

**1. Financial Statements**

---

**1.1 Qualified Opinion**

---

The audit of the financial statements of the Sabaragamuwa University of Sri Lanka 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 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 sub section 107 (5) of the Universities Act No. 16 of 1978 and 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 Sabaragamuwa University of Sri Lanka 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**

---

My opinion is qualified based 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 University'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 University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the University 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.

#### **1.4 Auditor's Responsibility for Audit of 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 skepticism 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 University'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 University'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 to cease to continue as a going concern.

- Evaluate the 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 University, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University has complied with applicable written law, or other general or special directions issued by the governing body of the University;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observation on the Preparation of 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 Non – Compliance with the Sri Lanka Public Sector Accounting Standards**

<b>Non-compliance with reference to the respective Standards</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Since useful life of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets costed Rs.893,887,711 were further in use despite being fully	Action is being taken to prepare a fixed asset register presently. Once this fixed asset register is prepared it is possible to eliminate all of these deficiencies. Accordingly, the error will be corrected in the future.	Should act in accordance with the Sri Lanka Public Sector Accounting Standards.

depreciated. As such, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

### 1.5.3 Accounting Deficiencies

-----  
The following Observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Due to the audit fee payable for the year 2018 had been over-accounted by Rs. 1,104,000, current liabilities were over stated by that amount.	Action will be taken to correct this error in the future.	Expenditure for the year should be accurately identified and accounted for.
(b) The work of modernization of the Anatomical Laboratory of the Faculty of Medicine was completed last year at a cost of Rs.1,934,137 but it was accounted as work in progress in the financial statements without capitalization under buildings.	Information in this regard will be obtained from the relevant section and action will be taken to correct it in future.	Work in progress and non-current assets should be accurately identified and accounted for.
(c) Value of the water treatment plant where the water requirements of the university are met and two land plots extent of 02 acres and 01 rude valued for RS. 1,600,000 and Rs. 900,000 respectively had been removed from the accounts in the year 2018 without properly transferred to the Pambahinna water scheme.	This matter will be looked into in the future and act accordingly.	University assets should not be removed from accounts prior to formal transfer.
(d) In accordance with the court order received on 29 September 2017, relevant fee to be paid to the contractor in	Although the court decision stated that the settlement would be enforced, the amount to be paid was not	Action should be taken to identify and make provisions for contingency liabilities

the case filed for obtaining the consultancy service fee had not been identified as contingency liability and no provision was made or disclosed in the financial statements.

specified. Therefore, action will be taken to disclose or make provisions in the future.

- (e) Receipts and payments amounted to Rs. 207,169,036 and Rs. 207,105,986 respectively in the year under review and the cash balance of Rs. 63,050 as at 31 December of the year of Accelerating Higher Education and Development Project (AHEAD) had not been mentioned in the cash flow statement.
- As per circular instructions, non-current assets purchased from the project were capitalized.
- All cash receipts, payments received by the University and the cash in hand should be included in the Cash Flow Statement.
- (f) Postgraduate course fee income amounted to Rs.1,873,417 received for the next year had been accounted as the income of the year under review. As such, the deficit for the year was under stated by that amount.
- Postgraduate course fees from previous years had been accounted for on cash basis. That error will be corrected in the future
- Financial statements should be corrected.
- (g) The total amount of Rs. 1,667,000 which was reimbursed to the students from the English Certificate course fee income for the year under review had been erroneous debited and credited the income account and deferred income account respectively. As such, the income and the deferred income of the year were under stated and over stated respectively.
- Action will be taken to correct this error in the future
- Financial statements should be corrected

#### 1.5.4 Lack of Documentary Evidence for Audit

Subject	Amount (Rs.)	Evidence not submitted	Comments of the Management	Recommendation
Sundry Deposits	1,235,430	Schedules	Arrangements will be made to maintain a separate register for this purpose in future.	A register should be properly maintained in such a way that the existing balances in the various deposit accounts can be identified.

