

Qualified Opinion

The audit of the financial statements of the Eastern University , Sri Lanka (“University”) for the year ended 31 December 2018 comprising the statement of financial positions as at 31 December 2018 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 2018, 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 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 of the University

1.4 Audit Scope

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
In terms of Sri Lanka Public Sector Accounting Standard-07, Land and buildings should be accounted for separately, even though when they were acquired together. However, the value of land and buildings of the University as at 31 December 2018 amounting to Rs. 2,712,073,167 had been shown together without showing the value of land separately.	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.	Action should be taken to show the value of Land and Building separately in Financial statements according to the Sri Lanka Public Sector Accounting Standards-07

1.5.2 Accounting Deficiencies

- a) Eleven numbers of Lands, total extent of 210.3 Hectares and buildings there of belongs to the University had not been valued and brought to 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 it will be brought in to the financial statements.
- Action should be taken to carried out Revaluation process by relevant authority and the values of land should be brought to the Financial Statements.

- b) A sum of Rs. 75 million which had been paid for construction of five story Building complex for the Faculty of Communication and Business Studies and Two story Building complex for Auditorium in Trinco Campus had not been shown in the work in Progress account.
- This Rs .75 Million had been paid as part of 10% Mobilization Advance in beginning of the construction project. Here for it should be considered as Mobilization Advance and taken in to account as debtors. (Please Refer Financial Statement - 2018 Note 22)
- Due care should be given to consider progress reports in order to avoid classification errors in financial statements.
- c) A sum of Rs. 506,258 had been paid to academic staff for Post Graduate Research and Scholarships for the year 2018. However, it was charged under other operating expenses instead of charging to Intangible Assets account
- It will be rectified
- Action should be taken to rectify the classification errors in financial statements.
- d) According to the financial statements, sum of Rs.9,751,892 and Rs.1,408,946 shown as receivable from SVIAS and University Grant Commission respectively. However, these balances had not been reflected in the financial statements in the above institutions as payable to the University. Therefore, the accuracy, reliability and recoverability of those balances could not be verified in audit.
- According to the Financial Statement sum of Rs.9,751,892 and Rs. 1,408,946 shown as receivable from SVIAS and University Grant Commission respectively. Amounts have been carried forward from previous years. Actions will be taken to write off from the books.
- Action should be taken to follow appropriate accounting procedures.

- e) Cash in transit amounting to of Rs 9,400,000 is payable to Action should be taken to rectify the Rs. 9,400,000 which was shown in external studies, that is the Accounting errors and settle the matters the previous year financial amount borrowed from without further delay. statements had been changed as external studies from 2002 sundry debtors amounting to and it has been reflected in Rs. 9,300,319. However, the the previous financial University had not submitted any statements as cash in transit evidences to audit regarding the incorrectly. above changes of the previous balances
- f) Depreciation for the vehicle and IT Action has been taken to Action should be taken to rectify the Development of the Trincomalee reevaluate all vehicle in 2017 understated value in the financial campus as at end of the year under in accordance with the statement. review were Rs.8,818,186. SLPSAS Action will be However, this amount had been taken to correct this matter. shown as Rs.4,641,750 in the . Financial Statements. As a result, the value of assets was understated by Rs. 4,176,436 in the financial statements.

1.5.3 Unreconciled Control Accounts.

- (a) Closing balance of fixed assets This is due to the prior year Action should be taken to amounting to Rs. 3,279,124,194 in adjustment of losses and reconcile the balances of the previous year financial retention payable. fixed assets. statements had been brought to the current year accounts as opening balances amounting to Rs. 3,273,604,684 in the year under review, thus showing a difference of Rs. 5,519,510 in the financial statements

(b) The balance of the Vice Chancellor's Fund at the end of the year under review, as per the financial statements, was Rs.2,194,647. According to schedules for financial statements, the said fund was Rs.2,340,078. This resulted an unexplained difference of Rs,145,431.

Some transactions were made from recurrent account instead of VC fund in past as VC fund was not operational due to operational issue. Hence, this difference was occurred and it will be adjusted in next year books of accounts

Action should be taken to reconcile the balance of this fund.

