

Institute of Technology - University of Moratuwa.

1. Financial statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Technology of the University of Moratuwa as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

- (a) The pre paid motor vehicle insurance fees of Rs.145,544 and the expenditure on machinery services amounting to Rs.31,115 had not been shown as prepaid expenses in the financial position statement.
- (b) The provision for gratuity shown in the financial performance statement had been understated by Rs.1,681,875.
- (c) The net value of used fixed assets costing Rs.32,887,662 was zero as at 31 December 2012. However, these had not been revalued and brought to account.
- (d) Amortization amounting to Rs.1,123,333 for the year under review had not been accounted for, on behalf of motor vehicles costing Rs.7,250,000 received under capital grant.

- (e) A van valued at Rs.4,900,000 had been obtained in April 2012 under the capital grant. This had not been depreciated during the year under review. As a result, the depreciation on motor vehicles had been understated by Rs.653,333 and the provision for depreciation on motor vehicles too had been understated by a similar amount.

1.2.2 Accounts Receivable and Payable

The following observations are made.

(a) Accounts Receivable

- (i) Action had not been taken to recover the employees' loan of Rs.138,040 from 5 officers who had vacated posts. The gratuity due to one of these officers had been released on 26 February 2013. However, action had not been taken to recover the employees' loan of Rs.11,875.
- (ii) An Ex-lecturer had neglected to settle the employees' loan of Rs.108,350. But, he had been employed in service on contract basis again. The loan concerned had not been recovered even as at end of the year under review.

(b) Accounts Payable

- (i) Action had not been taken to settle the tax of Rs. 57,883 payable to the Department of Inland Revenue from the years 2007 and 2009.
- (ii) Action had not been taken to settle the retention money of Rs.141,423 remaining unpaid for 3 years even by end of the year under review.

1.2.3 Lack of Evidence for Audit

The following matters were observed.

- (a) The value of laboratory and library deposits shown under the accounts payable for the year under review was Rs.542,650. A detailed schedule to confirm those balances had not been furnished to audit.
- (b) According to Section 3.1 of Chapter XX of Establishments Code for the University Grants Commission and Higher Educational Institutions all persons employed in all higher educational institutions should mark their times of arrival and departure in the register of attendance. But, the academic staff had not signed their arrival and departure.

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

The following matters were observed.

Reference to Laws, Rules, Regulations etc.,	Non-compliance
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(a) Public Administration Circular No.07/97 dated 03 February 1997 and the University Grants Commission's Circular No.707 dated 01 April 1997.	Payment of holiday pay is limited to one day per month. However, holiday pay amounting to Rs. 77,236 had been paid to 3 officers of the Institute for 1 to 4 days exceeding one day per month.
(b) Standing Order No.50-2 of the Registrar, University of Moratuwa dated 12 October 2011.	The duty hours of administrative officers, financial officers and officers of allied services is 7 hours and 45 minutes. However, holiday pay amounting to Rs.64,406 had been paid to officers who had performed their duties less than the time specified.

- (c) Circular No.1/2011 of the Secretary to the Ministry of Higher Education dated 20 April 2011.
- In order to be eligible to receive the Research Allowance, adequate evidence should be furnished to prove the publishing of research results in an international/ local symposium /conference or technical session and by producing evidence that research activities are being continued actively during the year for which research allowance is claimed . However, 11 lecturers who had furnished research proposals in 2011 had not produced evidence to prove that those researches were being actively continued in 2012. A sum of Rs.897,023 had been paid as research allowances to those lecturers during the year 2012 too.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating activities of the Institute during the year under review had resulted in a deficit of Rs.83,460,680 before taking into consideration the government grant for recurrent expenditure and the amortization as compared with the deficit of Rs. 75,552,577 of the preceding year. The deficit had decreased upto Rs.3,510,686 due to the government grant of Rs. 74,700,000 received for recurrent expenditure of the year under review and the amortization of Rs.5,249,994. The deficit for the preceding year had become a surplus of Rs.4,834,423 due to the government grant of Rs. 74,732,645 received for recurrent expenditure and the amortization of Rs. 5,654,355.

2.2 Analytical Financial Review

2.2.1 Financial Performance Statement

An extract of the financial performance statement of the year under review and the previous year appear below.

<u>Item</u>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>Percentage of Difference</u>
	Rs.	Rs.	Rs.	%
Income	95,741,834	95,296,678	445,156	0.47
Expenditure	99,252,520	90,462,255	8,790,265	9.72
Surplus (Deficit)	(3,510,686)	4,834,423	8,345,109	(172.26)

2.2.2 Financial Position Statement

An extract of the financial position of the year under review and the previous year appear below.

