

1.1 Qualified Opinion

The audit of the financial statements of University Grants Commission for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 with provision of the National Audit Act No. 19 of 2018 read in conjunction with provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and section 12(4) and Section 8 of the Universities Act, No. 16 of 1978. 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 2019, 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.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
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(i) Out of the flood relief funds provided by the Treasury from 2011 to provide relief to university staff affected by the floods, a sum of Rs.26,566,366 were credited to a fund account which was recovered during the period from 2014 to 2018. Accordingly, instead of adjusting the amount as previous year adjustment it was accounted for as the income for the year under review and the income of the year under review was overstated from the same amount.	The money recovered from the flood relief from 2014 up to now was also used for the recurrent expenditure of the University Grants Commission and it is not taken as income in the income and expenditure account. But in 2019, it was credited to the income account as recurring income and the accounts were corrected.	Only the income relevant to the period should be taken into consideration in preparing the Income Statement of the Commission.
(ii) Out of the provisions made by the Treasury during the year under	Under the Annual Budget, the University Grants Commission	Arrangements should be made to settle the

review, advances of Rs. 2 million made to a postgraduate institution outside of the purpose for which those provisions were made were shown as Commission Expenditure instead of being shown in the financial statements as advances to be recovered.

receives allocations and these provisions have been made in the Annual Budget Appropriations approved under Head of Expenditure No. 214 in terms of the powers vested in the University Grants Commission under Section 100 (2) of the Universities Act, No. 16 of 1978.

advance given to other institutions at the end of the year.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

Audit Observation

The receivable balance of Rs.895,619 due in the Financial Statement as at 31 December of the year under review had not been settled.

Management Comment

The receivable balance of Rs.893,271 is the value of the air conditioners installed in the higher education premises used for the functions of the University Grants Commission and the machines will be taken back to the University Grants Commission.

The balance of Rs. 2,348 should be received from an officer who has been transferred to the University of Moratuwa.

Recommendation

Necessary action should be taken to settle the relevant balances.

1.6.2 Accounts Payables

Audit Observation

The balances of Rs. 2,959,883 had not been settled for many years.

Management Comment

Confirmations will also be obtained from the relevant institutions for the account balances payable and action will be taken to settle those balances.

Recommendation

Action must be taken to resolve this quickly.

1.6.3 Advances

Audit Observation

An advance of Rs. 10,253,750 given by the University Grants Commission from 2014 to 2018 for the installation of computer software to 03 universities had not been settled by the end of the year under review.

Management Comment

Problems with software systems need to be identified and updated as required by the University Grants Commission. Informed in writing. Action will be taken in the future to resolve the software system for Mahapola Scholarship Funds in association with the Mahapola Trust Fund.

Recommendation

Relevant work should be done in a timely manner and action should be taken to settle the advance.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations	Non-compliance	Management's Comment	Recommendation
Section 18.1 of Chapter III of the Establishments Code of Universities,	Vacancies in 08 key posts of the Commission for a long time had not been filled till the end of the year under review.	In terms of the powers of Section 8 of the Universities Act of 1978, it is decided to recruit the required number of employees and accordingly, no action has been taken to recruit for the posts mentioned in the audit query at present. Considering the need, action will be taken in the future.	Action should be taken to fill the vacancies within the approved number of staff in order to carry out the functions of the Commission efficiently and effectively.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 12,267,136 and the corresponding surplus in the preceding year amounted to Rs. 74,704,144. Therefore a deterioration amounting to Rs. 62,437,008 of the financial result was observed. The reasons for the deterioration are due to decrease in other incomes and Increase in salaries and staff benefits expenditure.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(i) Candidates who have appeared for the GCE Advanced Level Examination at the island wide level and obtained high Z scores, due to failing the aptitude test conducted for admission to the University, it was observed that he was deprived of the opportunity to enter the preferred courses or to enter the university although he passed the GCE (Advanced Level) examination with a high Z score. However, no further action has been taken to revise or suspend this system,	Although the University Grants Commission has decided to select students for university admission based on the results of the GCE (A/L) examination from the academic year 2019/2020 due to various problematic issues regarding aptitude / practical examinations, at the urging of various parties, the Commission decided to conduct the examinations for another two years only. The University Grants Commission (UGC) has also decided not to	Management should focus on admitting students to university entrance based on the results of the competitive examination conducted island wide.

and the process of conducting aptitude tests for admission of students to the University for the 2019/2020 academic year has been further continued.