1.5.4 Documentary Evidences not made available for Audit

In connection with balances of the following 02 items of accounts amounting to Rs .230,328,305 during the year under review, evidence indicated against those items had not been made available to audit.

Items	Value (Rs)	Evidence not made available	
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Sundry Creditors	35,097,491	Balance confirmations and age analysis	Action will be taken to provide required details
Sundry Debtors	195,230,814	Balance confirmations and age analysis	Action should be taken to submit the evidence to verify the account balances shown in the financial statements.
Land and building	4,327,479,889	Fixed Assets Register, Details Schedules And Board of Survey report Relating to	

Opening
balances.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Action had not been taken to recover money from who violated bonds amounting to Rs. 173,439,127 ranging from 1 to 15 years. 12 cases including 74 no's of Bond defaulters had been handed over to the Attorney General's Department to take legal action and to recover the dues from the defaulters. Legal action is in progress. Action should be taken to recover the dues from the defaulters without further delay.

1.6.2 Payables

Withholding Tax, Value Added Tax, and Business Turnover Tax amounting to Rs. 765,844 had been remained in the financial statements over a period of more than 10 years without being remitted to the relevant authority up to May 2019. This is accumulated and brought forward amount from 1998 and no records are available. Hence action will be taken to write off with the approval of relevant authorities. Action should be taken to settle or write off the values with the approval of relevant authorities.

1.6.3 Advances

Advance of the petty cash amounting to Rs. 73,440 had been granted for various purposes from 2010 to 2015 by the University. However, the amount had not been settled up to the date of this report. Unsettled petty cash amount up to 2018, December 31st is 73,439 in that; Action will be taken to settle them. Action should be taken to settle the Advances without delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Reference to law/ direction	Description		
Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(a) Financial Regulation 757 (2)	The Report on Boards of Survey for the year under review had not been presented to the Auditor General even up to 22 May 2019	No comments	Action should be taken submit the Report of Board of Survey in terms of Financial Regulations
(b) Public Finance CircularNo.3/2015 dated 14 July 2015	Advances amounting to Rs. 1,497,812 had been granted to 03 Officers in 08 instances exceeding the maximum limit of the ad-hoc advance of Rs. 100,000 during the year under Review.	Based on the actual needs amounts have been released with proper approval and all have been settle on time.	Action should be taken to provide the advances within the limit in terms of the public finance circular

<p>(c) Circular No.2004/lib. /01 dated 26 January 2004 of the National Library and Documentation Services Board</p>	<p>According to financial statements, Reports of Board of Survey on library books and periodicals amounting to Rs. 94,437,278 had not been presented to Audit even up to 22 May 2019.</p>	<p>The library has nearly 89,000 books & periodicals at present. Further the annual verification process will affect the academic programs which conducting semester base. However, action will be taken to appoint.</p>
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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 increase of personal Emoluments by Rs. 208,069,613 and Depreciation and Amortization Expenses by Rs. 61,899,201.

2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure were identified as recurrent grant and personal emoluments. Personal emoluments for the year under review had been increased from Rs. 899, 303, 660 to Rs. 1, 107, 373, 273, showing an increase of 23 % compared with the preceding year.

Recurrent grand for the year under review had been increased from Rs. 1, 193, 688, 000 to Rs. 1, 477, 100, 000, showing an increase of 23% compared with the preceding year.

Operating revenue for the year under review had been increased from Rs. 1,331,144,325 to Rs. 1, 688, 086, 453 showing an increase of 27 % compared with the preceding year.

Comparing the personal emoluments with the total operating revenue for the current and preceding years revealed that, 65% and 67% percentage of the total operating revenue respectively had been spent for the personal emoluments only.

2.3 Ratio Analysis

Current Ratio for the year under review and the preceding year were 3.6:1 and 2.7:1 respectively, showing an improvement of 33% compared with the preceding year.

