

**1.1 Qualified Opinion**

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The audit of the financial statements of the South Eastern University of Sri Lanka (“University”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in net assets 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 and Finance Act, No. 38 of 1971. 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 University as at 31 December 2019, 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 University 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 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 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 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 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 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 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.

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

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| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>   |
|--|---|---|
| -----  | -----   | -----   |
| (i) According to Paragraph 50 of Sri Lanka Public Sector Accounting Standards 07, the property plant equipment is a grouping of assets of a similar nature or function in an entity's operations. However, telephone, Data VIOP Network, Electricity, Cloaks, Internal Roads, and water supply aggregating to the cost of Rs.263,349,263 had been included in Other Assets instead of showing separate class of the similar nature assets or the function. | Action will be taken to show the Roads and Electricity transmission networks as separate class under property, plant and equipment as “Roads” and “Electricity Transmission Networks’ respectively. | Action should be taken in terms of Sri Lanka Public Sector Accounting Standards 07. |
| (ii) Action had not been taken to revalue and taken in to accounts as per the paragraph 65 of Sri Lanka Public Sector Accounting Standards 7, with related to fully depreciated five items shown under Property, Plant and Equipment. The total cost of those assets were Rs.721,793,649.  | After the completion of the re-valuation, with the approval of the Council re-valued amount will be incorporated into the financial statements for 2020.  | Action should be taken in terms of Sri Lanka Public Sector Accounting Standards 07. |

### 1.5.3 Accounting Policies

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| (i) The amortization policy had not been identified for the intangible nature assets aggregating to the cost of Rs.52,248,610 as at the end of the year under review, shown in the financial statements under property, Plant and Equipment.   | Final year projects are shown individually under Non-Current Assets. Action will be taken to show them separately under Intangible assets.   | Action should be taken to identify the amortization policy for the intangible nature assets in the financial statements. |
| (ii) The University has the Internal Roads cost of Rs.194,411,091 which was included in the Building and Other Assets as at the end of the year under review. However, without identify the depreciation policy for the Internal Roads had been depreciated in 5 per cent and 20 per cent. | Action will be taken to show the Roads as a separate class under property, plant and equipment as "Roads" and depreciation also will be adjusted according to the accounting policy. | Action should be taken to identify the depreciation policy for the Internal Roads in the financial statements.           |

### 1.5.4 Un-reconciled Control Accounts or Records

| Item as at<br>31<br>December<br>2019 | As per<br>Financial<br>Statements | As per the<br>Report on<br>Boards of<br>Survey | Difference                           | Management<br>Comment   | Recommendation   |
|--------------------------------------|-----------------------------------|--|--------------------------------------|---|--|
|                                      | Rs.                               | Rs.  | Rs.                                  |   |  |
| Furniture                            | 502,887,595                       | 501,957,942                                    | 929,653                              | Action already has been taken to reconcile the difference. Due to the reconciliation, the un-reconciled amount has significantly reduced compared to the last year. | Action should be taken to reconcile the differences in the control accounts. |
| Office Equipments                    | 599,166,094                       | 593,406,932                                    | <u>5,759,162</u><br><u>6,688,815</u> |   |  |

## 1.6 Accounts Receivable

| Audit Issue   | Management Comment   | Recommendation   |
|---|--|--|
| Receivables from a loan balance, a mahapola scholarship advance, 02 bond violations and 13 Contractors and Institutions, aggregating Rs.1,783,077 had remained outstanding for a period ranging from 02 to 18 years without being recovered as at 31 December 2019. | Action has been taken to recover the total due amount, to institute legal action, to recover from UPF Fund and to write off as per the nature of the recovery. | Action should be taken to recover the outstanding receivables without further delay. |

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

| Reference to Laws, Rules Regulations etc.  | Non-compliance   | Management Comment   | Recommendation   |
|--|--|--|--|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>Sections 102, 103 and 104 and National Library Documentation Service Board Circular No. 2004/LD/1 as amended dated 22 December 2016 | According to the library books stock verification report conducted for the year 2017, four hundred and seventy three books valued of Rs. 303,491 had lost. Action had not been taken in this regard.     | University will take steps to find the reasons on how these books are lost. Further, action will be taken to fix responsible person / people if any and / or take preventive measures in the future. | Action should be taken in terms of the Financial Regulations and the Library Documentation Service Board Circular. |
| (b) Section 02 (XV) of the Chapter VII of Establishments Code of the UGC and the HEIs and Section 11 of the Finance Act, No. 38 of 1971.   | Money existed in various funds accounts had been invested Rs.35,284,825 in the fixed deposit as at 31 December 2019 without concurrence of the Ministry of Finance and the Ministry of Higher Education. | Action will be taken to get the concurrence of the Ministry of Finance and the Ministry of Higher Education to deposit the Fixed deposit in future.  | Action should be taken in terms of the Establishments Code of Higher Educational Institutions and the Finance Act. |
| (c) Sections 3 and 4 of the Chapter XXVI of Establishments Code of the UGC and the HEIs  | (i)The Board of Survey conducted during the year 2018 had recommended selling 1,073 goods and destroying 418 goods.  | This activity involves a number of processes and all necessary actions that have been completed and the council approved the report for action. Hence, sale and                                      | Action should be taken in terms of the Establishments Code of Higher Educational Institutions without              |