#### 1.6 Payable Accounts

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to settle 08 sundry creditor's balances brought forwarded prior to the year 2015 total amounting to Rs. 62,686,386 and the amount due to the Mahapola Trust Fund from last year amounting to Rs. 2,201,150 even during the year under review.	The balance could not be paid due to non-submission of final bills for the 06 buildings currently the construction was completed and in use. Payments to the Mahapola Trust Fund will be settled in the future.	Action should be taken to settle the creditor's balances.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 11 of the Finance Act No. 38 of 1971 and paragraph 8.2.2 of the Director General of Public Enterprises Circular No. PED / 12 of 02 June 2003.	Although the excess money in the institution can be invested subject to the approval of the Minister of Finance, a sum of Rs. 56,568,786 had been invested in 11 fixed deposits without such approval by the end of the year under review.	Some of these fixed deposits are invested by units with self-generated funds and the money generated by the relevant units had been used for those deposits. The other fixed deposits included in the above value were the Sports Development Fund and the University of	Should act in accordance with the provisions of the Finance Act and Circulars.

Durham Fund, which were established for specific purposes. The approval of the Governing body had also been obtained for the establishment of such fixed deposits.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 371(2)
- There was a delay period ranged from 22 days to 363 days of settling 99 recurrent advances total amounting to Rs. 6,020,818 issued during the year under review.
- The delay was due to the fact that despite repeated reminders they were not anxious to settle. Action had been taken to prevent this error in future.
- Financial regulations should be followed.
- (ii) Financial Regulation 371 (5)
- Advances given in 29 occasions for project, recurrent and research amounting to Rs. 9,206,526 from the year 2016 to the year under review had not been settled.
- Although the parties who received the advance were informed, the settlement has not been made. Action will be taken in this regard in the future.
- Financial regulations should be followed.
- (iii) Financial Regulation 394 and 396
- Action had not been taken with regards to the date expired and canceled cheques worth of Rs. 1,319,084, in accordance with the Financial Regulations.
- Action will be taken to correct this error in the future.
- Financial regulations should be followed.
- (iv) Financial Regulation 571
- Retention money total amounting to Rs. 19,549,083 for the
- This money had retained from the money paid at the
- Financial regulations should be followed.

period from the year 2015 to year 2018 had not been released. purchase of fixed assets by the University and the University is obligated to repay it to the relevant parties. Therefore, these cannot be released.

(c) Paragraph 7 of Chapter V of the Establishments Code of the University Grants Commission and Higher Educational Institutions A sum of Rs. 55,368,659, due from 12 officers who had gone for abroad on study leave from the year 2000 to 2017, had not been recovered due to breach of the bonds even by April 2021. No instalment whatsoever had been recovered since the year 2018 due from the 03 officers total amounting to Rs. 28,079,397 who had agreed to pay in instalments. As these 03 officers who have agreed to pay their dues amounting to Rs.28,079,397 in installments are not paying, the relevant documents have been submitted to the Attorney General's Department for legal action. Should comply with the provisions of the University Institution's Establishments Code.

(d) University Grants Commission Circulars

(i) Circular No. 09/2019 of 25 November 2019 Due to non-charging of rent as per circular provisions from the officers residing in 30 official residencies, the total rent of Rs. 2,266,030 had been under charged for the period from December 2019 to December of the year under review. According to the circular, the eligible officers are the officers who are entitled to an official residence or an allowance for an official residence in the appointment letter, but there is no such a clause in any of the appointment letters of the university. Circular provisions should be followed.



