

1.1 Qualified Opinion

The audit of the financial statements of University Grants Commission 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 provision of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report 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 Commission 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 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 Commission'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 Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission 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 Commission.

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 Commission'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 Commission'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 Commission 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 Commission, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission 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

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

Following observations are made.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) The balance of Rs.1,609,500 in a Collection Account at the end of the year under review and the related receipts had not been accounted.	This account balance, which is a collection account of the council, will be transferred to the current account of the University Grants Commission No. 2323284 on the last day of each month. However, in this case, the last bank balance as on 31 December 2018 had been transferred on 01 January 2017. Accordingly, the relevant amounts have been accounted as on 01 January 2017.	All accounts relevant to the accounting period should be included in the financial statements.

- (b) A sum of Rs.80,023,316 had been transferred as an income of the year under review from the Development Fund of the Commission to the statement of performance, thus a surplus of Rs.74,704,144 had been indicated without the actual loss of Rs.5,319,171 which should be shown in the financial performance report for the year under review.
- In terms of section 10 (1) of the Universities Act No. 16 of 1978, the University Grants Commission Development Fund has been established with the income earned by the University Grants Commission and When government funds are insufficient to carry out the functions assigned by the University Act, the funds are used with the approval of the Commission. The Commission is empowered to do so by section 10 (3) of the Universities Act and the letter dated 30.04.2004 of the Ministry of Finance.
- The financial performance statement should be identified only the recurring revenue and expenses for the year and consequently surplus or deficit should be disclosed.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 74,704,144 and the corresponding surplus in the preceding year amounted to Rs. 72,658,248. Therefore an improvement amounting to Rs. 2,045,896 of the financial result was observed. The reason for the improvement is incorrectly transferred amount of Rs.80,023,316 from the Development Fund and increased grant and other transfer payments.

2.2 Trend Analysis of Major Income and Expenditure Items

Operating expenses of Rs. 2,457,100,115 for the year under review was increased by Rs.472,950,242 or 23 per cent when comparing with the previous year's operating expenses of Rs. 1,984,149,873. The increase in Mahapola scholarships amounted to Rs. 410,512,250 was the main reason for this increase.

2.3 Ratio Analysis

The current ratio of the Centre was 2.07:1 in the year under review, compared to the previous year it was observed a decline of 40 per cent.

3. Operational Review

3.1 Operational Inefficiencies

Following observations are made.

Audit Observation	Management Comment	Recommendation
<p>(a) Out of the students eligible for university education during the academic year 2017/2018, the number of students enrolled in universities was 18 per cent and the number of students admitted to the university has come down from 3,434 to 118 in the last three years. Accordingly, there has been a relative decrease in the number of students admitted to the university compared to the increase in the number of students eligible for study.</p>	<p>It should be corrected that the number of students selected for the 2017/2018 academic year has increased by 783, rather than decreasing by 118 compared to the 2016/2017 academic year. Similarly, the number of students selected for admission to universities out of the eligible students for university education in the academic year 2017/2018 should be corrected as 19 per cent rather than 18 per cent.</p> <p>As more students apply for university admission in 2017/2018 compared to 2016/2017 (71,106), this percentage shows a decline in the year 2017/2018 (78,894).</p>	<p>Measures should be taken to increase the number of students enrolled in state universities compared to the previous year's enrolment.</p>
<p>(b) Students who qualify for different courses are not registered under those courses while enrolling students annually to the universities, changing for other courses, getting cancelling the registration due to learning in other government higher education institutions and notification made by the universities not to filling vacancies and limited opportunities given to fulfil the student vacancies had been the reasons for 897 student vacancies in the most recent academic year 2017/2018 and 738, 2,226 and 1,455 student vacancies the last three academic years of 2014/2015, 2015/2016, and 2016/2017 respectively. There were 897 vacancies in the year</p>	<p>Nine (09) rounds have been implemented in the academic year 2017/2018 for general admission and eight rounds of filling vacancies.</p> <p>In the vacancy filling round, students are selected for the entire number of vacancies, but some students are not enrolled in selected courses due to various reasons.</p>	<p>Academic courses at universities should be revised to suit the job market needs and action should be taken to release the A / L results and the university entrance cut off marks without delay so as to minimize the dropout of state universities, student not registering.</p>

under review and there were 738, 2,226 and 1,455 vacancies in the last three academic years respectively.

