

## University of Kelaniya - 2020

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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 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 the provisions in Sub-section 108 (1) 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 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 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.

### **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 Management</b>	<b>the Recommendation</b>
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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, fixed assets costed Rs.1,641,021,283 were further in use despite being	A technical committee consisting of 4 technical knowledgeable academic staff members has been appointed. Policy recommendations will be submitted to the next Finance Committee and the Governing Council, taking	Sri Lanka Public sector accounting standards should be followed.
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fully depreciated. As such, into account the practical action had not been taken to situation. revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) A generator valued at Rs. 30,440,902 and 03 photocopiers total costed of Rs. 1,408,100 procured during the year under review had not been accounted correctly under correct class of asset and, as such, the depreciation for the year under review had been under stated by Rs. 2,725,410 and the annual surplus had been over stated by that amount in the financial statements.	The asset classification error has been corrected in 2021.	Assets should be properly accounted for under accurate classifications and depreciation should be calculated accurately.
(b) Four buildings with a total value of Rs. 790,400,309 remained under the work in progress had been taken in to use from the year under review and had been capitalized under buildings, but due to non-accounting of annual depreciation of Rs.39,520,015 in respect of those buildings the surplus for the year was over stated by that amount in the financial statements.	Capitalization of constructions will be done only upon the Project Management Office notifies that all the relevant construction works have been completed and can be used for the use of the University.	The project management unit had recommended that the relevant buildings could be used from 2020 onwards and the depreciation due to the use of those buildings should be calculated.

#### 1.5.4 Unreconciled Control Accounts or Records

Item	Value as per the Financial Statements	Value as per the Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Physical stock value as at closing date of the year	44,269,722	48,848,301	4,578,579	Presently comparisons are being carried out to identify the reasons for the discrepancy between the physical stock value as per the annual stock verification report and the stock value stated in the financial statement.	Action should be taken to show the correct stock in the financial statements as per the inventory verification reports.

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Receivables

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The amount due from 07 lecturers on breach of contracts total amounting to Rs. 41,583,486 had not been recovered even till 31 December of the year under review.	Legal action has been taken against 03 persons, 01 is being prosecuted, while the other 03 has given consent to recover from their provident fund and pension fund.	Necessary action should be taken to recover the dues expeditiously.
(b) Out of the total loan amount of Rs. 912,902 given to 17 officers, no installment was recovered during the year under review.	Arrangements have been made to recover at the release of provident funds of 14 officers and in installments from 3 officers.	Necessary action should be taken to recover the dues expeditiously.

## 1.6.2 Payables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Action had not been taken to settle 257 cancelled cheques valued for Rs. 2,615,824 shown under the accounts payables as at 31 December of the year under review.	Payments are being made in respect of cheques which have been requested for repayment and necessary action is being taken to take in to the income of the value of cheques which have not been requested and no response to the reminder letters and the cheques which have exceeded 06 months as per the financial regulations.	Action should be taken to settle without delay.

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

The following observations are made.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 August 2020			
(i) Financial Regulation 371	The advances given during the period from the year 2016 to year 2019 total amounted to Rs. 4,410,277 had not been settled.	No comments were made by the management.	Action should be taken in accordance with the Financial Regulation.
(ii).Financial Regulation 571	Action had not been taken in accordance with the Financial Regulations	Action will be taken to take the deposit in to the income in the	Action should be taken in accordance with the Financial Regulation.

regarding 552 sundry year 2021 when deposits amounted to the deposit Rs. 63,460,015 old period exceeds more than two years 02 years. and regarding library Library deposits deposits amounted to will be released Rs. 16,946,500 old to students upon more than 05 years. confirmation is received.

- (b) Sections 4.3.1 and 4.3.2 of the Government Procurement Guidelines dated 25 January 2006
- The approval of the Vice Chancellor had not been obtained for the total cost estimate of Rs. 11,929,352 (VAT free) for landscape works of the new Gym area of the University.
- A total cost estimate including all related expenses will be prepared and approval of the Head of the Institution will be taken now onwards.
- The provisions of the Procurement Guidelines should be followed.

## 2. Financial Review

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### 2.1 Financial Result

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The operations of the Institute for the year under review had been a surplus of Rs. 306,835,849 as compared with the corresponding surplus of Rs. 690,497,428 for the preceding year, thus indicating a deterioration of Rs.383,661,579 in the financial result. The decrease in the internal income and Mahapola grants had main reasons for this deterioration.

## 3. Operational Inefficiencies

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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<p>The total value of the 02 Cabinet approved Building Project Funds total amounted to Rs. 17,272,549 shown under Rights in the Financial Position Statement had not been utilized for the intended purposes during the year under review.</p>	<p>The Six Storied Examination Building project under the “CODL Capital Reserve” Fund of Rs. 16,422,549 has not been completed yet. The project with a balance of Rs. 850,000 has not been started yet and will be utilized after the commencement of the project.</p>	<p>Relevant projects should be started expeditiously and funds should be utilized efficiently.</p>
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### 3.2 Transactions of Contentious Nature

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Gift items worth of Rs. 2,330,055 purchased in 2019 without proper planning for the 60th anniversary of the University were remained in stores without releasing even till 01 April 2021, the date of the audit.	----- Relevant purchases for corporate gifts were made on the basis of the decision taken by the committee appointed for the 60th anniversary of the University and will be issued upon request by the respective departments.	----- Requirement should be accurately identified and make purchases.

### 3.3 Defects in Contract Administration

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Construction of the computer center building at an estimated cost of Rs. 183 million, which commenced construction in 2016 and to be completed within 02 years, had not been completed even by 31 December of the year under review.	The University has taken action to charge liquidation damages for the delay in the construction of the computer center building. Also, the University has repeatedly written to the Contractor, State Engineering Corporation, to complete the construction as soon as possible. The State Engineering Corporation has completed Rs. 174 million worth of construction works as at 31 December 2020.	Efforts should be made to complete the construction as planned to avoid delays.

### 3.4 Human Resource Management

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The approved academic and non-academic cadre of the university were 804 and 896 respectively and actual cadre were 653 and 806 respectively as at 31 December in the year under review. As such, there were 151 and 90 vacancies.	Recruitment are being done for vacancies and recruitments were not made due to inadequate office works under the Covid 19 epidemic.	Staff requirements should be reviewed periodically and action should be taken to recruit only for essential posts.