

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rajarata University of Sri Lanka 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 provisions of the National Audit Act No. 19 of 2018 and Sub-section 107 (05) of the Universities Act No.16 of 1978 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 matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Rajarata University of Sri Lanka as at 31 December 2021, and of its financial performance and 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 based 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 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 Institute.

1.4 Auditor's Responsibility for Auditing the Financial Statements

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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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 Institute
- 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 Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
-----	-----	-----
<p>(a) As expenditure of Rs.10,893,922 incurred on 04 construction projects completed during the year under review had not been transferred to the relevant assets account from the work-in-progress account, cost of the property, plant and equipment as at 31 December 2021 was understated by a similar amount. Further, due to failure to account for depreciation of Rs.406,566 related to those assets, the surplus of the year under review had been overstated by that amount. Moreover, a sum of Rs.15,767,310 spent on non-building assets which had been completed but not capitalized in the preceding year was transferred to the building account from the work-in-progress account during the year under review and as a result, the cost of those assets accounts has been overstated and understated by similar amount respectively.</p>	<p>This error will be rectified in the preparation of financial statements for the year 2022.</p>	<p>The work-in-progress should be recognized as an asset and capitalized and depreciated in time, and further, the relevant error should be rectified.</p>

- (b) The University had capitalized Rs.1,027,676,497 that had been spent on 02 buildings constructed on the premises of Anuradhapura Teaching Hospital from the year 2015 to 2021. Further, a sum of Rs.16,799,300 that should have been depreciated from the beginning for medical equipment costing Rs. 23,999,000 purchased during that period, had not been depreciated. Similarly, action had not been taken to vest those assets formally in the institution that owns the land.
- All these assets are the assets maintained by the Anuradhapura Teaching Hospital; necessary arrangements are being made to hand over those assets to the Anuradhapura Teaching Hospital after being submitted to the Audit and Management Committee to be held in due course; this will be corrected in the preparation of accounts for the year 2022.
- Action should be taken to formally hand over these assets to the institution that owns the land.
- (c) As expired stocks costing Rs. 4,730,583 with no realizable value had been included in the closing stock, the surplus of the year under review and the current assets as at 31 December 2021 had been overstated by that amount.
- Three committees have been appointed to make recommendations in this connection; reports of those committees will be submitted to the future Audit and Management Committee and according to its recommendations, action will be taken to obtain the Council's approval and to take necessary measures.
- Expired stock with no net realizable value should be properly written off against the profit.
- (d) As the bond valued at Rs. 3,784,401 included in the debtors balance relating to breach of bonds amounting to Rs. 69,717,263 as at 31 December 2021 had been renewed up to the year 2023 during the year under review, that value should have been eliminated from the debtors account. Nevertheless, action had not been taken accordingly and as a result, the balance of the bond violation funds account and the bond violation debtors account had been overstated by an amount equivalent to that value.
- This error will be corrected in the preparation of financial statements for the year 2022.
- The bond value of Rs. 3,784,401 that had been renewed up to the year 2023 should be eliminated from the debtors account and properly brought to account.
- (e) An unidentified amount of Rs. 2,711,041 received during a period from 01 to 05 years had been credited to the sundry deposit account.
- Unidentified deposits credited to the University bank account are credited to the
- This error should be corrected by properly identifying and accounting for the

sundry deposit account until they are identified and brought to account and the revenue credited to this account will be correctly identified and properly brought to account in due course. unidentified receipts.