- (c) As per the Cabinet decision dated January 25, 2011, even though it is possible to enrol 0.5 per cent of the proposed total number of students while enrolling the students to the local universities with foreign qualification and accordingly, when considering the number of students proposed and enrolled in nearest 05 years, enrolment ranged from 09 to 50 per cent out of the proposed number of students,
- The reasons for the total number of selected students than the total number of students proposed for certain courses were decrease in the number of students applied for, most courses not receiving any application, rejection of applications for students who do not meet the minimum qualifications, rejection of applications due to non-satisfaction of selection committees and relevant faculties and Admission to Universities of Foreign qualified students were reluctant to participate outside the city of Colombo.
- After enrolling for the 0.5 per cent reservation for foreign students, local students should be allowed to enter the existing vacancies.
- (d) Contrary to the enrolment policy approved by the Cabinet in 2012, for 25 course conducting in 13 state universities and higher educational institutes, in addition to the results of the GCE A / L examination, action had been taken to enrol students to universities based on the results of an aptitude test. As a result of this policy being implemented for the Speech and Hearing Science course of the University of Kelaniya, 09 students who have obtained 'Z' score above the selected student's 'Z' score of the course are in the range of 70 to 82 in the aptitude test had been missed the opportunity to enter to the course.
- In response to a request made by the President of the University Grants Commission, the University of Kelaniya has provided the student list of the Speech and Hearing course for the academic year 2017/2018 to the University Grants Commission. Accordingly, students had been selected for the Speech and Hearing course at the University of Kelaniya for the academic year 2017/2018, based on the Z-score of the students listed in the list, the order of their choice and the number of places allocated for the Speech and Audiology course from each district.
- Students should be admitted to universities considering the Advanced Level results conducting all islands.
- Since the University of Kelaniya has not directly informed the University Grants Commission to consider only students who have obtained 70% or above of the practical / aptitude test of the Speech and Hearing Examination as students who have passed the test and, at the 992nd session of the University Grants Commission held on 09 August 2018, all students selected for the Speech and Hearing Course at the University of

Kelaniya for the academic year 2017/2018 were allowed to follow the course.

- (e) In the academic year 2014/2015, the online application system for university admissions commenced, students were offered the opportunity to applying for university admission through the internet and normal mode. However, by the academic year 2017/2018, it has become a compulsory requirement for university admission, sending applications and online registration for selected courses and universities. A sum of Rs. 9,347,750 had been incurred for this online system up to end of the year under review and it was observed that a sum of Rs.700,000 had to be spent from the year under review for maintenance expenses annually. Under this method, Under this methodology, the number of problems faced in the applying for admissions to universities has increased from 1,081 in the academic year 2015/2016 to 5,602 in the academic year 2018/2019.
- Since students have shown a tendency in the academic year 2015/2016 than the academic year 2014/2015 to apply for university admission online, considering of this, the University Grants Commission decided to call applications for university admission from the academic year 2016/2017 only through the internet. Registration of students to Universities from the academic year 2015/2016 was done by the University Grants Commission (UGC) only through the Internet. The vacancies created by students not registering for the courses could be obtained quickly, and which could fill vacancies quickly.
- When applying for online university admissions using the online system, measures should be taken to minimize the problems faced by applicants.

3.2 Funds Under Utilization

Following observations are made.

Audit Observation	Management Comment	Recommendation
(a) The total of funds amounting to Rs. 39.2 million maintained by the University Grants Commission has been inactive for several years.	The measures taken in respect of research funds are as follows. *There are 14 scholarships awarding funds under the Prize Fund. There are 30 scholarships have been awarded under this in the year 2018 and applications are	Action should be taken to utilize for the intended purposes of the Fund.

invited from university students by the academic unit for further scholarships.

*Since the Central Research Fund has been inactive for several years, approval was granted at the 984th Council Meeting held on 05 April 2018 to transfer the balances to an expenditure head which is granting financial aids to follow Post Graduate Degrees.

* The Tsunami Fund was established and the scholarships have already ended. Accordingly, at the 990th session of the Council held on 12 July 2018, approval was granted to transfer the balance of the Fund to the University Scholarship Fund.

(b) The total of 20 funds accounts amounting to Rs. 33.6 million was being underutilised.

The Commission approved the transfer of the Central Research Fund balance to an expenditure head which is granting Degrees Postgraduate Degree in the Year 2018. Therefore, the balance of the fund is not invested and the fixed deposit will be transferred to the Expenditure Head after the maturity date of 17.01.2019.

9 balances have been invested in the Bond Violation Fund.

The Flood Relief Fund is a collection of repayments of funds granted for natural disasters such as floods and landslides. After consultation with the Treasury, arrangements will be made to invest. Currently this money is being invested daily as Overnight Investment.

The National Science Fund has been set up in collaboration with the National Science Foundation to compile guidelines for research and development in the field of higher education according to guidelines set by UNESCO. Accordingly, payments have been made for the project during the year 2018. Since this is a project in partnership with the National Science Foundation, the University Grants Commission does not invest its money.

