

## University Grants Commission - 2021

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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 the University Grants Commission for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of income, 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 of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of 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 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 2021, 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 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 Centre's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Centre 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 Centre'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 Centre'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 Centre 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 Centre, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Centre has complied with applicable written law, or other general or special directions issued by the governing body of the Centre ;
- Whether the Centre has performed according to its powers, functions and duties; and
- Whether the resources of the Centre 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**

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### **1.5.1 Internal Control over the preparation of Financial Statements**

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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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### **1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

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Following observations are made.

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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The depreciation value of Rs.4,047,630 calculated on the revaluation amount of 11 fully depreciated motor vehicles, which were revalue during the year under review, has been recognized back to income from revaluation surplus contrary to paragraph 55 of Public Sector Accounting Standard 7 of Sri Lanka, due to that the surplus and revaluation surplus of the year under review are overstated and understated respectively by same value.	As suggested by the audit query, the amount of Rs.4,047,630 recognized in revenue as amortization relating to re-valued motor vehicles will be adjusted to the accumulated surplus or deficit and the accounts will be corrected.	Sri Lanka Public Sector Accounting Standards should be followed.

### 1.5.3 Accounting Deficiencies

Following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the motor vehicle depreciation amount of Rs.1,086,309 related to the year 2020 should be adjusted to the profit of the previous year, it has been accounted as an expense of the year under review and due to that the surplus of the year is understated by the same value.	As indicated by the audit query, the amount of Rs.1,086,309 related to the car No. CAF-6096, which was identified as depreciation for the year 2021, will be adjusted to the accumulated surplus or deficit in the year 2022 and the accounts will be corrected.	The depreciation expense related to the previous year should be considered as an adjustment of the previous year.
(b) Although the vehicle exchange profit of the reviewed year is Rs.42,500,000, it is recognized as Rs.1,257,534 to the income and due to that the surplus of the year under review is understated and the vehicle exchange profit is overstated by Rs.41,242,466.	I agree to correct the accounts more accurately as indicated in the audit report, by transferring this amount from deferred revenue account to revalue revenue account.	Arrangements should be made to transfer the revalue surplus amount arising on the transfer of the vehicle from the deferred revenue account to the revalue revenue account.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Accounts Receivables

Following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
During the period from 2009 to 2020, the commission had given Rs.725.6 million to 416 grantees for postgraduate studies, but 143 grantees had cancelled their postgraduate studies. Due to the resignation of 14 staff members who had cancelled their postgraduate courses, the grants of Rs.24.04 million given to them had lapsed from 05 to 10 years and failed to be recovered till the end of the year under review.	From the year 2009 to the year 2020, 421 postgraduate grants were given and among them 143 grantees had cancelled the grants due to various reasons. Accordingly, between 2009 and 2020, only 273 people have applied for postgraduate studies using University Grants Commission grant funds.	Postgraduate candidates should be followed up on completion of degree courses and action should be taken to promptly recover amounts due from staff members who have cancelled degree courses and dropped out of courses.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 9.5 million and the corresponding surplus of the preceding year amounted to Rs. 29.9 million. Therefore, a deterioration amount of Rs.20.4 million of the financial result was observed. The increase in recurrent, supplies and consumption and other expenditure was the main reason for this deterioration.

### 2.2 Trend Analysis of major Income and Expenditure items

When comparing the Government Grant and other income of Rs.2,929.7 million in the year under review to the Government Grant and other income of Rs.2,819.3 million in the previous year, an increase of Rs. 110.4 million or 3.9 per cent was observed. This situation was mainly due to the increase in other income received for the year under review. Also, when comparing the operating expenses of Rs.2,920.2 million for the year under review to the operating expenses of Rs.2,789.4 million in the previous year, an increase of Rs.130.8 million or 4.7 per cent was observed.

## 3. Operational Review

### 3.1 Management Inefficiencies

Following observation is made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Due to insufficient space and transportation difficulties in the 3,337 square feet building that the Commission had obtained for Rs.350,000 per month in 2017, the lease agreement was cancelled and the approval of the Director General of National Budget was received on 09 November 2020 for the monthly rent of Rs.950,000 for the 7,000 square feet building located at No. 24 A, Ward Place, Colombo 07. But contrary to that approval, the new building was acquired on a rental basis without cancelling the monthly rent of Rs.350,000, and an additional amount of Rs.4,200,000 had been paid as building rent in relation to the year under review.	Several departments which were maintained and newly established in the University Grants Commission building, after being installed in the new building acquired on lease basis, the old lease agreement also had to be maintained without cancellation as there was not enough space to install the sections of the building which had been acquired on rental basis in the new building. However, this was done with the aim of providing a more effective service in view of the national interest.	As the approval of the National Budget Director General was obtained on the basis of cancelling the previous rental agreement and entering into the new rental agreement, it should be done accordingly.

### 3.2 Operational Inefficiencies

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Following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) For the period from the 2016/2017 academic year to the 2019/2020 academic year, there were 192 to 220 vacancies after the admission of students to the universities, but due to the lack of re-admission of students for those vacancies, 798 students had lost access to the universities.	In every academic year, the vacancies arising in various courses during the admission of students have been filled in about 07 rounds.	The number of vacancies should be reduced to a minimum level and the maximum number of students should be given access to the universities.
(b) In the Committee on Public Enterprises held on 08 December 2021, it was recommended to limit the number of courses in which aptitude tests will be conducted in order to provide the maximum opportunity to university entrance applicants who pass the G.C.E. (A/L), but until the date of this report, those recommendations have not been implemented.	Discussions have been initiated with the concerned Universities, Campuses and Higher Education regarding the minimum qualifications to be met without the Aptitude/Practical Tests to be eligible for the academic courses. Through those discussions, it is hoped to quickly reach an agreement on the minimum qualifications to be met instead of aptitude/practical tests for the relevant academic courses. It is hoped that the agreements reached will be implemented as soon as the approvals of the University Admission Committee and the University Grants Commission are obtained.	According to the order of the Committee on Public Enterprises, the final decision regarding the courses where the aptitude tests will be conducted should be expedited to provide maximum opportunity to the university admission applicants.