- (f) A number of 2,253 books and periodicals worth Rs.1,791,447 received by the University as donations during the period from 2017 to 2021 had not been brought to account. This error will be rectified in the preparation of financial statements for the year 2022. This error should be corrected by properly accounting for the value of the books and periodicals received as donations.
- (g) In terms of the University Grants Commission Circular No. 09/2019 dated 25 November 2019, although 10 per cent of the salary of the officers entitled to the official quarters should be charged, a sum of Rs. 274,210 recoverable from the Vice-chancellor and the Registrar of the Rajarata University for the official residences allocated for those posts had not been recovered and brought to account. Accordingly, the surplus of the year under review and the current assets as at 31 December 2021 had been understated by an amount equivalent to that value. That the enquiries were made from the Commission about University Grants Commission Circular No. 09/2019 and after the Commission informed that house rent can be charged based on the decision of the housing committee of the University, the university followed the prescribed procedure and revised the house rent on the recommendation of the housing committee. Outstanding rent should be recovered in accordance with the University Grants Commission Circular and if action is taken in a different way, the written approval of the University Grants Commission should be obtained therefor.

1.5.2 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not Furnished	Comment of the Management	Recommendation
	Rs.			
(a) Detailed schedules relating to 03 computable account balances valued at Rs. 262,772,409 that had been carried out in the	262,772,409	Detailed schedules.	That the schedules are annually submitted for these purposes; the detailed schedules should be expected by the audit	Detailed schedules required for the confirmation of account balances should be furnished to audit.

year under review were not furnished to audit.

will be provided in the future through the information system currently being implemented in the university.

(b)	<p>There was a difference of Rs. 211,700 between the stock balances relevant to 02 faculties according to the reports of the stock verifications carried out as at 31 December 2021 and the stock balance referred to in the financial statements as at that date. Nevertheless, reasons for the difference were not submitted.</p>	211,700	<p>Comparative clarifications including the matters given rise to the stock difference.</p>	<p>Action will be taken to find out this difference and make corrections.</p>	<p>Necessary adjustments should be made by identifying the reasons for the difference.</p>
-----	---	---------	---	---	--

1.6 Accounts Receivable

1.6.1 Receivables

Audit Observation

Comment of the Management

Recommendation

 Employees' loan of Rs. 698,580 issued to the employees who had retired, vacated the service and were interdicted during a period ranging from 02 years to 17 years could not be recovered.

 Action is being taken to recover the loan balances from the provident fund of the employees who have not so far been released such funds and ascertain information and take necessary measures regarding the officers whose information is not available at present.

 Proper steps should be taken to recover the loan immediately without delay.

1.6.2 Advances

Audit Observation	Comment of the Management	Recommendation
In terms of Section 2.10 of the Guidelines on Research Grants of the Rajarata University of Sri Lanka, research advance should be settled within 90 days. Nevertheless, advances of Rs. 1,008,427 given to 09 officers during the period from 2008 to 2021 had not been settled even by 30 May 2022.	Advances of 07 officers have been settled at present and it has been informed that action will be taken to settle the remaining advances in due course.	Guidelines on Research Grants of the Rajarata University of Sri Lanka should be followed.

1.7 Non-compliance with laws, rules, regulations and management decisions

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Sections 38 (1) (c) and 38 (2) of National Audit Act No.19 of 2018.	Although the Vice-chancellor shall ensure that an effective internal control system for the financial control exists in each such entity and carry out periodic reviews to monitor the effectiveness of such systems and a copy of the same shall be made available to the Auditor-General, action had not been taken accordingly.	In order to establish the Intergraded University Management Software Solution system for all the systems, initial arrangements were made and training sessions were commenced in the year 2021 and plans have been drawn to carry out review on this system in the Internal Audit Plan prepared for the year 2022.	Provisions of the National Audit Act should be followed.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571 (2)	No action had been taken according to the Financial Regulations regarding tender deposits of Rs. 1,492,092 continued to exist since the period from 2017 to 2019, sundry deposits of Rs. 1,729,464 continued over the period from 2016 to 2019 and retention money of Rs. 137,470,912 that had been in existence since the period from 2010 to 2019.	Necessary action will be taken in the future.	Action should be taken in accordance with Financial Regulations.

