

**1.1. Qualified Opinion**

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The audit of the Financial Statements of the Eastern University , Sri Lanka (“University”) for the year ended 31 December 2019 comprising the statement of financial positions 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 Section 107(5) of the Universities Act, No. 16 of 1978 and 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 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’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 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 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 Company'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 Company'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 Company 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 Eastern University, Sri Lanka and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Eastern University, Sri Lanka has complied with applicable written law, or other general or special directions issued by the governing body of the Eastern University, Sri Lanka.
- Whether the Eastern University, Sri Lanka has performed according to its powers, functions and duties; and
- Whether the resources of the Eastern University, Sri Lanka had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)The disclosure relating to the fully depreciated Property, Plant and Equipment of the university as at 31 December of the year under review cost of Rs. 468,015,255 and belonging to 20 items, had not been made in the financial statements as per section 42 (b) of the Sri Lanka Public Sector Accounting Standard (SLPSAS) - 7. As well, the estimated error of the useful life of those assets had not been corrected according to the requirement of the SLPSAS – 3 with respect to show the fair value of those assets in the financial statements.	Action will be taken to re-value the assets as per the Sri Lanka Public Sector Accounting Standards.	Adhere the Sri Lanka Public Sector Accounting Standards.
(b) According to section 72 of the SLPSAS, the land and building are accounted for separately even when they acquired together. However, the value of the lands and buildings of the University as at end of the year under review had been shown together as Rs. 1,707 million without being shown their values separately in the financial statements.	Obtaining ownership of the land and the revaluation process of Buildings belongs to the EUSL is in progress. Once the process is over the revalued amount will be disclosed separately in the financial statements as per the Sri Lanka Public Sector Accounting Standards No.07.	Adhere to the Sri Lanka Public Sector Accounting Standard.

## 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though depreciation expenditure for part of the Property, Plant and Equipment of the University for the Year under review amounted to Rs. 14,704,390, the depreciation expenditure charged to the statement of financial performance for those assets amounted to Rs. 64,735,341. As a result, the deficit for the year under review had been overstated by Rs. 50,030,095.	This is due to the correction of undercharged depreciation amount for the furniture and fittings. As per the UGC circular 649, The estimated useful life of these assets is 10 years. i.e. depreciation rate is 10% p.a. The items more than 10 years have been under depreciated, hence correction has been made.	Action should be taken to rectify.
(b) Out of the total cash and cash equivalent balance shown in the cash flow statement amounting to Rs. 526,283,741, evidence relating to cash and cash equivalents amounting to Rs. 3,048,236 had not been made available for audit.	These are the balances brought forward since 2011 due to the closure of 11 bank accounts by Competent Authority (in lieu of council). There were eleven bank accounts operated for various activities at several locations and in order to have more control and transparency Competent Authority requested that all accounts should be transferred to one account. Even though the decision was taken to update the cash books it was impossible to update the cash book due to the documents were untraceable. Action will be taken to rectify this deficiencies consultation with the committee appointed by Registrar to look into the matter related to prolonged accounting deficiencies.	Action should be taken to rectify overstated value in the financial statement.
(c) Even though thirteen legal cases had been filed at the courts by the various parties against the University claiming compensation amounting to Rs. 504,574,803, the details relating to the contingent liabilities thereon had not been disclosed in the financial statements of the year under review as per SLPSAS – 8.	It will be disclosed as a narrative description in the Financial Statements in the future as per the above Standard.	Adhere the Sri Lanka Public sector Accounting standards.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 757 (2) of the Democratic Socialist Republic of Sri Lanka	The Report on Boards of Survey for the year under review had not been presented to the Auditor General even up to 30 June 2020	Most of the work has already been completed in time, however, the finalization was delayed due to the COVID pandemic and It has been completed now.	Action should be taken submit the Report of Board of Survey in terms of FR
(b) Section 3 (1) of Chapter XX of Establishments Code of the UGC and Circular Letters of the University Grants Commission No.10/2017 dated 10 July 2017	Salaries amounting to Rs.748 million had been paid to academic staff of the University during the year under review without being confirmed their arrivals and departures.	By tradition the academic staff do not record their attendance as in all other Universities. However, all most all departments signed the presence in the attendance book in their respective departments.	Action should be taken to enter the arrivals and departures in terms of the Establishments Code and Circular provisions
(c) Establishments Circular letter No. 15/2015 dated 17 November 2015 of the University Grants Commission	Results of the examinations conducted for the internal students should be released within 03 months. However, the results for the examinations conducted for the academic years from 2014/2015, to 2017/2018 had been released after a delay of 01 to 10 months. This practice had affected the student's employment opportunities.	Programme Review Manual and Quality Assurance encourage external examiners doing the second marking. Striving to adopt this requirement has mainly contributed to the delay.	Action should be taken in terms of the circular.
(d) Treasury Circular No.842 dated 19 December 1978	A fixed assets register had not been maintained relating to fixed assets amounting to Rs. 4,309,751,059.	Now the EUSL has a Fixed Asset Register Software and it will produce the required	Action should be taken use as comprehensively in terms of the Financial

information by the Regulations.  
filtering system. .

