

University of Kelaniya – 2018

1.1 Qualified Opinion

The audit of the financial statements of University of Kelaniya (“University”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the 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

My opinion is qualified based 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 the Financial Statements

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 intends to liquidate the University 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 Auditor's Responsibilities for the Audit of the Financial Statements

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 higher 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 governing body of the College;
- 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

1.5.1 Internal Control over the preparation of financial statements

The University is 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

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the Particular Standard	Management Comment	Recommendation
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Contrary to the paragraph No. 19 of Sri Lanka Public Sector Accounting Standard No.02, meterial donations received from external parties valued for Rs. 2,441,337 had been stated as non-cash outflow in the cash flow statement under financial activities. Further it was included as a cash inflow of Rs.58,700 which did not provide sufficient evidence and explanation.	Action had been taken to correct in the year 2019	Sri Lanka Public Sector Accounting Standard should be followed.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) Even though according to the physical stock verification report the stock balance as at 31 December 2018 was Rs. 37,974,423, but was stated in financial statement as Rs 30,930,694 and had a difference of Rs.7,043,729. Action had not been taken to identify the difference and correct the accounts.	Difference had been identified now and action had been taken to correct in the year 2019.	The stock balance in the Physical Stock verification report should be adjusted with the ledger account balance.
(b) Amortization amounted to Rs.22,988,000 regarding motor vehicle had being omitted in the accounts during the year under review.	Action had been taken to adjust through journal entries in the year 2019.	Amortization should be correctly adjusted for the assets purchasing from capital grants
(c) Useful life time of intangible assets had not been assessed and disclosed in the financial statement but the value of assets had been annually depreciated by 20 percent.	Action had been taken to adjust through journal entries in the year 2019.	Useful lifetime of intangible assets should be assessed and disclosed in financial statements
(d) Disposal of fixed assets had not been identified annually and those values had not been removed from accounts and a sum of Rs.427,879 received from the auction of disposal assets during the year under review had been stated in other income instead of adjusting in the Assets Disposal Account. Further, action had not been taken to remove those assets from the assets accounts and the fixed assets register.	Fixed assets register will be updated in the year 2019 and noted to make necessary adjustment after updating.	Relevant adjustment should be made in Lileged accounts correctly at the disposal and the fixed assets register should be updated and maintained

- (e) A 39,000 sq.ft. building had been taken on rent basis for monthly rental of Rs. 2,029,750, including VAT, for the Faculty of Computer and Technology without approval of the Secretary to the Ministry. As such, out of Capital Grant received during the year under review amounted to Rs.70,514,859 had been incurred for recurrent nature rental expenses and renovation expenses.
- Building rent and improvements had been approved under the provision of the University Grant Commission and incurred as per relevant approvals in agreements and had been accounted as recurrent nature capital expenditure
- Capital and recurrent expenditure should be Property identified and accounted.

1.5.4 Documentary Evidence not made available for Audit

Item	Amount (Rs)	Evidence Not available	Management Comment	Recommendation
Fixed Deposit	108,347	Information such as relevant deposit certificate, bank balance confirmation, and interest income receipts had not been available for audit for the verification of ownership and existence of fixed deposit shown in the financial statement	Letters had been sent to government banks to get information of this fixed deposit.	Deposit certificates and balance confirmation should be submitted to the audit for verification of fixed deposit balances.

1.6 Accounts Receivables and Payables

1.6.1 Receivables

Audit Observation

Total loan balances of Rs. 1,599,159 given to 19 employees in the University remained without recovering and out of that unrecovered loan balance over 05 years was of Rs. 526,847 and 03 years to 05 years loan balance was Rs. 828,954 and 01 year to 02 years loan balance was Rs. 203,358. Suitable actions had not been taken to recover those loan balances.

Management Comment

Action had been taken to recover loan balance of employees who were transferred to other universities and rest balances to recover from their Provident Fund.

Recommendation

Attention of the management should be paid to recover employees' loan balances.

1.6.2 Payables

Audit Observation

 Action had not been taken to settle various deposits amounted to Rs. 50,751,301, deposited in the University more than two years.

Management Comment

 Maximum number of deposits will be released and balances will be taken to income in future

Recommendation

 Possible deposits should be taken to the income in accordance with the Financial Regulation.

1.6.3 Advances

Audit Observation

 Even though Advances should be settled soon after completing the intended purpose for which it had granted, unsettled advances balance amounted to Rs. 3,667,108 was remained more than one year.

Management Comment

 Settlements were delayed due to issues in settlement vouchers. A proper methodology will be introduced to settle advances in the year 2019.

Recommendation

 Proper controls should be implemented to settle advances soon after the relevant job is finished.

1.7 Non-compliance with Laws, Rules, Regulation and Management Decision etc.

 Following observations are made.

Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a) Financial Regulations of the Government of the Democratic Socialistic Republic of Sri Lanka			
----- Financial Regulations 102, 103 and 104 and National Library Documentation Service Board (Amended) Circular No. 2014/	According to the library books stock verification report conducted on 31 December 2017, 24,721 books had lost and 4,366 books obtained by lecturers	Action had been taken to get approval of the governing body to write off 24,721 lost books and a report is preparing	Financial Regulations and circular instructions should be followed.

m%ⁱ/1/2016 dated 22 December 2016 and students from 01 January 2003 to 31 December 2018 had not been returned till 07 February 2019, but action had not been taken in this regard in terms of Financial Regulations and Circular instructions. regarding the unreturned books.

- (b) Paragraph 01.05.06 of Public Enterprise Circular No. PED/12 dated 02 June 2003. A copy of Draft Annual Report had not been submitted with the Annual Financial Statements to the Auditor General Submitted on 17 May 2019 Circular instruction should be followed
- (c) Public Finance Circular No. 02/2015 of 10 July 2015. In terms of circular instructions, action had not been taken to dispose two buses which had been removed from running for last two years. A Board of Survey will be appointed and disposed after receiving their recommendations of the committee. Circular instructions should be followed

1.8 Cash Management

Audit Observation

Un-identified direct credits total amount to Rs. 2,905,653 coming from year 2016 and 2017 in 03 bank accounts had not been identified and adjusted in accounts.

Management Comment

A sum of Rs. 75,000 had been identified in 2019 and presently accounts will be daily checking and verifying with the bank to make adjustments for unidentified credits

Recommendation

Direct credits should be identified and adjusted in accounts.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.613,994,350 and the corresponding surplus in the preceding year amounted to Rs.365,899,881. This indicating an improvement of Rs.248,094,469 in the financial result. The increase of government recurrent grant by Rs.479,933,000, increase of other income by Rs. 224,439,143 and increase of personal emolument by Rs.472,851,171 had mainly attributed to the above improvement.

3. Operational Review

The following observations are made.

3.1 Management inefficiencies

Audit Observation

(a) University had employed large number of external lecturers to cover lectures and had incurred a sum of Rs. 47,143,233 during the year under review, It was observed in a test check that 285 External Lecturers had been recruited in two faculties and 33 External lecturers appointed to cover 871 lecture hours had not conducted even a single lecture hour. 53 Lecturers had covered only less than half of allocated hours.
Attendance registers for self-supervision had not been maintained for External Lecturers and Temporary Lecturers to mark in and out.

Management Comment

Lecture hours had been allocated to external Lectures and lecturers accordingly and academic works will be done by conducted additional lectures to avoid haim to the students.

Recommendation

Lecture hours should be allocated under proper methodology and proper system should be introduced to report in and out.

<p>(b) Ninety nine thousand one hundred seventy four total number of students were registered in Centre for Distance and Continuous Education in the university until 2018 and 7855 students were registered in the year 2018. Out of registered students from year 2003 to year 2018, 4587 students had been completed the degree during the year under review. A period of 09 months to 02 years had been spent to issue result of relevant examinations in 04 external degree programmes in previous 03 academic years.</p>	<p>Reason for delaying issue results was delay in giving marks due to that an answer paper had been evaluated by two examiners. To minimize the delay the Conference method had been introduced to evaluate answer papers.</p>	<p>Action should be taken to issue results soon.</p>
<p>(c) 03 laptop computers valued for Rs. 346,500 taken by 03 lecturers, who retired and died after 2016, had not been returned.</p>	<p>One computer had been returned back and action will be taken to get back others.</p>	<p>A methodology should be implemented to get back inventories when officers are retiring and die.</p>

3.2 Operational Inefficiencies

The following observations are made.

Audit Observation

(a) Even though in accordance with the Code of Ethics issued by the University Grant Commission to the University staff in March 2012 the minimum number of lecture hours to be conducted by a lecturer had been decided, it was observed in some instances even that minimum number hours had not been allocated. It was observed in a test check

Management Comment

In some instances, lectures had not been conducted for various reasons. Extra lectures will be conducted to avoid loss for scholars.

Recommendation

Lecture hours should be allocated for lecturers according to the Code of Ethics of the University lecturer's.

that in a Academic Faculty, 91 lecture hours should have been allocated for 15 permanent academic staff in the year 2016/2017 only 58 hours had been allocated. Out of that they have conducted only 32 hours and observed that even minimum allocated lecture hours had not been conducted.

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| (b) | Students signatures sheet being the primary document to prove conducting of lectures by the university lecturers. But several instances were observed that detail Such as date of conducted the lectures, subject code, names and signatures of the lecturers, time of conducted the lectures and the academic year had not been mentioned in that document. | In and out were recorded in the attendance registers maintained in Faculty offices but certain lecturers had not taken the students signature sheets to prove conducting of lectures. | Students signature sheet should be properly maintained. |
| (c) | Even though study leave with pay and capital grants had been given to complete doctorate for improving knowledge of the lecturers and then transfer knowledge to the students in the University and then improve the quality of education and develop human resource with ultimate objective of develop general Public human capacity building in the county, 12 lecturers had reported back to the duty without completing qualifications. Further completion of this qualification will be decided only upon completion of relevant doctorate and value of bond agreements signed between the university and lecturers was Rs. 54,791,505. | Action had been taken by 08 lecturers to complete the doctorate in future and 04 lecturers had not completed the doctorate. | Doctorate should be completed within the stipulated time period. |