3. Operational Review

3.1 Management Inefficiencies

- i) Eastern University has appointed a candidate for the post of Lecturer (probationary) and due to irregularities occurred in the selection process, University Services Appeal Board (USAB) has ordered to cancel this appointment, a stay order dated 10 May 2005 valid up to 13 June 2005 was given by the Court of Appeal against the implementation of the USAB's order. Without considering the expiry of the stay order the said lecturer had been confirmed in this post promoted to Senior Lecturer Grade-II, granted a duty free vehicle permit and Scholarship to follow PhD studies with salary.
- The said lecturer had not completed his studies and no action had been taken to recover bond value
- The Selection Committee selected the suitable person by considering all required qualities, qualifications and performance.
- A Stay Order was granted by the Court of Appeal against the above decision by the order no. 384/2005. Subsequently the EUSL had granted the Study Leave as per the Section 27:3, Division II, Chapter X of the University Establishment Code to pursue PhD and also granted duty free vehicle permit to the said Lecturer as routine procedure.
- A letter was sent to the said Lecturer through proper channel on 28 December 2016; Now the visiting appointment has been stopped and payments withheld.
- Action Should be taken to recover the loss incurred by the University from officers who are responsible for selection and appointment of said lecturer and its consequences in terms of FR. 104 and 105.

amounting to Rs 4,545,418 for more than two years, He had been appointed as visiting lecturer and some of Rs 290,000 had been paid in this regard.

A case has been fixed as exparte by the district Court Batticaloa and ordered the university to pay sum of Rs 1,000,000 to the plaintiff as compensation. University has spent a sum of Rs. 257,650 as legal charges against this order

However, Council of the University has decided to give up this case and sum of Rs. 500,000 had been paid from the University fund to the plaintiff.

No Comments.

Action should be taken to recover the outstanding bond value from said lecturer. Appropriate disciplinary action should be take for officials who are responsible for appointing said lecturer as visiting lecturer.

- (ii) A former Rector (Senior Lecturer Grade-I in Management) of Trincomalee Campus who had been terminated and interdicted from his posts regarding the allegations of financial irregularities. He had been
- The Council at its 283rd meeting held on 21 January 2018 accepted his resignation subject to settle all dues owe to the EUSL within one month from the date of letter of acceptance.
- As he has failed to do so, legal action is being instituted against him.
- Suitable Action should be taken to resolve this matter without further delay

subsequently reinstated with effect from the date of which termination and who was given all privileges with pay based on the recommendation of the grievance committee. Even though, the said Lecturer had resigned his post from 27 January 2018 and joined in the new job in Colombo on the same day. The council had accepted his resignation without considering compulsory obligatory service and bond agreement up to 2019. In this regard, The University had spent a sum of Rs. 11,563,675. However, the above matter had not resolved yet due to several deficiencies of disciplinary inquiry procedures and malpractices of the University

3.2. Operating inefficiencies

<p>The students enrollments to the University during the year under review had reduced from 1948 to 1715 equivalent to 12 percent compared with the previous year.</p>	<p>Not admitted The Student allocation or admission process is entirely handled by the University Grants Commission dependent on various factor and decrease of no of students beyond our control and the University is admitting the student based on the allocation made by the UGC.</p>	<p>Action to be taken to identify reasons for the decrease of students and remedial action should be taken to increase the number of students enrollment.</p>
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3.3 Under -utilization of Funds

<p>Grants amounting to Rs 1,000,000 and Rs.1,000,000 received from University Grant Commission to carried out the Center for Gender Equity or Equality Cells Establishment of Reservation and Conservation Unit in Library respectively. However, these grants had not been utilized and remained in the account for the intended purposes more than 02 years.</p>	<p>The following activities of the project are in progress. Due to the strike of the students many workshops for the students were cancelled and postponed and then the students went on review period and examination. So it could not be conducted. The other purchasing such as capital items are in progress. The international girl child day was conducted in 2016 and planned for 2017 onward but could not conducted due to the student unavailability. All activities to be rescheduled and money will be utilized.</p>	<p>Action should be taken to utilize the grant for intended purpose without delay.</p>
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3.4 Defects in Contract Administration

