

University College of Ratmalana - 2018

1.1 **Opinion**

The audit of the financial statements of the University College of Ratmalana for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and statement of changes in net assets and cash flow statement for the year then ended and notes to the Financial statements and a summary of significant accounting policies, was carried out under my direction in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No. 19 of 2018 and provisions of Section 17 (2) of the University of Vocational Technology Ordinance No. 01 of 2014. My comments and observations which I consider should be reported to parliament appear in this report.

In my opinion, the financial position of the University College as at 31 December 2018 and of its financial performance and its cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 **Basis for Opinion**

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**

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 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 intend to liquidate the University College or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope (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 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 Company'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 Company'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 Company 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 College and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University College has complied with applicable written law, or other general or special directions issued by the Board of Governors of the University College;
- Whether the University College has performed according to its powers, functions and duties; and
- Whether the resources of the University 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 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.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
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<p>In terms of 119 (c) of Sri Lanka Public Sector Accounting Standards 01, an entity shall separately disclose the extent related to the components of net assets present, on the face of the statement of changes in net assets, the University College had prepared its Statement of Net Assets including the retained profits only.</p>	<p>This will be accurately submitted from the year 2019.</p>	<p>Action should be taken to function in compliance with Sri Lanka Public Sector Accounting Standards.</p>

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Capital grants of recurrent nature amounting to Rs. 3,246,685 received for capacity development for the year under review and for the previous years had been brought to accounts under assets without reconciling the amounts as income in the statement of financial performance and therefore, property, plant and equipment and capital grants had been overstated by that amount.	Action will be taken to rectify the deficiency in the future.	Capital grants of the recurrent nature should be brought to accounts properly.
(b) There was a difference amounting to Rs. 2,337,738 as the balance of creditors was Rs. 5,627,032 according to the ledger account though the balance of creditors was Rs. 7,964,770 as per the financial statements as at 31 December in the year under review.	Action will be taken to rectify the deficiency in the future.	Ledger accounts should be accurately maintained.
(c) The value of fixed deposits amounting to Rs. 714,000 to be stated under investments had been stated under cash and cash equivalents.	Action has been taken to rectify the deficiency.	Should be revealed in accounts under the accurate classification.
(d) If there is any deficiency in balances of accounts related to the financial statements audited in the previous year, such deficiencies should be rectified by making approved journal entries. However, initial balances had been altered without making journal entries in that manner and they had been brought forward in the ledger.	Action will be taken to rectify the deficiency in the future.	Deficiencies in accounts should be rectified only through approved journal entries.

1.5.4 Unauthorized Transactions

Particulars regarding Unauthorized Transactions	Comments of the Management	Recommendation
<p>Even though this University College is assigned the task of conducting courses related to 5 and 6 levels of the National Vocational Qualifications (NVQ) as per the policies of the University College, the University College had paid an amount of Rs. 4,928,200 during the year under review without a formal approval based on circulars issued for Courses of the University Grants Commission and the National Vocational qualifications (NVQ 7) in the payment of charges by the University College for visiting lecturers and for interview boards related to those Courses.</p>	<p>Payments have been made in compliance with the Circular with the approval of the Ministry of Skills Development and Vocational Training and the University of Vocational Technology.</p>	<p>Action should be taken on the formal approval and in compliance with the provisions of the circulars.</p>

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

Reference to Non-compliance Laws, Rules Regulations etc.		Comments of the Management	Recommendation
<p>Department of Public Enterprises Circular No. 95 of 14 June 1994</p>	<p>Even though the approval of the Cabinet of Ministers, Ministry of Public Administration or the General Treasury should be obtained for the payment of allowances for the Officers and for the payment of the other financial aid, the University College had paid an amount of Rs. 1,743,550 during the year under review for marking the answer scripts, payments made for examination duties related to the courses of the students and for the preparation of the question papers by obtaining the approval of the Board of Governors of the University College.</p>	<p>Payments had been made for the Examination duties for the enrolment of students after obtaining the approval of the Board of Governors of the University College. Likely, the approval of the Secretary of the Ministry had been obtained for the payments made for marking answer scripts, for supervision of the examinations conducted for the courses of the students and for the preparation of question papers.</p>	<p>Action should be taken in compliance with the Circular.</p>

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 1,100,694 and the corresponding surplus in the preceding year amounted to Rs. 8,511,970. Therefore, an improvement amounting to Rs. 9,612,664 of the financial result was observed. Even though the total operating expenditure for the year under review had been increased by Rs. 13,090,905 when compared with that of in the previous year, the increase in the total income by Rs. 22,703,569 had been the major reason for the increase in the total operating expenditure.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Action had not been taken even in the year under review to vest the legal title of the land in extent of 03 roods and 3.9 perches, where the University College is situated.