- include these tests in new courses to be introduced in the future.
- (ii) According to student enrollment data for universities, although it was observed enrollment of students in 15 universities has increased by 52 percent in 2018 from 19,620 to 29,863 in 10 years, compared to 2008, Treasury grants amounting to Rs. 198,681 million and earned funds of Rs. 320,645 million were spent on capital and recurrent expenditure during the last 05 years. but had not achieved a significant level of performance in enrolling students for the courses conducted at each of the universities and no courses have been introduced in the last 10 years in 03 universities.
- Measures will be taken to increase the number of students admitted to universities every year and accordingly, the number of students enrolled for the 2019/2020 academic year has been increased to 34,161, and it was an increase of about 9.64 percent over the previous year (31,158). Universities should conduct proper market surveys to identify subject areas for new courses, develop relevant curricula, recruit qualified lecturers and introduce suitable new courses.
- Management needs to focus on taking action to increase the number of students admitted to universities and to introduce new courses as much as possible in comparison to the funds spent annually on universities.
- (iii) Although, the Center for Gender Equity and Equality, set up to reduce harassment, has received between 200-250 complaints a year from 2017 to the end of the year under review, It was not revealed during the audit that action has been taken to refer the matter to the relevant divisions. However, despite the fact that nearly Rs. 27 million was spent on this sector during that period, the performance remained very low.
- Appropriate action has been taken on all complaints received by this center from 2017 to date in accordance with the relevant legal framework. I hereby inform you that there were situations where the planned programs could not be implemented such as situation in the country in April 2019, University non-academic staff strike in September and October, and Changes in the Standing Committee's Decisions on Gender Equity and Equality in relation to the activities of the Center's Action Plan when facing certain other practical issues.
- Action should be taken to achieve the relevant goals and objectives.

3.2 Operational Inefficiencies

Audit Observation

Although, Postgraduate beneficiaries are required to complete their degree within the prescribed 03 years, and also Rs.190,367,674 was awarded to 204 postgraduate students who were awarded postgraduate grants from 2009 to 2015, only 119 graduates who completed postgraduate degrees remained at a low level of 58 percent. Also, 14 graduates who had stated that they had completed their degree had not submitted their certificates and when examining the progress of postgraduate completion from 2009 to 2013, it was observed that there were four graduates who did not respond to their progress.

Management Comment

Reminder letters have been issued to the beneficiaries who did not complete their degree from 2009 to 2016 and In response, 32 recipients have completed their postgraduate degrees and submitted their degree certificates to us. The remaining beneficiaries have submitted letters confirming that they have completed their postgraduate studies and submitted their dissertations. Accordingly, 119 recipients have completed post graduate degrees by 15.07.2020.

Recommendation

Postgraduate recipients of the grant should complete the course on time and follow up with the relevant parties on any delays that may occur.

3.3 Underutilization of Funds

Audit Observation

- (i) No action was taken to utilize for review purposes or settle, during the year under review, a sum of Rs.39,129,376 in the Development Fund of the Commission and Rs.30,583,530 outstanding due at the end of the year under review, collected for university courses and institutional review work.

Management Comment

A sum of Rs. 30.3 million earned by the University Grants Commission during the year 2019 was used for capital and recurrent expenditure that year and the University Grants Commission Development Fund was not utilized for the relevant purposes during the year under review as the University Grants Commission's income and expenditure account shows a surplus during the year under review. But was used for working capital needs.

Recommendation

The balance of the funds obtained for the review work should be used to the relevant review work or settle.

- (ii) Out of the balance of Rs.32.9 million in 12 funds under the Prize and Scholarship Fund,

The UGC Open Scholarship Fund and the Universities Scholarship Fund were transferred to the

For the purposes of establishing funds, should be utilized.

during the year under review, University Grants Commission
Rs. 30.1 million or 91.4 per Fund in 2019.
cent of the funds under 08
funds had not been utilized for
the purpose of establishing the
Funds to awarding grants.