The Eastern University, Sri Lanka (EUSL) had awarded the construction of Access Road to the Faculty of Agriculture at Kaluwankerny EUSL (Stage-1) amounting to Rs. 22,573,400. In this regard following observations are made

- The Bidder had been selected and awarded above the contract contrary to the section 5.3.5, Supplement -9 of Procurement Manual Dated 04 May 2007. The Bid had invited through NCB method in the press with ICTAD C 6 or above grade .as only one bidder had responded and it was awarded to the contractor as per the bid documents who was eligible Action should be taken to comply with bidding procedure of construction in terms of ICTAD Rules and Regulations and Procurement Manual.
- It was observed the Engineer attached to the Road Development Authority (RDA) Batticaloa was functioned as the Engineer of the contract work as well as who was member of Technical Evaluation Committee of the particular contract. Since Engineer /RDA was appointed in the TEC he was not appointed an Engineer to the project. Works Engineer /EUSL is the Engineer to the project and he certified all measurements of bills for payments. Action should be taken to comply with procurement and ICTAD guidelines

- Two extensions had been granted to the contractor for the execution without supporting document contrary to section 28 Condition of Contract ICTAD/SBD/14 of 2007 and section 8.14.1 of Procurement Guideline - 2006 respectively. According to the Procurement Guideline Reference: 4.2.2, the Construction period could be allowed 30 weeks (7.5 months) for this work and considering of urgency it was decided to complete the work within one-month period but due to the unforeseen rain and flood in this area, we were compelled to grant the extension. Action should be taken to proper procedures to be adopted.

3.5 Human Resources Management

- (i) The permanent approved cadre of the academic staff is 284 and the actual cadre is 204. Out of the 80 vacancies, 23 vacancies had been professors. Even though, vacancies remained in the academic staff four lecturers had been granted sabbatical leave. The University took action to advertise the academic posts in many occasions from the year 2012 to 2018. However, appointments were not made to the cadre vacancies. Action should be taken to fill the vacancies without delay.
- (ii) The number of vacancies in the non - academic staff had been 93. Action had not been taken to fill these vacancies. As per the UGC Circular No. 876, the external recruitment for the post of Minor Employees and Management Assistant should be done by obtaining the name list from the Ministry of Higher Education. Since we have not received the list it could not be proceed. Action should be taken to fill the vacancies without delay.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observations	Management Comment	Recommendations
According to the Corporate Plan Guideline specified in the Public Enterprise Circular PED/12 of 02 June 2003 and Public Finance Circular 01/2014, Corporate Plan should have adequate information about the whole entity and its Ultimate goal during the period of five consecutive years from beginning of the current year to next four years. Staff Development Centre of the University has conducted two workshops on review of Action Plan and Corporate Plan and present status and future directions at a cost of Rs.1,019,175. However, the Corporate Plan for the period 2018-2022 had not been prepared by the University.	As per the recommendation of the Senate, the draft report of the Strategic Plan for the period of 2019– 2023 has been submitted to the Council by the Chairman/SPSU which incorporated the new benchmarks such as Sri Lanka Quality Framework (SLQF), Institutional Review Manual (IR), and the Program Review Manual year and in accordance with the public Enterprise Circular No.PED/12 of 02 June 2003	Action should be taken to prepare the corporate plan 2018 - 2022

4.2 Sustainable Development Goals

In terms of the Letter No.NP/SP/SDG/17 of 14 August 2017 on sustainable development issued by the Secretary to the Ministry of National Policies and Economic Affairs and the “2030 Agenda” for Sustainable Development of the United Nations, the University was aware of the	EUSL has already considered this concept in the Strategic Plan 2019 to 2023 which in under discussion at Council. Please refer para 2.2 (b) and (c)	Action should be taken to create the targets and KPI (keep performance index) for the sustainable development goals and to achieve the target.
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manner in implementing the functions that come under its scope. However, action had not been taken to identify the sustainable development goals, targets relating to those functions and focal points to reach those targets and indices for measuring the achievement of targets.