

## **University of Kelaniya - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of financial statements of the University of Kelaniya for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 the provisions in Sub-section 107 (5) of the Universities Act No. 16 of 1978 and provisions in National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported 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 University 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 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 determines 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 intends 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 Sub-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 of the University.

#### **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 audit 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 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 audit 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 audit report. However, future events or conditions may cause the University 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 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 University has performed according to its powers, functions and duties; and
- Whether the resources of the University 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 Preparation of Financial Statements**

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

The University is 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. Audit observations related to maintenance of main accounting records such as General Ledger, Journal, Journal Vouchers, Payment Vouchers etc. are included under the following subjects.

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

| <b>Non-compliance with reference to the relevant standard</b>  | <b>Comments of the Management</b>                         | <b>Recommendation</b>  |
|--|---|--|
| (a) 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, property, plant and | Action will be taken to correct this error in the future. | Sri Lanka Public sector accounting standards should be followed. |

equipment costed Rs.1,582,224,300 and library books and graduation cloaks costed for Rs.293,815,186 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

- (b) The capital grants received during the year under review amounted to Rs.140,000,000 had not been recognized and measured in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11. Identification and presentation of capital grants will be made in accordance with Sri Lanka Public Sector Accounting Standard 11 in the future. Sri Lanka Public sector accounting standards should be followed.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Accounts Receivable

| Audit Observation   | Comments of the Management  | Recommendation   |
|---|---|--|
| Out of the total sum of Rs. 22,158,260 due from 04 lecturers due to breach their bonds during the period of 2011 to 2019 who had gone overseas, nothing had been recovered and the value still to be recovered from 24 lecturers as on 31 December 2021 was Rs.166,494,177. | It will take some time to notify the lecturers who have breached the bond, after informing the university governing body and the repayments will be started after the explanation about the bond calculation is over. | Recovery should be done without delay and legal action should be taken against defaulters. |

### 1.6.2 Accounts Payables

| Audit Observation   | Comments of the Management  | Recommendation  |
|---|---|---|
| Although 196 cheques issued to various creditors amounting to Rs. 2,628,608 had been canceled | Actions are being taken to make payment for the cheques for which | Action should be taken to settle creditor balances without delay. |

during the period from the year 2018 to year 2021, action had not been taken to settle them even till 31 December 2021. requests for repayment have been made and other cheques which are exceeded 06 months are being taken to the revenue as per the Financial Regulations.

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

| Reference to Laws, Rules Regulations etc.                                  | Non-compliance  | Comments of the Management  | Recommendation   |
|--|---|---|--|
| (a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka |   |   |  |
| i) Financial Regulation 110  | A register for damages and losses was not maintained.   | Arrangements will be made to maintain a register for damages and losses in the future.  | A damage and loss register should be maintained as per the Financial Regulations.          |
| (ii) Financial Regulation 371  | Action had not been taken to settle the 38 advances total amounted to Rs. 80,405,752 given during the period from the year 2015 to the year 2021 even till 31 May 2022. | Due to non-completion of research projects, the capital advances to be settled as soon as the works are completed and further action is being taken to settle other advances. | Action should be taken to settle the advances in accordance with the Financial Regulation. |
| (ii).Financial Regulation 571  | Action had not been taken regarding tender deposits and security deposits total amounted to Rs.   | Action will be taken to promptly release tender and security deposits   | Action should be taken in accordance with the Financial Regulation.                        |

20,664,876 over 02 to the depositors years and library who have made deposits total requests for amounted to Rs. release and 23,221,500 over 05 refund the years in accordance library deposit with the Financial dues and take Regulations. unclaimed deposits to the income.

## 1.8 Financial Management

| Audit Observation  | Comments of the Management  | Recommendation  |
|--|---|---|
| An interest income of Rs. 11,286,893 from the income earned by investing money of 53 scholarships, prizes and other funds for many years was not utilized for the relevant purposes till 31 December of the year under review. | Scholarships will not be awarded when students do not meet the criteria for each scholarship in the relevant academic year or when requests are not made by academic departments and faculties for the award of scholarships. | In order to be able to provide scholarships, the objectives should be reviewed in time and arrangements should be made to utilize the relevant money. |

## 2. Financial Review

### 2.1 Financial Result

The operating result for the year under review had been a surplus of Rs. 115,872,244 as compared with the corresponding surplus of Rs. 409,245,685 for the preceding year, thus indicating a deterioration of Rs.293,373,441 in the financial result. The decrease in the internal income by Rs. 130,369,985 and increase in personal emoluments by Rs. 178,121,927 compared to the 2020 had main reasons for this deterioration.