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| <p>(d) The Appeal Court had given its verdict against the University in 2015 in its judgment in a case filled by a staff member who had dismissed in 2008 and the University had gone to the Supreme Court against the judgment. The case was withdrawn in 2017 on the decision of the Governing Council and the officer was reinstated in 2018 with a salary arrears of Rs. 7,649,419 and Rs. 125,000 had been spent on legal fees.</p> | <p>The Governing Body had decided to come for a settlement and a compensation had been paid accordingly.</p> | <p>After the verdict is given it should be clearly considered for having ability to case a file again.</p> |
| <p>(e) Even though 500 students can be accommodated in the male hostel of the University, boarding facilities had been given only for 328 students. Though 172 students could have been accommodated in that hostel a sum of Rs. 1,500,000 had been paid as annual rent for the supply of boarding facilities to 114 male students.</p> | <p>With the objective of avoiding conflict situation between students a separate hostel was given.</p> | <p>Maximum benefit should be taken from hostels in the university.</p> |

3.3 Transactions of Contentious Nature

Audit Observation

According to information received to the audit, to a Senior Lecturer in the Faculty of Social Science had not been allocated lecturers hours in the study schedules from 2014 to 12 February 2018. The only evidence for she has engaged in service was checking of 20 tutorials and checking of 306 answer papers only. A sum of Rs. 6,186,190 had been paid as salaries and allowances to her for the period from January 2014 to February 2018 without getting any service.

Management Comment

This lecturer had contributed to academic works.

Recommendation

Documentary evidences should be maintained for conducting lecturers.

3.4 Under-utilization of funds

The following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) 17 balances in the University Research Grant Account amounted of Rs.14,639,993 had not been utilized since 01 to 03 years period.	The provision had not been utilized due to that some researches were not implemented, Lecturers had migrated into foreign countries, and completions of some researches.	Research grants should be utilized and the Performance of the University should be increased.
(b) Even though balances of 38 Interest Accounts as at 31 December 2018 relating to Scholarship Fund and Rewarding Fund were Rs.3,963,437 and Rs.5,526,486 respectively, a total sum of Rs.206,300 had only been utilized during the year i.e Rs.187,800 and Rs.18,500 respectively. Therefore, the objective of setting up the accounts was not fruitful.	Possibilities are considering to credit Rewarding Fund and Scholarship Fund to a General Fund and continue under a general Policy.	Should be planned to utilize the funds for the intended purpose of establishment.
(c) A cash grant amounted to Rs. 5,423,868 received in 2011 for the construction of a hostel for foreign students in the Pali and Buddhist Educational Division and another grant amounted to Rs.1,026,890 received in 2013 had not been used for the intended purpose and remained idely.	Starting of construction of hostels were delayed due to the expected funds were not received, and action are being taken to start construction of hosted in due course.	Action should be taken to use fund for the intended purpose.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Observation

Management Comment

Recommendation

(a) It was observed in a test check that, sports equipment valued for Rs.1,971,000, Laboratory equipment valued for Rs. 1,232,072, and Computers and office equipment valued for Rs.5,468,400 were underutilized for 01 to 03 years period as at 31 December of the year under review.

Action will be taken to give a suitable place and then to use relevant items

Procurement should be planned Properly after acquiring the building facilities.

(b) A sum of Rs.11,959,101 had been incurred to purchase 110 laptops for lecturers in the Faculty of Social Science, but 07 laptops had not been distributed even up to the end of the year 2018.

Action had not been taken to use in future.

After identifying the requirement, Procurement should be done.

3.6 Procurement Management

Audit Observation

Management Comment

Recommendation

In accordance with the 8.9.1(b) of the Government Procurement Guidelines Manual, an agreement should be signed for all Procurement exceeding value Rs.500,000, but had not been done so far 09 Procurements valued for Rs.19,083,441.

Agreed with this comment and 8.9.1(b) of the Government Procurement Guidelines will be followed in future.

Procurement Guidelines Should be followed.

3.7 Budgetary Control

Audit Observation

At the checking of income in the University, though the budgeted income in the year 2017 and 2018 were Rs.650,554,000 and Rs.597,000,000 respectively and the actual income were Rs.1,102,741,737 and Rs.1,497,728,000 respectively. Hence variances were observed from 69.5 per cent to 150 per cent.

Management Comment

Due to unavoidable circumstances, variances between estimated and actual income were occurred.

Recommendation

Budget should be used as an management control strategy.

3.8 Sustainable Development Goals

Audit Observation

Although every public institution should act in compliance with United Nations Sustainable Development Agenda for the year 2030 and Circular No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary of the Ministry of National Policies and Economic Affairs. But the University had not identified the Functions Purviewed under its' scope.

Management Comment

Before issuing the Circular Sustainable development activities have been done from 2014.

Recommendation

Action should be taken according to the Circular No.NP/SP/SDG/17 dated 14 August 2017.