

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Institute of Technology of the University of Moratuwa 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 Finance Act No. 38 of 1971 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 financial statements give a true and fair view of the financial position of the Institute 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 Institute 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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute financial reporting process.

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

#### **1.4 Audit Scope**

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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 Institutes' 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 Institutes' 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 Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute 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 Accounting deficiencies**

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Audit Observation	Management comment	Recommendation
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The gratuity expenditure of Rs. 2,417,975 paid during the year under review had been debited to the gratuity expenditure account instead of debiting the provision for gratuity account. As such, the gratuity expenditure for the year under review and the provision for gratuity account had over stated by that amount. Accordingly, the deficit for the year was over stated by that amount in the financial statements.	Noted to make relevant adjustments for the gratuity paid during the year under review amounted to Rs. 2,417,975.	Expenditure should be properly accounted for and necessary corrections should be made in the financial statements.

**2. Financial review**

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**2.1 Financial results**

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The operating result of the year under review had been a deficit of Rs. 1,564,284 as compared with the corresponding deficit of Rs. 30,082,608 for the preceding year, thus observing an improvement of Rs. 28,518,324 in the financial result of the year under review. Increase in recurrent grants by Rs. 14,461,000 and decrease in academic staff personal emoluments expenditure by Rs.15,378,451 had mainly attributed to the said improvement.

## 2.2 Trend Analysis of major Income and Expenditure items

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Previous year deficit of Rs. 30,082,608 had reduced to Rs. 1,564,284 during the year under review and deficit had reduced by 94.8 percent.

## 3. Operational review

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### 3.1 Un-economical Transactions

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Electricity bills in the period from March 2017 to December 2020 had not been paid on time and total amount of Rs. 1,675,585 had been paid as late charges during that period.	After the relocation of the Moratuwa University Institute of Technology to the Diyagama premises from the campus premises, expenditure was increased from 2017 to 2019 and Payments could not be made on time due to non-receipt of additional funds from the General Treasury.	Action should be taken to make payment on due dates and reduce the extra expenses.

## 4. Accountability and Good Governance

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### 4.1 Presentation of Financial Statements

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The financial statements for the year under review were submitted for audit on 09 March 2021.	No comments were made.	Action should be taken to submit the financial statements on the due date as per the circular provisions.

### 4.2 Annual action plan

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Action Plan had not been prepared as per the Public Enterprise Circular No. PED / 12 dated 02 June 2003.	The organization was drafting the action plan for 2020 by the end of 2019, but due to administrative changes the work could not be completed.	Circular instructions should be followed.