The balances of the funds should be utilized for the relevant purposes.

3.3 Procurement Management

Following observations are made.

Audit Observation	Management Comment	Recommendation
<p>(a) According to Section 6.2.2 of the National Procurement Agency Circular No. 08, the minimum bidding period for bidding under shopping method other than emergency procurement shall be 07 days. However, the Commission did not act accordingly in purchasing stationery amount of Rs. 762,805 in 02 instances.</p>	<p>Purchasing of stationery (A4 Paper) was made on 25 June 2018 on written notification dated 21 June 2018 by the line ministry stating to prepare the Annual Reports and Accounts to be tabled in Parliament, in order to prepare copies of such reports. As this was an urgent need, this task was carried out by obtaining sealed prices from three registered suppliers on Sri Lanka Telecom Rainbow Pages.</p> <p>The purchase of stationery (A4 paper) was made on 03.10.2018, due to the financial settlement should be made before 9 October 2018, on the notice by UNICEF, which funded the "Study on ragging and sexual and gender based violence in Sri Lankan University System" project run by the Centre for Gender Equality / Equity under our institution.</p>	<p>Action should be taken to maintain inventory levels for use in emergencies.</p>
<p>(b) In accordance with Section 2.14.1 of the National Procurement Agency Circular No. 08, for the purchase of goods valued at over Rs.500,000, the public bidding shall be made through the Regional Procurement Committee under the Market Pricing System and sealed quotations shall be made by not less than 05 persons. However, Procurement Letters were issued to 10 Institutions on 02 February 2018 in 03 occasions for purchasing stationeries valued at Rs.973,365 without calling for public bidding.</p>	<p>Activities of purchasing of stationery amounting to Rs. 973,365 as specified in the Audit Report was done under the limitations of the authority of Supplementary 34 of the Procurement Manual, by having sealed quotations under the market pricing system on 03 occasions. Quotations were sent to 10 institutions for procurement purposes and sealed prices were received from 8 institutions. Purchases are always made from the lowest priced suppliers. This has been done under the relevant approvals within the relevant authority limits as 03 procurement functions.</p>	<p>When making the same type of procurement, it should be treated as a single procurement process without having to make separate bids.</p>

- (c) Evaluation of bids should be carried out as soon as possible in order to give sufficient time to obtain formal approval in accordance with Section 7.4.1 of the National Procurement Agency Circular No. 08 and bids must be evaluated within the period specified in the procurement schedule. Nevertheless, the quotations relating to the provision of Cleaning Services for the year 2018/2019 were opened on 14 February 2018, but it had been delayed for nearly 100 days for taking Technical Evaluation Committee decision after evaluating the opened bids.
- Even though the bids of this Procurement were opened on 14 February 2018, These evaluations have been delayed on practical issues such as due to non-academic staff participating in the strike for more than 60 days from the last week of February 2018, it was inability to obtain the paperwork support of the relevant subject clerks, as well as the delays in obtaining confidential reports on the services of the relevant bidders as well as other procurement activities that have to be carried out simultaneously after the strike.
- The procurement process should be carried out without delay and the relevant committee decisions should be made to make procurement work efficient and cost effective for the Commission.
- (d) As revealed in the sample inspection, there were weaknesses in the procurement process such as deviations from the procurement plan, bids, opening bids and evaluations related to supply of cleaning services in the years 2018/2019. As the bid was called back and the bid was awarded to the third lowest bidder, an additional amount of Rs. 1,812,873 had to be paid for cleaning services.
- The contractor's contract was terminated with the approval of the Commission as the bidder who was selected by calling bids in accordance with the Procurement Guidelines for Cleaning services for the Year 2018 has not rendered satisfactory service.
- When selecting a successful bidder from among the bidders who have submitted the bids, the Procurement Committee members should take successful decisions considering the effectiveness of the services provided to similar institutions in addition to the bid price.
- (e) Although the bids were called for the purchase of 5 computers in the year 2017 and recommended by the Technical Evaluation Committee in the year under review, without considering the recommendations bid was rejected by the Procurement Committee on a technical issue submitted by one member of the
- As stated in the audit report, computers were not obtained for hire from the second lowest bidder. Computers have been hired by Data Core Lanka (Pvt) Ltd, which has offered the lowest bid. All these details have been submitted for audit.
- Procurement activities should be done on the recommendation of the Technical Evaluation Committee.

Technical Evaluation
Committee. As the procurement
committee had not implemented
the recommendation for a recall,
Rs.1.2 million was spent on
renting computers for 10
months.