Comment of the Management

Action is being taken to vest the legal title of the land where the University College is situated.

Recommendation

Action should be taken to vest the possession of the land.

3.2 Operational Inefficiencies

The following observation is made.

Audit Observation

In accordance with the results released in the year under review, the percentage of getting through 39 subjects related to 03 Examinations conducted during the year was in the range of 0 per cent to 56 per cent.

Comment of the Management

Necessary action to improve the results of students has already been taken.

Recommendation

Reasons for getting lower results by students should be examined and an appropriate programme for improving the results should be implemented.

3.3 Idle or underutilized Property, Plant and Equipment

The following observation is made.

Audit Observation	Comment of the Management	Recommendation
Laboratory equipment totalling Rs. 7,354,801 provided to the University College from the Skill Sector Development Project in the year 2015 remained idle even by 01 February 2019, the date of Audit.	The aforementioned equipment as well as the other equipment can be used more effectively immediately after the completion of the laboratory activities.	Action should be taken to use resources with maximum efficiency and effectiveness.

3.4 Human Resources Management

The following observations are made.

	Audit Observation	Comment of the Management	Recommendation
(a)	Even though the conduct of examination once a year as per the requirement is the responsibility of the Board of Management in terms of Section 4.4.5 of the Recruitment Scheme bearing No. 31 of 2008 of 21 May 2013 approved for University of Vocational Technology, the Management of the University College had not taken action to conduct efficiency bar examinations appropriately as per the Scheme of Recruitment.	All the officers who should sit the efficiency bar examinations were directed on 02 July 2018 to do the Examination and the approval of the Board of Governors of the University of Vocational Technology is sought for the implementation of their recommendations.	Action should be taken to conduct efficiency bar examinations as per the requirement.
(b)	As per the letter of the Ministry of Finance and Planning bearing No. DMS 1670 of 22 January 2014, recruitments had been made for the Posts of Assistant Registrar, Assistant Bursar and Assistant Librarian which had not been approved for the University College. Nevertheless, one Post each had been approved for the posts of Registrar, Bursar and Librarian as the Non-academic Staff of the University College and such Posts had not been approved for the University College.	A request had been forwarded to the Department of Management Services for getting the approval for the Posts of Assistant Bursar and the Posts of Assistant Librarian.	Action should be taken to obtain the approval of the Department of Management Services.

- (c) A Consultant on Information Technology had been recruited on 11 May in the year under review and the qualifications of the officers recruited could not be substantiated in the audit as a scheme of recruitment had not been approved in relation to such a post in the schemes of recruitment of staffs for the University College.
- Recruitment of a Consultant in Information Technology had been made in accordance with the category of teacher assistants which is the corresponding scheme of recruitment for the category U-AST of the approved cadre. Further, recruitment to this Post had been made in compliance with this Scheme of Recruitment even at the inception of the University College and all the University Colleges are taking action to prepare a scheme of recruitment to this Post.
- A specified scheme of recruitment should be approved.
- (d) Even though a minimum of 02 lecturers should be present for the Courses conducted by a University College, there were 03 vacancies for 03 courses of study.
- Two lecturers had been attached to the Course of Food Technology and one female Lecturer is being studied abroad and recruitment for the Post of Lecturer for the Television Post-Production Technology Course had been made according to the Scheme of Recruitment of Lecturers and the approval of the Board of Management had been obtained and the approval of the Board of Governors of the University of Vocational Technology has been sought.
- Action should be taken to fill vacancies.
- The Course on Cosmetology had not been commenced for the year 2019 as the number of students for the Course is in a minimum level and the lecturer who had been employed left the service with effect from 31 January 2019. A paper advertisement was published for recruiting a lecturer for this Course.