- |   |  |   |   |
|---|--|---|---|
| (ii) Circular No. 737 of 18 August 1998.    | 17 fixed deposits worth Rs. 54,550,464 remained in the Bond Violation Fund were withdrawn during the year under review to bear other expenses in addition to the expenses allowed by the Circular.   | Due to the corona epidemic in the country in 2020, the Treasury limited the allocations to government agencies. The University did not receive adequate funds to cover the minimum expenses and despite of this situation it was compulsory to continue the activities of the University. Therefore, it was decided to withdraw the fixed deposits before maturity as a solution to the funding shortfall in order to maintain a better financial position of the University. | Circular provisions should be followed. |
| (iii) Circular No. 04/2016 of 01 March 2016 | Even though all self-financing activities should be implemented, as a matter of policy, on a cost-recovery basis and on a non-profit basis, a net financial surplus of Rs. 11,298,902 had earned as at 31 December of the year under review. | Action will be taken to correct this error in the future.   | Circular provisions should be followed  |

## 2. Financial Review

### 2.1 Financial Results

The operating results of the year under review had been a deficit of Rs. 91,103,424 as compared with the corresponding deficit of the preceding year amounting to Rs. 89,305,389. Accordingly, a deterioration of Rs. 1,798,035 was observed in the financial results. Even though the recurrent grant was increased by Rs. 177,205,000, the increase in employees remuneration by Rs. 198,036,855 in the year under review had mainly attributed for that deterioration.

## 3. Operating Review

### 3.1 Management Inefficiencies

The following observations are made.

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Even though a sum of Rs. 1,370,300 had been paid from the year 2016 up to the year under review for the preparation of a software for the Fixed Assets Register and for entering data, the fixed assets register had not been prepared even by 31 December of the year under review.	It has been decided to carry out the all the works of preparing the fixed asset register by the university and the old agreement has been cancelled. Accordingly, a committee was appointed to prepare the fixed assets register and to supervise all its activities and as discussed at the last meeting of the committee, the identification of fixed assets, coding and setting up of computerizing system are in progress.	Action should be taken to prepare Fixed Assets register.
(b)	Even though research grants of Rs. 23,024,892 had been paid for 21 research proposals which the research period was expired by the end of December 2018, the final research reports had not been submitted even by March 2021.	09 final research reports have been submitted by March 2021. The Research Committee of the University had decided to extend the time period up to 31 July 2021 for the balance 12 research projects by considering the prevailing epidemic situation in the country.	Required actions should be taken to complete the researches and to issue the reports within the due Period.

### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the approval of the Cabinet of Ministers was granted for the construction of an administrative building for the university in the year 2007 and an initial expense of Rs. 1,494,543 had been incurred thereon, action had not been taken to start construction even by April 2021.	The concept paper submitted by the committee appointed to expedite the construction of the administrative building, the information sheet detailing the building space and other requirements and the report containing the outline were submitted to the Governing Council on 29 March 2021. Accordingly, necessary actions are being taken to prepare the cost estimates.	Necessary arrangements for the construction of the administration building should be made efficiently.

### 3.3 Funds under Utilization

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Funds provided by local and foreign institutions for research and environmental studies projects amounting to Rs. 4,418,209 remained idle without utilization for relevant purposes at the end of the year under review.	This money was saved because the project coordinators did not request the relevant funds.	Relevant funds should be utilized effectively.

### 3.4 Transactions of contentious Nature

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A three-member Inquiry Board was appointed in February 2018 in respect of non-compliance with specifications of 130 desktop computers procured by incurring Rs. 15,964,000 in June 2016. Although the Board of Inquiry	The retention money was released on the recommendation of the Committee. Necessary action will be taken in the future after considering the recommendations of the	All procurements should comply with the Procurement Guidelines and disciplinary action should be taken against the officials

report dated 19 May 2018 committee. concluded that disciplinary action should be taken against officials who have acted irresponsibly throughout the entire procurement process, disciplinary action had not been initiated even by April 2021. Retention money amounting to Rs. 1,596,400 had been also released to the contractor on 21 June 2018.

who have acted contrary to that as per the recommendations of the Inquiry Board.

