

1.1 Qualified Opinion

The audit of the financial statements of the of University College of Batangala 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 of the University College of Batangala give a true and fair view of the financial position of the Institute 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 (SLAS). 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 College'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 College or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the College 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 College.

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

- Whether the College has complied with applicable written law, or other general or special directions issued by the governing body of the College;
- Whether the College has performed according to its powers, functions and duties; and
- Whether the resources of the College 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 Non-compliance with the Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
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Depreciation on an asset starts once it is ready for use in terms of Section 69 of Standard 7 relating to Property, Plant and Equipment. However, as the assets purchased during the year under review had not been depreciated in that manner, depreciation for the year had been understated by Rs. 516,568 in the accounts.	Noted for taking action to rectify in the future.	Sri Lanka Public Sector Accounting Standards should be followed.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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a) As the work of digging a well had become unsuccessful in the year 2017, the sum of Rs. 364,255 incurred thereon, had been shown as work in progress in the financial statements instead of being brought to accounts as an expenditure.	Noted for taking action to rectify in the future.	Expenses incurred on the capital projects, should be identified as an expenditure in case the relevant project becomes unsuccessful.
b) Due to failure of the University College in paying the contributions to the Employees' Provident Fund	Action will be taken to correct.	Surcharges should separately be identified as an expense. Funds of the Skills Sector Development Project should

and Employees' Trust Fund for the period from January 2015 to May 2017, surcharges amounting to Rs. 758,119 and Rs. 128,682 had respectively been reimbursed by the Skills Sector Development Programme. As those surcharge amounts had been debited to the Employees' Provident Fund account of the year, the expenses on the Employees' Provident Fund and Employees' Trust Fund had been overstated by similar amounts.

not be spent on activities external to its objectives.

- c) Action had not been taken even up to the end of the year under review to evaluate and account the value of 56 items of fixed assets given to the University College in the year 2015 by the Skills Sector Development Project.

Information has been received for the first 07 items whereas no information has been received for the remaining 03 items.

The value of all assets should be identified and brought to accounts.

1.5.3 Transactions without Authority

Description on the Transactions without Authority

Comments of the Management

Recommendation

When allowances had been paid to the lecturers of this University College established with the objective of conducting diploma courses of the NVQ levels 5 and 6, a sum totalling Rs. 4,850,250 had been paid during the year under review without proper approval based on the Circulars issued only for the courses equivalent to NVQ 7 and universities under the purview of University Grants Commission.

As there existed no special Circulars relating to NVQ 06 courses at the inception of the University College, payments had been made in accordance with the provisions of the Circular, No. 954 of the University Grants Commission, and the Circular, No. DMS/1670 of the Department of Management Services.

In the event of lack of Circular provisions, payments should be made with a proper approval.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions, etc.

The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
a) Treasury Circular, No. 842, dated 19 December 1978.	A register had not been maintained for the fixed assets worth Rs. 123,826,115 as at 31 December of the year under review.	Action has been taken for the preparation.	Circulars should be adhered to.
b) Circular, No. 95 of the Department of Public Enterprises, dated 14 June 1994	Approval of the Cabinet, Ministry of Public Administration, or the Treasury should be obtained for the payment of allowances and other financial assistance to the officers in terms of the Circular. However, a sum of Rs. 520,455 had been paid as allowances for the exam duties in the year under review upon approval of the Board of Governance of the University College.	The audit query is not accepted. Payments had been made in accordance with the Circular obtained by the University College as per a Circular of the University Grants Commission in regard to examine and prepare the question papers.	The Circular should be adhered to.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 1,113,319 as compared with the corresponding deficit of Rs. 4,130,240 for the preceding year, thus observing an improvement of Rs. 3,016,921 in the financial result of the year under review. Although the total operating cost for the year under review had increased by Rs. 21,829,439 as compared with the preceding year, the increase in the recurrent grants and amortization of deferred income by Rs. 24,494,831, had mainly attributed to the said improvement in the financial result.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Action had not been taken even up to the date of audit – 24 mar 2019, to vest the 05 acre land belonging to the National Youth Council, where the University College had been established, in the University College.