<u>Item</u>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>Percentage of Difference</u>
	Rs.	Rs.	Rs.	%
Non-current Assts	99,360,318	81,588,353	17,771,965	21.78
Current Assets	18,229,252	36,049,737	(17,820,485)	(49.43)
Current Liabilities	9,873,242	9,634,272	238,970	2.48
Non-current Liabilities	11,975,017	12,606,970	631,953	5.01
Net Assets	95,741,311	95,396,848	344,463	0.36

2.2.3 Cash Flow Statement

An extract of the cash flow statement of the year under review and the previous year appear below.

<u>Item</u>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>Percentage of Difference</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>%</u>
Net cash flow generated from operating activities	(1,877,341)	4,120,475	(5,997,816)	(146.56)
Net cash flow generated from investing activities	(1,551,463)	(11,332,803)	9,781,340	86.31
Net cash flow generated from financing activities	4,311,440	5,575,432	(1,263,992)	(22.67)
Cash and cash equivalents at the beginning	39,587,132	41,224,028	(1,636,896)	(3.97)
Cash and cash equivalents at the end	40,469,768	39,587,132	882,636	2.23

2.3 Working Capital Management

An average monthly amount of not less than Rs.23,539,484 had been retained in two current accounts of banks during the year 2012. Action had not been taken to invest that money so as to earn an income from interest.

3. Operating Review

3.1 Performance

Details relating to students enrolled during the past 5 years, the numbers of students studied, the number of students left after obtaining diploma and the annual revenue expenditure incurred appear below.

	2008	2009	2010	2011	2012
Total Number of students	974	987	987	1016	1043
Number of students enrolled	369	360	360	358	352
Number of student who undergo training outside the institute in the final year	298	295	310	329	347
Total No. of students studied at the Institute	676	692	677	687	696
Number of Diploma holders	303	336	299	296	289
Annual recurrent expenditure - Rs.	74,310,447	78,644,210	83,482,537	90,462,255	99,252,520
Cost per Student - Rs.	109,927	113,648	123,312	131,677	142,604
Number of students who obtained Mahapola	209	206	204	208	210
Number of student who obtained Bursaries	469	451	494	499	475

The following observations are made

- (a) The Institute conducts 9 diploma courses and 369 students had been enrolled for diploma in 2008. Of them, 289 had succeeded in diploma during 2012. This represents 78 per cent.
- (b) The Number of students enrolled in 2000 at the time of commencement of the Technology Institute was 350 and the number of students enrolled in 2012 was 352. Although 12 years had elapsed since the establishment of the Institute, the improvement in enrolment was only 0.57 per cent.

3.2 Management Inefficiencies

A sum of Rs. 1,618,050 had been obtained in 2009 and 2010 for the Distant Education Modernization Project. This had been shown as deferred income in the financial position statement without being used for the intended purpose.

3.3 Identified Lesses

Surcharge amounting to Rs.15,167 had been paid as a result of not remitting the Employees' Provident Fund and the Employees' Trust Fund contributions on the due dates.

3.4 Staff Administration

The details of academic staff and other staff as at 31 December 2012 are given below.

(a) Academic Staff

	<u>No.of Approved Lecturers</u>	<u>No.of Actual Lecturers</u>	<u>No.of Vacancies for Lecturers</u>
(i) Lecturers	27	19	08
(ii) Probationary Lecturers	17	12	05

(b) Other Staff

	<u>approved</u> <u>Cadre</u>	<u>Actual</u> <u>Cadre</u>	<u>Vacancies</u>
(i) Staff	04	02	02
(ii) Non-Staff	29	14	15

4. Accountability and Good Governance

4.1 Action Plan

The action plan for the year under review had not been prepared in terms of Paragraph 5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

4.2 Budgetary Control

Variances ranging from 7 to 72 per cent were observed between the estimated expenditure and the actual expenditure of the budget for the year under review. Thus it was observed that the budget had not been utilized as an efficient instrument of management control.

4.3 Tabling of Annual Report

The annual report should be tabled in Parliament in terms of Paragraph 6.5.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. However , the annual reports of 2010 and 2011 had been tabled in Parliament as at 19 August 2013.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Subsidiary Registers
- (c) Recovery of Creditors
- (d) Accounts Receivable and Payable
- (e) Cash and Bank Control
- (f) Research Allowance Control
- (g) Internal Audit
- (h) Budgetary Control