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|     | However, action had not been taken in this regard even up to the date of this report.  | destruction of these items will be done in due course.   | further delay.  |   |
|     | (ii)Further, the actions proposed by the report on stock verification for library books conducted for the years from 2012 to 2017 had not been taken even up to now. | Library Committee, which is the subcommittee of the Senate, has taken up the “Report on Stock Verification” for a discussion and recommended to write-off damaged items of 1278 and to prepare a document on “Policy on Stock Verification Procedure in the University Libraries”. Hence, University is waiting for the policy to take a decision about the missing items. | Action should be taken on the report of stock verification for library books in terms of the recommendation of the Library Committee.   |   |
| (d) | Treasury Circular No. IAI/2002/02 dated 28 November 2002.  | A Register of Fixed Assets had not been maintained for computers and computer accessories to the cost of Rs.228,235,039 as at 31 December 2019.  | Preparation of Fixed Assets Register for Computers and Accessories is in progress and more than 92% of the register has been prepared and expected to complete by the end of July 2020. | Action should be taken in terms of the Treasury Circular No. IAI/2002/02.   |
| (e) | Circular Letter No. 10/2017 dated 10 July 2017of the University Grants Commission.   | All staff should be entered their arrivals and departures in the finger print scanner. However, the academic staffs not comply with that.  | As a common practice, the arrival and departure of academic staff are not maintained in the public University system in Sri Lanka.  | Action should be taken to mark the arrivals and departures in terms of the Circular Letter 10/2017 of the University Grants Commission. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 229,656,231 and the corresponding deficit in the preceding year amounted to Rs. 45,226,543. Therefore, a deterioration amounting to Rs. 184,429,688 of the financial result was observed. The reasons for the deterioration are increased in Personal Emoluments and Gratuity by Rs. 258,058,056 and Rs. 161,669,219 respectively during the year under review.

## 2.2 Trend Analysis of major Income and Expenditure items

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The income of the University such as the recurrent grant and other income for the year under review had been increased by 23 per cent as compared with preceding year, while mahapola and bursary grant for the year under review had been decreased by 56 percent as compared with preceding year.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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| Audit Issue  | Management Comment  | Recommendation  |
|--|---|---|
| (a) The University had sustained a loss of Rs. 1.73 million due to the negligence of the responsible officers who had delayed for more than six years to take action for recoveries of the bond value for breaching agreement by a lecturer. However, no action had not been taken against such officers even up to now.   | The Council on its meeting 231 was of the view that the relevant officers in charge of Academic Establishment from 06/12/2000 to 13/07/2010 have not performed duties in a responsible manner on this loss. The Council decision is already conveyed to academic establishments division to institute necessary action to recover the loss. | Action should be taken to recover the losses from the officers responsible.                                       |
| (b) The EPF payments for 28 employees hired on Ad-hoc / daily paid basis at the University during the years 1999 to 2008 had not been made in terms of the Employees Provident Fund Act, No. 15 of 1958 (as amended). As a result, a sum of Rs. 1,215,442 had been surcharged from the University on failure to pay contribution on due date in year 2018 and 2019 in terms of the Section 16(f) of the above Act. Further, the employee contribution aggregating to Rs.1,022,380 had been paid from the University fund without deducting from the employees earnings. In this regard, action had not been taken against the officers who are responsible for that payment. | It is decided to take necessary actions to obtain consent from the relevant employees to recover the employee contribution paid by the University from their salary or any other possible means.  | Action should be taken to recover employee contributions from the relevant employees or the officers responsible. |

### 3.2 Operational Inefficiencies

| -----<br><b>Audit Issue</b><br>-----  | -----<br><b>Management Comment</b><br>-----   | -----<br><b>Recommendation</b><br>-----   |
|---|---|---|
| (a) According to the student's guide book of External Degrees, the minimum time period to complete the Degree programmes were 03 academic years. However, the external degree programmes for BA, BBA and B.com had been taken over 5 years to complete by proper students for last three past out batches.  | Due to the delays in providing course manuals, releasing results on time and closure of University due to many reasons, the duration to complete the degree was extended. As the course manuals are now available, the delays can be minimized in the future.   | Action should be taken to complete the degree programme within stipulated time period in terms of the Student's Guide Book. |
| (b) According to the benchmark of the University Grants Commission, the undergraduate students: permanent teaching staff ratio should be maintained at 18:1 in respect of Arts & Culture, Management & Commerce and Islamic Studies & Arabic Language Faculties and 10:1 in respect of Applied Science, Engineering and Technology Faculties, However, the University had maintained the above ratio ranging from 20:1 to 53:1 contrary to the above benchmark. As a result, the coverage of teaching and learning could not be sufficiently fulfilled. | Action was taken to request more cadre based on the standard by meeting the dead line of June 2019. These cadre requests are also not yet approved by the Department of Management Services even though the UGC has recommended and forwarded to them for necessary actions. Once, new cadre vacancies are approved by the Department of Management Services, action will be taken to fill those cadre vacancies. | Action should be taken to get the cadre approval to fill cadre vacancies.   |