Comments of the Management

Taking over of the land has been commenced, and action has been taken with the relevant parties in that connection.

Recommendation

It is essential to expedite the process of taking over the land.

3.2 Operating Inefficiencies

Audit Observation

- a) It was observed that the number of lecture hours planned for certain modules of the courses conducted in the year 2018, had not been completed by the lecturers. As such, it was not satisfactory in audit as to the adequacy of knowledge gained by the students as well as the quality of the courses.

Comments of the Management

The lecture hours to be completed for each subject is shown in the syllabus. However, as for certain subjects, the number of lecture hours mentioned in the syllabus is impractical. The number of lecture hours mentioned in the syllabus are met in certain instances whereas lectures are conducted in excess of the lecture hours on some occasions.

Recommendation

When preparing plans, attention should be drawn on the essential number of lecture hours.

- b) Due to non-availability of a lecturer at the University College to teach the subject named “Wood Craftsman Practices” recommended for the courses : Construction Technology, and Quantity Surveying, the said subject had not been taught since the year 2016.

Due to difficulty in recruiting a lecturer for the subject of “Wood Craftsman Practices” in regard to the student groups of 2016, 2017, and 2018, it is accepted that the said subject could not be taught.

Action should be taken to recruit lecturers as required to teach the subjects recommended in the courses.

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| <p>c) According to the examination results released in the year under review with respect to the foundation examination of the group of students enrolled by the University College in the year 2017, no student had passed 02 subjects pertaining to 02 courses, whereas the pass rate of students relating to 17 subjects of 06 courses, ranged between 06 per cent to 61 per cent.</p> | <p>The main reason attributable to the low pass rate of the students relating to the foundation course is their lack of knowledge in English. As a primary step to solve this issue, evening classes are being conducted by the English instructress.</p> | <p>Measures should be adopted in view of increasing the pass rate of the students.</p> |
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3.3 Idle or Under-utilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>Equipment worth Rs. 722,261 that had either been purchased in the year 2017, or granted by the Skills Sector Development Project – 2015, remained idle without being used.</p>	<p>Project proposals for the preparation of a complete restaurant and a bathroom in practical training, have been submitted to the Ministry.</p> <p>The Management Information Systems is something non-physical. It is an information system built online in coordination with the Skills Sector Development Division, and Technical Vocational Education and Training Institute. The MIS can be accessed with any device through the Internet. It is not necessary to allocate a specific computer or a place therefor.</p>	<p>The assets should be utilized for the intended purposes with optimum efficiency and productivity</p>

3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
a) Three probationary lecturers had been recruited in the years 2016 and 2017 although they had not met the minimum qualifications as per the Scheme of Recruitment approved in terms of the Circular, No. DMS/1670 of the Department of Management Services, dated 21 February 2014.	Two probationary lecturers recruited to the University College in the years 2016 and 2017, have been guided to follow the post graduate courses in view of permanence of service. The other lecturer is expected to follow the same in this year.	Recruitments should be made in accordance with the Scheme of Recruitment.
b) There existed 05 posts of Demonstrator in the approved cadre, but no recruitments were made to those posts even up to the date of audit – 15 May 2019.	Filling of vacancies has been commenced.	Action should be taken to fill the vacant posts.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
Although a sum of Rs. 2.8 million had been allocated to carry out 04 miscellaneous activities at the auditorium as per the Action Plan of the year under review, the relevant activities had not been carried out.	Those activities could not be carried out as the auditorium was not enlarged.	The Action Plan should be prepared in order to achieve the expected objectives.

4.2 Audit Committee

Audit Observation

An Audit Committee should be established in terms of Section 7.4.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, and meetings should be conducted once per 3 months. However, the University College had not done so.

Comments of the Management

As pointed out in the audit query, a request was made to the Director General of the University of Vocational Technology in the year 2017 with a view to appointing an internal officer for the appointment of an Audit Committee.

Recommendation

The Circular should be adhered to.