- (e) Section 6.5.1 of the Public Enterprise Circular No. PED/12 dated 02 June 2003. A copy of Draft Annual Report had not been submitted with the Annual Financial Statements to the Auditor General. In future action will be taken to submit the draft Annual Report with the Annual Financial Statement to the Auditor General as per the Public Enterprise Circular No. PED /12 dated 02 June 2003. Action should be taken in terms of the Public Enterprise Circular.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review amounted to a deficit of Rs. 345,563,842 and the corresponding deficit in the preceding year amounted to Rs. 334,815,279 Therefore a deterioration amounting to Rs. 10,748,563 of the financial result was observed. The reasons for the deterioration are the increase of personal emoluments had mainly attributed for this deterioration.

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

The income of the University such as recurrent grant and other income for the year under review had been increased by 20 per cent as compared with preceding year. The expenditure of the University, such gratuity had been increased by 514 per cent compared with preceding year due to calculation of the gratuity provision based on including of academic allowances as per circular of UGC and depreciation and amortization increased by 69 per cent had mainly attributed to the above continuous deterioration.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Without considering expected objectives of payment of academic allowances to the lecturers a sum of Rs 8,640,688 had been paid since the year 2004 to July 2020 to the dependent of demised lecturer in 2004 due to the terrorist violence, based on the public administration circular No 21/88 dated 13 July 1988.	According to the Public Administration Circular No. 21/88 dated 13.07.1988 as subsequently amended, the dependent of demised employee should be paid the Salary and other allowances receivable by him till such time of his age of retirement. According to the above provisions we paid the salary and allowances to the dependent of the employee who demised in 2004	Action should be taken to achieve the particular objectives of providing academic allowance

#### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Out of 204 Academic staff only 24 Academic staff had involved including the collaborated research activities. although 11 researches had been approved by the Research Committee and approved to pay the grants. However, only two research projects had been completed during the schedule period as well only 58 percent grants or a sum of Rs. 6,851,466 had been utilized out of the total allocated grant of Rs. 11,244,372.	Progress of Research Grants are being monitored at the Research & Publication Committee (RPC) and the grant period has been extended considering justifiable reasons on the spirit of research. New Research Policy has been submitted to Senate to rectify the weaknesses in the existing Grant providing criteria, progress monitoring and final output evaluation.	Action should be taken to implement the Circular instructions.

#### 3.3 Under -utilization of Funds

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A sum of Rs. 4,500,000 received from the University Grant Commission for the purpose of automation of the Library had not been utilized to the intended purpose for over 5 years.	As per the recognition criteria of the accounting standard, it was recognized as a grant and shown as deferred income. Even though they have been utilized, the accounting treatment for amortization of the grant had not been done. Hence the	Action should be taken to amortize grant for intended purpose without further delay.

balance in the books of account. Once the expenditure from the grant is separately identified as all grants have been pooled, action will be taken to amortize the grant.

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

Audit Issue	Management Comment	Recommendation
A Hatchery machine, a printing machine that had been a two-wheel tractor and a mobile laboratory vehicle valued at Rs. 20 million that had been given to the Faculty of Agriculture had not been properly used for the intended purpose and they had been kept in idle.	The Hatchery Unit was damaged due to floods, Action being taken to dispose the equipment. The Printing Machine could not be used due to damage, Mobile Laboratory due to be refurbished by the faculty of Science under the grant of AHEAD project and to be utilized for research and community outreach. The Two-wheel tractor is still utilizing for the teaching purpose at the department of engineering workshop.	Action should be taken to solve the problems without further delay.

### 3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) There were 284 approved cadres for academic staff as at the end of the year under review while the actual number of academic staff was 217 thus number of vacancies were 67 and out of that, vacancies belong to 14 post Senior Professors. The number of vacancies in the non-academic staff were 93. Even though, this situation had affected the academic activities of the students, the University had not filled the vacancies even up to 27 July 2020.	The University has taken actions to advertise the academic posts periodically in many occasions. According to the UGC Circular No. 876 dated 06.06.2006, all external recruitments to the minor employee grades and the 14 posts be made from a list of candidates compiled by the Ministry of Education. The list of candidates compiled by the Ministry of Higher Education suspended by the Ministers who were appointed that time as the Minister of Higher Education was changed frequently in 2019 by the Government.	Action should be taken to fill the vacancies without delay.