

University of Kelaniya - 2014

The audit of financial statements of the University of Kelaniya for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in funds and cash flow statement and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Sub-section 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report. A detailed Report in terms of Sub-section 108(2) of the Universities Act was issued to the Vice Chancellor of the University on 26 June 2015.

1.2 Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements 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 University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the University of Kelaniya as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

If the fair value of items of property, plant and equipment materially differ as compared with the carrying amount, revaluation is necessary in terms of Sri Lanka Public Sector Accounting Standard No. 07. Nevertheless, lands costing Rs.648,301,674 of the University of Kelaniya had not been assessed and the fair value had not been brought to account for many years as at 31 December 2014.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to assess the values of 11 plots of lands which are used by the University and brought to account.
- (b) A sum of Rs.9,097,900 credited to the Mahapola Trust Fund and a sum of Rs.996,044 credited to various bank accounts had been credited to Other Payables Account, instead of identifying specifically and accounting them.

2.2.3 Accounts Payable

Even though refundable deposits amounting to Rs.82,441 made in signing security agreements many years ago had been shown in the financial statements as deposits payable as at 31 December 2014, no action had been taken to settle this amount or to take into the income.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, and regulations were observed.

Reference to Laws, Rules and Regulations

Non-compliance

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
 - (i) Financial Regulation 371

Advances aggregating Rs.823,522 paid in the year under review and the years 2012 and 2013 relating to researches and international

- conferences completed at present, had not been settled even by 20 July 2015.
- (ii) Financial Regulation 757(2) Action had not been taken to identify responsible parties in respect of shortages of 148 items revealed at the boards of survey of non-current assets and take future measures and to inventorise 215 items of goods not inventorised.
- (b) Section 3(1) of Chapter XX and Section 1.6.1 of Chapter X of the Establishments Code for the University Grants Commission and Institutions of Higher Education. A sum of Rs.916,236,438 had been paid as salaries and allowances without ensuring the attendance and leave of the academic staff for the year under review.
- (c) Paragraph 7.4.5 of the Public Enterprises Circular No. 12 of 02 June 2003 Boards of survey had not been conducted for library books in the year under review. Even though it had been reported that boards of survey for library books had been conducted in the year 2012, reports had not been presented to audit up to May 2015.
- (d) Treasury Circular No.842 of 19 December 1978 The Register of Fixed Assets had not been maintained in an updated manner.
- (e) Paragraph 2.11 of the Public Administration Circular No. 41/90 of 10 October 1990 Even though the fuel consumption of vehicles should be tested once in six months, fuel consumption had not been tested in 24 vehicles out of 30 vehicles in running condition of the University of Kelaniya in the year under review.
- (f) University Grants Commission Circular Letters No. 06/2014 of 26 March 2014 and No. 06/2014 (i) of 24 July 2014 A sum of Rs.567,709 had been paid by deciding to pay 8 per cent to 20 per cent of the basic salary of officers monthly as “payments for entertainment expenses” instead of being reimbursed. It was observed that the above payment had affected salary anomalies due to failure in obtaining the approval of the Treasury for payment of an allowance based on salaries.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University for the year ended 31 December 2014, had been a surplus of Rs.122,261,416 as compared with the corresponding surplus of Rs.226,857,577 of the preceding year. Decrease of the income from investment interests by Rs.35,576,050 and increase in contractual services expenses and other recurrent expenditure by Rs.91,748,226 had specially attributed to the decrease of the surplus by Rs.104,596,161 in the year under review as compared with the preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Centre for Distance and Continuing Education

- (i) A number of 27,860 students had been registered for Bachelor of Arts, Bachelor of Business Management and Bachelor of Commerce (Special Degree) of the academic year 2012/2013 at the Centre for Distance and Continuing Education and undergraduates had not been registered for the academic year 2013/2014 up to 30 July 2015.
- (ii) Convocations had not been held in the year 2013 and the number of degree holders for 05 courses had been 3,675 and 4,470 in the years 2011 and 2012 respectively and it was 4,630 in the year under review.
- (iii) Examinations had not been held in the years 2009, 2010 and 2011 under the old and the new syllabus for Bachelor of Science (General Degree) and Degree Examinations (External) even by 20 July 2015.

(b) Research Progress

The following observations are made.

- (i) A sum of Rs.6 million at the rate of Rs.1 million per Faculty had been provided from the Consolidated Fund for internal research grants for the year 2014. The Research Committee had approved 16 research projects for the year 2014 and out of that, 02 researches had not been commenced. Even though a sum of Rs.4,199,825 had been approved for 14 Lecturers, only a sum of Rs.1,400,156 out of that had been utilized during the year under review and two of them had not submitted their progress reports.
- (ii) Hundred and twenty five research abstracts had been submitted for the research symposium held on 30 and 31 October in the year under review. Even though 44 reports from the Faculty of Social Sciences and 28 reports from the Faculty of Humanities had been submitted for that purpose, only one research abstract had been submitted from the Faculty of Commerce and Management.

