

## **Universities Grant Commission - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of Universities Grant Commission for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in net assets 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 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 the 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 2020, 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**

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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**

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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)**

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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 Audit Observations on the Preparation of Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Following observations are made.

<b>Non-compliance with reference to the relevant standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Due to non- reviewing of effective lifetime of non-current assets annually according to paragraph 65 of Sri Lanka Public Sector Accounting Standards 07, fixed assets, including vehicles worth Rs. 67.2 million, were completely depreciated but were still in use. Accordingly, no action had been taken to revise the estimated error in accordance with the Sri Lanka Public Sector Accounting Standards 03.	The Cost Model is the policy for identifying the value of fixed assets of the University Grants Commission. Accordingly, the value of the accounts is shown in accordance with Sections 07 and 41 of the Standards and an annual revaluation is not required.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.
(b) According to paragraph 26 of the Public Sector Accounting Standards, Financial statements report the financial position of an entity at the end of its reporting period, not on potential future conditions, and should not identify	Consultants and the Chief Consultant have been appointed to prepare feasibility reports for 09 City Universities as at 31 December 2020. Accordingly, the amount has been accounted for as specific	Provisions for consulting fees for non-recruiting consultants should not be made in the financial statements.

provisions for future operating expenses for 10 City expenses. However, due to the Universities as an accrued allocation of Rs. 4.4 million at the expense as per Sections 01 of end of the year under review for 04 Sri Lanka Public Accounting non-recruited advisors to 02 city Standards 07. universities as at the time of the reporting date, the surplus for the year was understated and the current liabilities were overstated in the financial statements from that amount.

### 1.5.2 Accounting Deficiencies

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 Following observations are made.

<b>Audit Observations</b>	<b>Management's Comment</b>	<b>Recommendation</b>
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(a) The fair value of a vehicle, valued at Rs. 4.3 million, which had been transferred to the Commission in 2018 as a Treasury grant, had not been assessed and accounted for until the end of the year under review.	Steps will be taken to calculate and accounted for the cost of the vehicle provided to the University Grants Commission at the expense of the General Treasury.	Steps should be taken to account for the relevant assets within the year in which the ownership of the assets is transferred to the Commission.
(b) As the expenditure of Rs. 1.8 million for the year under review was omitted from the accounts, the surplus and accrued expenses for the year were overstated or understated respectively.	Unidentified expenses for the year 2020 could not be accounted for as accrued expenses and in preparing the final accounts within the stipulated time frame, it was practically impossible to record the accrued expenses in respect of payments received during the last week of January, February and March of the following year.	Accrued expenses for the year should be identified and accounted for.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 29.9 million and the corresponding surplus in the preceding year amounted to Rs. 12.3 million. Therefore, an improvement amounting to Rs. 17.6 million of the financial result was observed.

## 3. Operational Review

### 3.1 Uneconomic Transactions

#### Audit Observations

Although the Commission has paid Rs. 452 million as membership fee to the South Asian University for the period from 2010 to June 2020 with the aim of developing the skills and knowledge of Sri Lankan students and thereby producing students with leadership qualities, it has not been observed that it contributes to the development of skills and knowledge of Sri Lankan students and thereby produces students with leadership qualities.

#### Management's Comment

The University Grants Commission (UGC) has instructed the Internal Auditor to study the annual reports of the South Asian University and submit a report on the academic and other administrative activities of the university.

#### Recommendation

Necessary steps should be taken immediately to reap the benefits that Sri Lankan students should receive from the long-term membership fees paid to a foreign higher education institution.

### 3.2 Management Inefficiencies

Following observations are made.

#### Audit Observations

- (a) There were 897, 738, 2,226 and 2,461 vacancies in the admission of students to the universities from the academic year 2016/2017 to the academic year 2019/2020 respectively and those vacancies had not been filled up till 24 June 2021.

#### Management's Comment

- Out of the 5505 vacancies at the end of the first round of recruitment, 2461 were still vacant.
- (b) Although the results of the GCE (Advanced Level) Examination held in 2019 were released on 27

#### Recommendation

Management should immediately pay attention to enrol the maximum number of students who can be admitted to the degree courses conducted in the universities.