(c) Chapter XIX of
the Establishments
Code of the
Democratic
Socialist Republic
of Sri Lanka

- (i) Section 5.2.1 Although housing facilities had been provided to 81 university staff members in the year under review, without being charged 12.5 per cent of the salary of married officers who own permanent houses and 7.5 percent of the salary of unmarried officers who own permanent houses, monthly house rents of Rs.750 and Rs.1,500 were charged instead.
- That the enquiries were made from the Commission about University Grants Commission Circular No. 09/2019 and after the Commission informed that house rent can be charged based on the decision of the housing committee of the university, the university followed the prescribed procedure and revised the house rent on the recommendation of the housing committee.
- Provisions in the Establishments Code of the Democratic Socialist Republic of Sri Lanka should be followed.
- (ii) Section 5.2.3 Without being taken action to assess and recover an adequate economic rent for 31 houses named as chamery, action had been taken to recover a charge from minimum of Rs.400 to maximum of Rs.750 per house.
- When inquired from the University Grants Commission in this regard, it was informed that after considering the location of the university and the employees, the economic rent can be determined by the University Housing Committee and accordingly the committee has made relevant revision.
- Action should be taken to assess and recover an adequate economic rent following the provisions of the Establishments Code.
- (d) Section 3.1 of Chapter XX of the Establishments Code for the University Grants Commission and Higher Education Institutions
- Although every employee in every institution of higher education should record the time of arrival and departure, the academic staff had not recorded the time of arrival to and departure from duty.
- Action will be taken to correct this in the future.
- Provisions referred to in the Establishments Code for the University Grants Commission and Higher Education Institutions should be followed.

- (e) Section 3.3 of the Guidelines on Research Grants of the University. Although the advances issued to the officers who had not submitted the final reports of the research to the Research Committee should be recovered from their salary in 04 instalments, the advance of Rs. 2,671,318 issued by 31 December 2020 to the officials who had not submitted the final reports related to the research that had been approved and started in the years 2017 and 2018 to the Research Committee, had not been recovered from the salaries of those officials. The Research Committee is taking necessary measures at present. Action should be taken in accordance with the Guidelines on Research Grants of the University.
- (f) University Grants Commission Circular No. 09/2019 dated 25 November 2019. Although the water and electricity bills of the quarters should be borne by the user of the quarters, the University had paid the water and electricity bills of Rs.197,917 for the Vice-Chancellor's Quarters. Action will be taken to correct this in the future. University Grants Commission Circular should be followed.
- (g) Paragraph 4 (ii) of the Management Services Circular No. 02/2014 dated 11 February 2014. Although an interim research report including the progress according to the action plan related to the proposal should be submitted to the Committee for Research Management within 06 months from the date of commencement of the research, the progress reports of 08 researches that had been approved and initiated in the year 2018 and the progress reports of all the researches that had been approved and started in the year 2021 were not submitted to the said committee. The research committee has given the necessary instructions to get the research progress in 06 months and if the research progress is not given correctly, the research committee has decided to take action on their behalf. Research progress of all research should be taken according to the Management Services Circular.

2. Financial Review

2.1 Financial Results

The operations of the University for the year under review had resulted in a surplus of Rs. 3,552,762 as against the deficit Rs. 140,295,545 for the preceding year, thus observing an improvement of Rs.143,848,306 in the financial results. This improvement was mainly due to increase in the government recurrent grants by Rs.158,500,000 and decrease in the expenses on contractual services by Rs. 22,993,149.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation

Only Rs. 550,000 equal to 20 per cent of the estimated amount of Rs.2,700,000 was spent for 03 researches that had been approved and started in the year 2018 and these researches could not be implemented as planned and completed by 31 December 2021.

Comment of the Management

That various practical issues have attributed to this, the financial and physical progress of the research will be looked into henceforth and the action will be taken to enquire about the reasons for the weakness of the research planning from those officers.

Recommendation

Action should be taken to implement and complete researches as planned and follow-up methods should be introduced.