- (c) According to the criteria for world grading of Universities, the research criteria are an important factor. The University of Kelaniya which occupied the position of 3,194 in the World Grading in the year 2014 had improved to position 3,087 by January 2015.

4.2 Management Inefficiencies

The following observations are made.

- (a) Dean of the Faculty of Commerce and Management had not recommended the voucher for settlement due to changes in amounts of the bills submitted for the settlement of advances amounting to Rs.250,000 paid on 14 December 2012 to a female lecturer for a field study trip held in India relating to the Master of Business Administration(MBA). Even though 02 years had elapsed after being reported that financial irregularities had occurred in respect of advances, a disciplinary inquiry or a preliminary inquiry had not been held in terms of Chapter XXII of the Establishments Code for the University Grants Commission and Higher Education Institutions.
- (b) The ownership of the land with an extent of 13.62 hectares belonging to the Government where the Faculty of Medicine, Ragama is located, had not been vested with the University even by 20 July 2015.
- (c) The total sum of Rs.13,229,365 recoverable from 04 lecturers who had breached agreements and bonds by 31 December 2014 had not been recovered and a sum of Rs.395,760 had been recovered out of the provident fund balance from only one lecturer.
- (d) The CCTV camera system purchased for Rs.88,250 in the year 2007 and installed, had remained inoperative since September 2010 and it had become inactive up to 20 July 2015, the date of audit, due to failure in taking proper action.

4.3 Transactions of Contentious Nature

Despite having established a University Development Fund with the approval of the Board of Governors, out of the General Reserve, a sum of Rs.67,699,341 had been credited to a new Fund named as “University Improvement Fund” equal to the objectives of the University Development Fund.

4.4 Operating Inefficiencies

The following observations are made.

- (a) According to the information submitted by the library, by September 2014 35,159 library books had been misplaced and action had not been taken to report thereon to the relevant authorities and to hold inquiries in terms of Financial Regulation 104.
- (b) Action had not been taken even up to the date of audit to take necessary steps to recover the money in respect of 1,231 books not returned during a period of over 05 years obtained by Postgraduate, General Degree under graduate students and Lecturers by 31 December 2014 while awarding degree certificates as well.

- (c) No scholarships or gifts whatsoever had been awarded during the period of past 6 years utilizing the interest income totalling Rs.4,680,789 relating to 19 Fund Accounts meant for awarding scholarships and gifts.
- (d) A sum of Rs.1,500,490 had been credited to the Account for the new building constructed for the disabled children in November of the year under review from the Disabled Project Fund on the instructions of the Dean without the recommendations of the Finance Committee or the approval of the Board of Governors.

4.5 Underutilization of Funds

A balance of Rs.6,939,745 brought forward from the beginning of the year 2014 in the Staff Development Fund existed and a sum of Rs.2,000,000 had been granted by the University Grants Commission for the year under review. The Action Plan had not been prepared for the year under review and the total expenditure incurred during that year had been only Rs.1,520,750. Accordingly, the expenditure incurred during the year had been only 17 per cent of the balance of the Fund and it was observed that it had been at a level of underutilization. A balance of Rs.7,418,994 had existed in the financial statements under the Staff Development Fund at the end of the year under review.

4.6 Personnel Administration

The following observations are made.

- (a) Out of the approved cadre of the University as at 31 December of the year under review, 101 vacancies in the academic staff and 112 vacancies in the non-academic staff existed and action in terms of Financial Regulation 71 had not been taken to fill those vacancies.
- (b) Retired officers had been recruited on assignment basis without taking action to appoint permanent staff for 08 vacancies of the approved permanent staff.

5. Accountability and Good Governance

5.1 Action Plan

Five main objectives intended to achieve had been indicated under 06 Divisions in the Action Plan prepared for the year under review by the University. A total number of 481 activities of those 06 divisions had been indicated and in considering its progress, only 18 per cent out of total activities had been completed and 25 per cent was being completed. Accordingly, the number of activities not commenced by now amounted to 57 per cent.

5.2 Budgetary Control

A revised budget with a proper approval had not been presented to audit in the year under review.

6. Systems and Controls.

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

- (a) Fixed Assets Control
- (b) Library Control
- (c) Motor Vehicles Control
- (d) Contract Administration
- (e) Advances Control