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Observation  | Comments of the Management   | Recommendation   |
|--|--|--|
| (a) A building complex was being constructed for the Faculty of Computer Technology of the University at an estimated cost of Rs. 3690 million under the | Although it was planned to conduct the lectures temporarily in a building in the Faculty of Commerce | Government funds should be managed economically and efficiently to minimize expenditure. |

assistance of the Asian and Management Development Bank project. Until the completion of construction of the building complex the faculty had to be maintained in a rented building, due to the internal problems that arose while running the faculty in the university, and since January 2019 a total sum of Rs.100,194,000 had been paid as building rent from that date to January 2022. Due to lack of attention to timely management of facilities in the existing buildings of the university, a large amount of money had to be paid as rent.

and Management Studies and the Faculty of Science until the building complex is completed, due to the increase in the space requirements of those faculties, it was not possible to conduct lectures and practical classes internally as planned. Further, due to the continuous student protests, as a remedy to continue academic works systematically, arrangement had been made to run the faculty in a temporarily rented building.

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| (b) | 4088 items in 09 categories worth of Rs. 2,216,085 were procured in the year 2019 for the 60th anniversary of the University of Kelaniya were remained in the stores even as on 31 December 2021. | There were 2,853 items in 7 categories worth Rs.1,804,335 were available in the stores as on 30 May 2022. | The requirement should be correctly identified and procured and government funds should be used effectively. |
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### 3.2 Operational Inefficiencies

| -----<br><b>Audit Observation</b><br>-----   | -----<br><b>Comments of the Management</b><br>-----   | -----<br><b>Recommendation</b><br>-----  |
|--|---|--|
| (a) A provision of Rs.7,714,000 had been made for conducting 25 research activities, but due to the fact that 14 research works had not been executed, the provision of Rs.6,489,479 was not utilized. Although a sum of Rs. 737,403 was given for 06 research works which were started in 2018 and should be completed by 2021, but extensions were | These research projects will be done in the future as the time limit for completing these research projects can be up to three years. Reminders have been sent for the 06 research works which had been extended. | The funds allocated for research activities should be utilized to the maximum extent and the research should be completed within the stipulated time and the results should be utilized. |

obtained until 31 December 2021 and the research was not completed.

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|---|--|--|
| <p>(b) 187 consumable items costed for Rs. 4,204,684 related to the period from the year 2012 to the year 2021 which were identified as obsolete and expired in the board of survey of the year 2021 had not been disposed. Also, 446 stock items costed for Rs.4,013,155 remained as slow moving and non-moving stock due to purchases made without identifying the requirement. Further, 179 stock items costed for Rs. 1,108,577 remained as excess stock had not been taken into the books and action had not been taken as per the Financial Regulations regarding 91 stock items costed Rs 970,236 which were identified as shortage.</p> | <p>Reasons for having shortage stock, excess stock, slow moving stock, non-moving stock, damaged and expired stock had been submitted to the Finance Committee and relevant remedies will be taken based on the committee recommendations.</p> | <p>The requirement should be identified and arrangements should be made to purchase stock. Also, excess stock should be taken into the books and shortage stock should be dealt with according to Financial Regulations.</p> |
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### 3.3 Delays in Projects and Capital Works

| Audit Observation  | Comments of the Management  | Recommendation  |
|--|---|---|
| <p>Although construction of new building was awarded to a private contractor at a cost of Rs.165 million for the IT center to be built within 2 years in 2016 due to insufficient space in the existing computer center building, the relevant construction had not been completed even by 31 December 2021.</p> | <p>The proposed building could not be constructed at the proposed site due to student's protests and the delay was also caused by the financial crisis of the contractor State Engineering Corporation as it took a long time to purchase a land again.</p> | <p>The construction works should be completed immediately and use for the intended purpose.</p> |