- (b) A sum of Rs. 1,200,000 had been incurred from the Funds earned by the University for the participation of the former Registrar to the PIM International on Management Program held in Netherlands from 21 to 30 August 2018 without the approval of the Ministry. Although the Governing Council of the University has decided to recover the full amount, the officer was released to the Kothalawala Defence University by the University Governing Council with effect from 31 March 2020 without recovering the that money.
- This officer was released from the University subject to the recovery of charges, if any. Accordingly, letters and reminders have been sent to recover the money and according to his feedback, the above expenses are expected to be recovered from the provident fund.
- Action should be taken to recover the expenses incurred by the University.

### 3.5 Idle or underutilized Property, Plant and Equipment

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
Even though the Higher Education Project for the 21 Century had provided goods and equipment worth of Rs. 2,725,000 in the year 2016 to establish of an Out Bound Training Center for the Faculty of Applied Sciences of the University, due to the lack of infrastructure facilities and plans in place the equipment was still underutilized even by March 2021 and many of the equipment had became unusable condition.	At present, the necessary infrastructure facilities development had been initiated and the unit is functioning effectively with the existing facilities.	Infrastructure facilities should be developed and action should be taken to utilize the goods and equipment that can be used effectively.

### 3.6 Contract Administration Deficiencies

----- Audit Observation -----	Comments of the Management -----	----- Recommendation -----
<p>The university had entered to an agreement with the contractor on 30 January 2018 for the construction of first phase of the new library building to complete the work within 24 months at a cost of Rs. 315,051,433 (without VAT). Even though a sum of Rs. 83,010,286 had been paid as mobilisation advance and the value of work done to the contractor, the certified value of the work done by the Engineer was Rs. 43,058,226. Despite that, a sum of Rs. 39,951,060 had been over paid, construction works had been abandoned from February 2020. Although validity period of the advance bond had expired on 07 February 2020, management had not taken action either to encash the bond or extend the validity period of the bond.</p>	<p>The value of the work done as on 28 October 2019 was Rs. 43,058,226 and the value of the construction done up to February 2020 has not been calculated. Also from the work done value, a sum of Rs. 4,305,883 was retained for retention money, a sum Rs. 9,567,671 for the advance bond and the balance payment of Rs. 13,563,063 was retained. The performance guarantee of Rs. 15,752,571.65 was also encashed by the University. Although the bank was ordered to pay the relevant bond amount to the university due to non-extension of the advance bond by the contractor, Seylan Bank informed that the bond cannot be further extended on 12 March 2020. Further, a tri-parties agreement has been reached with the permission of the Ministry to take this industry forward.</p>	<p>Problems should be resolved and action should be taken to construct the building.</p>

### 3.7 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
Out of 506 approved posts in the academic cadre, 110 vacancies and out of 530 approved posts in the non-academic cadre, 132 vacancies were available as at 31 December 2020. A sum of Rs. 19,854,304 had been paid as holiday pay and overtime allowance during the year under review and these vacancies in the non-academic staff also contributed to that payment.	Although recruitment activities are being carried out to fill the existing vacancies at present, inability to conduct interviews due to the Covid epidemic, lack of qualified applications for administrative posts and the recruitment of posts in the primary service category has been suspended as per Management Services Circulars 01/2020 and 02/2020 had led to increase in the number of vacancies.	Action should be taken to fill vacancies.

## 4. Accountability and Good Governance

### 4.1 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Even though, the Sabaragamuwa University of Sri Lanka had aware relating to the “2030 Agenda” on Sustainable Development Goals, it had not been identified the sustainable development goals that should be achieved according to its scope. As such action had not been taken to recognize the goals relating to that underlying data, milestones to be reached and as well as the indicators to measure the progress.	Identified targets of the Sustainable Development goals by the Sabaragamuwa University of Sri Lanka had been included in to the annual reports of 2018 and 2019 and to the action plan in 2021.	The long term plans in respect of Sustainable Development Goals should be prepared and executed.