3.2 Delays in Projects or Capital Work

Audit Observation

Without being considered the matters such as non-submission of the bid security in keeping with the prescribed formats, not presenting contract awarding letters and work completion letters relating to 05 major contracts completed during last 05 years and failure to earn minimum average annual income of Rs. 52.5 million, the contract for the installation of Intergraded University Management Software Solution System worth Rs. 17,500,000 had been awarded to the selected bidder. Although the software should be completed and handed over by 31 December 2021, it had not been handed over to the University even by 02 May 2022.

Comment of the Management

As the submitted bid security did not significantly deviate from the terms of the bid documents published, it was recognized as a valid bid security; that the requirement of the details on 05 major contracts completed during the last 05 years is merely for the confirmation of going concern of the bidder and his further engagement in the field; as it was the view of the Technical Evaluation Committee that no bidders would submit bids if the annual average income was considered as Rs.52.5 million and as the approved estimated amount was Rs.17.5 million, the requirement of minimum average annual income was specified as Rs.20 million in the bid documents according to the approval of

Recommendation

Suppliers should be selected in a manner ensure the transparency of the procurement process and action should be taken to get the work completed expeditiously.

the Departmental Procurement Committee, and the contract was awarded to the selected contractor at Rs.17.5 million as the Technical Evaluation Committee satisfied with the pre-qualifications submitted by the bidders; since activities of the system could not be properly carried out due to Covid-19 epidemic prevailed in the country, the period of contract was extended up to 31 December 2021 and then up to 30 June 2022.

3.3 Deficiencies in the Contract Administration

Audit Observation	Comment of the Management	Recommendation
<p>(a) The agreement related to the construction of 04 double staff quarters in the Mihintale premises had been concluded by the university on 20 February, 2019. The performance security of Rs.3,952,742 and the advance security of Rs. 10,540,647 relating to this construction project had expired on 12 February 2018 and 05 March 2018 respectively, whereas action had not been taken to either to get the period extended or encashed the securities. Therefore, legal actions had to be taken to recover a total of Rs.15,760,011 that remained recoverable from the contract as at the date of termination of the contract.</p>	<p>That the advances have been issued on the approval of the Procurement Committee; notifications relating to the extension of securities have been made in writing; necessary instructions and directives have been continuously provided to the contractor by the progress review meetings; that the University's effort was to get this project completed by that contractual company with the concurrence of the contractor; however, legal proceeding is in progress according to the contract agreement to recover the loss from the contractor that occurred due to termination of the contract on 20 February 2019, and given the situation then prevailed, the management of the University is correct.</p>	<p>Action should be taken either to recover from the contractor or surcharge to the responsible officers the loss incurred due to inability to encash the advance security and performance security in a manner not to incur a loss to the University fund.</p>
<p>(b) Even though a contract worth Rs.6,211,226 for the installation of air-conditioned system to the Faculty of Management Studies had been awarded to a selected supplier, the supplier had rejected the contract as the contract awarding letter had been</p>	<p>Since the country had been closed down due to Covid epidemic at the time of processing this procurement activity, the contract awarding letter was sent on 05 October 2021, and that the contractor informed his inability to carry out the contract at</p>	<p>Necessary action should be taken by awarding the bid to the selected bidder before the expiry of the bid security.</p>

sent with a delay of nearly 02 the relevant rates according to the months. Since the bid security had economic position prevailed in the expired by then, it could not be country. encashed.

4. **Accountability and Good Governance**

4.1 **Internal Audit**

Audit Observation

As the functions that should not be included in the scope of the Internal Auditor had been included in the duty assignment register of the Internal Auditor and the internal audit plan, the main function of the Internal Auditor to daily reporting the operations of the internal control system of each division to the management had not been discharged and independency of the Internal Auditor too had confined.

Comment of the Management

Action will be taken to correct this in the future.

Recommendation

The duty assignment register of the Internal Auditor and the internal audit plan should be prepared in a manner ensure the function of daily reporting the operations of the internal control systems to the top management and not to obstruct the independency of the Internal Auditor.