity of entering the University.
- Only 515 students attended for registration even though 520 students were made aware on the registration of students for the Faculty of Management by letters and by emails. This has been informed to the University Grants Commission.
- Action should be taken to fill all the vacancies for students in accordance with the capacity.
- (d) Even though it had been informed to the University Grants Commission that the capacity for students in the Faculty of Arts was 550, the University Grants Commission had recommended and actually enrolled 713 students. It was an increase of 29.6 per cent compared with the reported capacity of students to the University Grants Commission.
- Generally, five hundred and fifty (550) students are registered for the general intake of the Faculty of Arts. In addition to that, the number of students has been increased up to 605 due to the following reasons.
- The maximum number that can be enrolled should be accurately informed to the University Grants Commission.
- \* Registration of students for special courses.
  - \* Registration of students for additional intake.
  - \* Registration of students with special needs (Blind & Disabled Students)
- (e) When comparing the number of students who had requested the residential facilities with the number of students who had been provided with that facility in the University of Colombo, the number of students in the first year to fourth year batches of students, who had received residential facilities were 22, 40, 44 and 33 per cent respectively and thereby, the provision of residential facilities was in a minimum level. There were space facilities for providing residential facilities for 243 students further in 17 hostels owned by the University. Notwithstanding the fact, 02 hostels had been obtained on the rent basis and an amount of Rs.5,400,000 had been paid as rentals during the year under review. It was observed that only 55 students were actually provided with residential facilities and however, residential facilities could be provided for 108 students.
- The Students could not be attached to the hostels on the following reasons.
- \* 44 female students out of 66 female students resided at Muttaiya Hostel were provided hostel facilities at other hostels (De Saram (New) Havelock and Bullers) until renovation activities are carried out as the roof and the ceiling of the “B” Wing of the Muttaiya Hostel had dilapidated.
  - \*\*One hundred and forty eight (148) students stayed in Havelock Hostel had been removed from the hostel with effect from August 2018 since a part of the old building of the Havelock hostel had to be demolished.
  - \*\*\*Likely, residential facilities could not be provided to 10 female students in the hostel as there are water leakages in three bath rooms in the Hostel at Hewa Mawatha.
- Action should be taken to early determination of the hostel requirement of students and to use existing hostels effectively.

In addition to that, the Bhikkhu Hostel is being maintained in a private building on rent basis from the year 2006 and an amount of Rs. 3,900,000 had been paid for the year 2018 at the rate of Rs. 325,000 as the monthly rental. Even though, 50 Bhikkhus can have residential facilities there, only 15 Bhikkhus are staying there at the moment.

Hostels at Rajagiriya and Boralesgamuwa had been obtained on rent basis.

The house at Green path has to be maintained by the University of Colombo as a Bhikkhu Hostel so far since Bhikkhus have rejected to attend another house. The University of Colombo requires a Bhikkhu Hostel. However, the construction of a Bhikkhu Hostel has been delayed as it was not possible to find a suitable land for the construction of the building and even though the requirement of establishing a Bhikkhu hostel for the University of Colombo has been informed by the Vice Chancellor to the Chairman of the University Grants Commission through a letter dated 09.05.2018, responses have not been received so far in relation to that.

- (f) Even though the approval of the Cabinet of Ministers should be obtained with the recommendation of the University Grants Commission and the Minister of Higher Education prior to the commencement of a Company within the institution as a policy decision, a company limited by Guarantee in the name of “Colombo Science and Technology Cell” had been registered in the year 2013 under the Companies Act without obtaining such an approval. The head office of this company had been established in a building owned by the Faculty of Science of the University of Colombo and only a sum of Rs. 479,684 had been paid to the University for the year under review after using the other physical and human resources including computer accessories without entering in to an Agreement in relation to the use of properties owned by the University.

Taking action in this regard has been entrusted to the Secretary of the Ministry at the 93<sup>rd</sup> meeting of the Committee on Public Enterprises held in committee room No. 05 at 2.30 p.m. on 04<sup>th</sup> July 2017.

Necessary approvals should be obtained prior to the commencement of Companies in the University and prior agreements should be entered in to with the parties in relation to the use of resources of the University.

### 3.2 Operational Inefficiencies

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	<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a)	A sum of Rs. 52,650,521 had to be recovered by 31 December 2018 from 25 lecturers who had breached agreements and bonds.	Action has been taken to recover amounts from Lecturers who had breached agreements and bonds using various methods.	The process of the recovery of bond money should be made efficient.
(b)	A sum of Rs.141,820,522 out of the provision of Rs.565,000,000 received from the General Treasury for capital expenditure in the year under review had been incurred for recurrent expenditure.	A sum of Rs. 141,821,082 out of the provisions received for capital expenditure had been incurred for Recurrent expenditure.	Capital provisions can be incurred only for capital functions.

### 3.3 Underutilization of Funds

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	<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
	A sum of Rs.190,053,440 related to 33 funds included in the "Designated Fund" comprised of 123 funds and in which any transaction had not been taken place in the year under review had been under-utilized.	All the Funds are taken under the same fund under Section 99 of the Universities Act and the Governing Board has been authorized to maintain any Fund and to use the Fund under Section 45 (w) of the Universities Act No. 16 of 1978. Ledger accounts are being maintained for the convenience in controlling the fund. The total of all the funds was Rs.1,706,460,042 and the amount used was Rs. 1139 million. Accordingly, 66.76 per cent out of the total fund had been used. Likely, the remaining funds are used when there is a requirement for using capital provisions in each Department.	The Fund should be used to accomplish the objectives, for which the Fund is established.

### 3.4 Procurement Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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The invitation for bids for reconstructing the K.G. Hall of the Faculty of Science and for the renovation of the roof had been published in three newspapers and a loss amounting to Rs. 229,185 had been incurred to the institution as a revised newspaper advertisement had to be published due to the inconsistency prevailed in each paper advertisement.	Revised paper advertisement had been published not due to the inconsistency prevailed in each paper advertisement but due to the requirement of extending time for issuing bid documents in accordance with the instructions issued by CIDA Institution on a notification made to the CIDA Institution by one of the bidders.	Procurement activities have to be planned appropriately.

### 3.5 Human Resources Development

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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There were 723 approved Posts for Professors and Lecturers at the end of the year under review and the actual number of employees was 586 and number of vacancies was 137 and out of that, 27 posts of Senior Professors remained vacant. There were 183 vacancies in the non-academic Staff.	It is further informed that although sixty two (62) new recruitments were made during the year 2018, it was not possible to avoid the creation of considerable number of vacancies in the university as 24 lecturers left the service at the end of the year 2018 through retirements, transfers, resignations, vacation of Post, releasing from the service. However, the process of filling vacancies is being carried out continuously.	Vacancies should be filled expeditiously.