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

| -----<br><b>Audit Issue</b><br>-----  | -----<br><b>Management Comment</b><br>-----   | -----<br><b>Recommendation</b><br>-----                                       |
|---|---|---|
| (a) The construction works of a Laboratory Block for the Faculty of Applied Science had been completed on 15 February 2014 with the cost of Rs.84,156,395 and a sum of Rs. 1,856,467 had been spent for the electrical fittings in year 2016. However, the Laboratory Block had not been utilized for the intended purpose even up to now and allowed to be idle for over 4 years due to the delays in the procurement of necessary laboratory equipment. | Currently, the laboratory furniture for all laboratories have been supplied and installed and more than 70% of the equipment ordered has been supplied. This building, during the planning and construction stage, was not planned accordingly to provide the facilities such as drainage, gas and water lines needed for laboratories. Installing these to an existing building need to be done very carefully and needs lots of proper planning to have sufficient safety measures. Actions are being taken to supply these facilities. | Action should be taken to utilize the Laboratory block without further delay. |



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| (b) The construction of Mega Stores Block had been commenced on 14 October 2016 and completed at a cost of Rs. 13.33 million on 29 November 2018. However, the Mega Store had not been utilized for the intended purpose for 19 months. | It was agreed to handover this building to Workshop of the Faculty of Engineering based on their urgent and important request for the utilization for the Department of Mechanical Engineering in order to prove availability of space to Engineering council for the IESL recognition. | Action should be taken to utilize the Mega Stores Building without further delay.                 |
| (c) Fifty nine tyres and tubes aggregate amounting to Rs.702,987 which were purchased during the years 2013 to 2017 had been remaining over 3 years without being utilized.   | Chairman of Audit & Management Committee instructed to give written warning to the relevant officers who were involved directly or indirectly to purchase & surcharge them if any losses occur after the auction of these tyres & tubes.  | Action should be taken to implement the decision of the Chairman of Audit & Management Committee. |
| (d) The Sri Lanka specialized publication Section and Seminar Section of the main library building with 80 chairs and equipment had been idled due to unfixing air conditioners for over two years.                                     | The University has already processed the Purchasing Requisition Notes for procurement of "Air Conditioners" and is being awaiting for availability of funds for further processing for procurement.   | Action should be taken to utilize the assets.   |

### 3.4 Defects in Contract Administration

| -----<br><b>Audit Issue</b><br>-----   | -----<br><b>Management Comment</b><br>-----   | -----<br><b>Recommendation</b><br>-----  |
|--|---|--|
| (a) The University had awarded a contract to construct a Building Complex to the Faculty of Management and Commerce in 2010 at a contract value of Rs.112 million and should have been completed on or before 28 February 2014. Although the construction works were completed on 20 April 2014, the liquidated damages amounting to Rs. 2,977,412 had not been recovered from the contractor as per the agreement even up to now. | University has already taken steps to deduct the liquidated damages from available retention money. And further the University has communicated to the contractor to settle the due amount of Rs.168,532 at its earliest. University will take legal action if the contractor fails to settle the due amount within the stipulated time period. | Action should be taken to recover the liquidated damages.                                      |
| (b) The University had paid a sum of Rs. 2,495,837 to the contractor for non-adjustable element for preliminary items in the construction of Building Complex contrary to the clause 13.7 of condition of the contract agreement. Further, the   | It had been paid based on the recommendation of the consultant. Payments to the Consultant were made as per the agreement.  | Action should be taken to adopt a proper policy for the payment to contractor and consultants. |

consultant fee should be paid at a rate of 5.25 per cent on the total contract price excluding Value Added Tax. However, the University had calculated this fee by using two different rates. As a result, a sum of Rs. 659,138 had been over paid to the Consultant.

- (c) An Internal Earth Roads to Malwatta farm of Faculty of Technology had been constructed at a cost of Rs.14,995,485 excluding VAT on 25 March 2019. In this regard, the lowest quoted bidders 1st, 2nd and 3rd had been rejected due to 15 per cent lower than the engineering estimated amount by Technical Evaluation Committee. However, the reasons for the discrepancy had not been analyzed to review the engineering estimates and current market condition in terms of the sub chapter 7.9.2 (m) of Procurement Manual. In this regard, the contract had been awarded more than the lowest bidding amount by Rs.1,443,195.

Action will be instituted to analyze and review the engineering estimates with current market conditions in the future.

Action should be taken to analyze and review the engineering estimates with current market conditions in the future.