Measures should be taken to issue cut-off marks without delay so that students who are

December 2019, the online call for applications for university admission was delayed for more than two months and commenced on 05 March 2020. Furthermore, although the GCE (Advanced Level) Examination for the year 2020 had commenced on 12 October 2020, Students who missed out on university admissions due to the University Grants Commission's failure to issue cut-off marks before that date missed out on the opportunity to prepare and sit for the GCE Advanced Level Examination 2020.

categories of new and old syllabus in the G.C.E. (Advanced Level) examination of the year 2019, it took longer than the other years.

hoping for cut-off marks on the results of the GCE Advanced Level Examination will be given the opportunity to prepare for the re-sit examination if they miss out on university admissions.

- (c) Although a total of Rs. 10.2 million has been paid for the installation of computer software for online enrolment of students to 03 universities during the period from 2014 to 2018 and a period of 02 to 05 years has elapsed since the end of the year under review, no action had been taken till the date of the report to complete the work and settle the advance.

It was too late to confirm the successful completion of the relevant works as the respective universities had to update the changes in the process of inviting applications for admission from year to year. However, as the work has already been completed, the relevant confirmations will be obtained and action will be taken to complete the work.

Steps should be taken to settle the relevant advance money immediately.

### 3.3 Delay in Projects and Capital Works

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 Following observations are made.

<b>Audit Observations</b>	<b>Management's Comment</b>	<b>Recommendation</b>
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(a) Although a period of 1 to 13 years has elapsed since the Cabinet approved 20 project proposals pertaining to 12 universities and higher education institutions, the relevant higher education institutions had failed to commence work on the relevant projects by the end of the year under review.	Delays were caused by a lack of adequate project allocation, difficulty in finding a suitable site for construction work, delay in clearing land despite having land, Covid 19 epidemic and suspension of implementation of new projects due to budget constraints of previous years.	Prior feasibility study should be done to confirm the feasibility of the project and then the project related planning and agreements should be done.

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| (b) | Although 03 years to 11 years have elapsed since the Cabinet approved the project proposals for 10 universities and higher education institutes, financial progress on 18 projects was as low as 8 percent to 50 percent due to delays in bidding, extension of commencing date and project deadlines. | Releasing the Capital Funds in 2018 and 2019 in a law level, inability to pay contractors' bills properly, security reasons for the Sunday Easter attack in 2019, and inability of contractors to execute projects due to the corona epidemic in 2020 caused physical progress to remain low. | Appropriate measures should be taken to minimize project delays and take necessary steps to complete projects expeditiously. |
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### 3.4 Annual Action Plan

Following observations are made.

<b>Audit Observations</b> -----	<b>Management's Comment</b> -----	<b>Recommendation</b> -----
(a) The action plan for the year under review was expected to introduce an employee-centric financial information system of the University Grants Commission and higher education institutions by June 2020 to meet the 21 <sup>st</sup> century, but by the end of the year its progress had been only 50 percent.	There is a delay in reaching the expected level of performance as these activities are being carried out under the corona epidemic situation which has been going on since the beginning of 2020.	Management should focus on achieving the goals and objectives expected to be achieved in the Annual Action Plan.
(b) Although it was expected to review and update the Universities Act No. 16 of 1978, restructure the Government Higher Education Division to expand student enrolment and to review and update higher education institutions to suit current and future higher education needs during the year under review, its progress was as low as 25 percent by the end of the year.	Steps have been taken to amend the Universities Act, No. 16 of 1978, aiming special purposes. Also, a committee of experts has already drafted a new amendment to the Act, incorporating new provisions based on the timely need. These delays were due to the fact that it took some time to consult and discuss with the relevant parties to prepare it and to prepare the proposed draft.	We need to expedite the review and updating of courses in higher education institutions to keep pace with the current job market, as well as the restructuring of higher education institutions to provide higher education opportunities to more people.