

University of Ruhuna - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the University of Ruhuna 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 funds and reserves 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 of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. Comments and observations, which I consider should be submitted 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 of Ruhuna as at 31 December 2021, 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 the 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 ability of the University 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 financial reporting process of the University.

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.

1.4 Auditor's Responsibility on the Audit of 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:

- 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 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 ability of the University 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. However, future events or conditions may cause 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 board of the University;
- Whether performed according to its powers, functions and duties; and
- Whether the resources 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) Although all the income should be included into the surplus or deficit, according to paragraph 99 of Sri Lanka Public Sector Accounting Standard 1, salary surcharges, bonds recovery values and fixed deposit interest income total amounting to Rs.17,202,390 were not recognized as income during the year under review and out of that, a sum of Rs. 15,869,102 had been credited to the bond and breach of contract fund account and a sum of Rs.1,333,288 had been credited to the Agrahara insurance fund account. As such, surplus of the year under review and accumulated fund and reserves as on 31 December 2021 were under stated and over stated by Rs.17,202,390 respectively.	According to the University Grants Commission Circular No. 737 dated 18.8.1998, all the recoveries from breach of contracts and bonds should be invested and maintained in a separate fund and as provision had been made to utilize only the revenue earned by that investment and since it was not an income generated by a day-to-day operational activity, it cannot be included in the financial performance statement as an income of the University. Money recovered from breach of staff bonds and contracts had been credited to the fund account and invested in fixed deposits; and as per the University Grants Commission Circular No. 2018/15 dated 10.12.2018 only the interest income earned from the generated funds had been credited to the Agrahara	Sri Lanka Public Sector Accounting Standards should be followed.

Insurance Fund for the payment of Agrahara Insurance contributions.

- (b) Since useful life time of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, Eight vehicles costed for Rs. 6,880,250 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.
- There was a delay in receiving the valuation reports from the Valuation Department due to the Covid epidemic situation and the valuation value of the respective vehicles can be obtained after receiving those reports.
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Deferred income shown under current liabilities as on 31 December 2021 was Rs.244,076,700 and due to the income to be recognized for each year had not been amortized, an amount of Rs.20,544,858 remained unchanged for many years.	A sum of Rs.223,531,842 shown as deferred income under self-financing activities was the amount that transferred to the deferred income account in relation to the current year. The amount shown under Current liabilities in the Statement of Financial Position was the Deferred Revenue including opening balances as at 31 December 2021.	The unidentified balance remaining over the years should be identified and proper adjustments should be made.

1.5.3 Documentary Evidences not made available for Audit

Subject	Amount (Rs)	Evidence not available	Comments of the Management	Recommendation
The receivable rent for the communication	3,930,000	The Memorandum of Understanding	A reminder had been sent to the communication	The Memorandum of Understanding signed by the both

towers installed in Hapugala Engineering Faculty, in Wellamadama premises of the university and in the Mapalana Agriculture Faculty

signed with the company in this relevant regard. communication company.

parties should be furnished to the audit.

1.6 Advances

Audit Observation	Comments of the Management	Recommendation
<p>The advances of Rs. 553,695 had been paid to the foreign suppliers for the procurement of books and magazines in 08 occasions during the period from 2006 to 2017, but the ordered books and magazines had not been received even by 31 December 2021. But the management had failed to procure the books and magazines or recover the money paid.</p>	<p>To implement the recommendations of the Special Internal Audit conducted on this outstanding advance had been submitted for the approval of the Governing Council and as soon as the approval of the Governing Council is received, will act in terms of the financial regulations.</p>	<p>Action should be taken to procure the books and magazines or to recover the money paid.</p>

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

Reference to laws, rules, regulations etc.	Non compliance	Comments of the Management	Recommendation
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 394 (c)</p>	<p>Action had not been taken in terms of Financial Regulations, regarding 138 issued cheques valued for Rs.932,643 cancelled in the years 2019, 2020 and 2021 related to 05 faculties and units of the university.</p>	<p>Will be act in accordance with the financial regulations.</p>	<p>Financial Regulations should be complied.</p>
<p>(b) Paragraph 4(II) of</p>	<p>Although an interim report of research</p>	<p>It was practically difficult to get a</p>	<p>Provisions In the Management</p>

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| <p>Management Services Circular No. 02/2014 dated 11 February 2014</p> | <p>containing the progress of the research should be submitted to the Research Management Committee within 06 months from the date of initiation of the research, the complete research allowance of Rs.137,268,775 was paid to 358 academic staff officers in 17 departments of the Karapitiya Medicine Faculty who were not submitted the interim research report including the progress of the research in the previous 04 years including the year under review to the said committee.</p> | <p>progress report related to the research proposal once in 06 months, but it will be followed in the future.</p> | <p>Service Circulars should be followed.</p> |
| <p>(c) Public Finance Circular No. 02/2015 dated 10 July 2015 and Asset Management Circular No. 01/2018 dated 19 March 2018</p> | <p>Although all the money collects from the disposal of vehicles should be credited to the Consolidated Fund, a sum of Rs. 5,203,365 received from the sale of vehicles in previous years was not credited to the Consolidated Fund.</p> | <p>That necessary action will be taken in the year 2022 to credit the balance of funds from the sale of vehicles to the government revenue.</p> | <p>The provisions of the Public Finance and Asset Management Circulars should be followed.</p> |
| <p>(d) Asset Management Circular No. 01/2018 dated 19 March 2018</p> | <p>Action had not been taken to formally dispose the hand tractor and the trailer which had been removed from operation since 2016 even by 25 May 2022.</p> | <p>The Administration division had been informed to remove from the operation and dispose the hand tractor.</p> | <p>The provisions of the Asset Management Circulars should be followed.</p> |
| <p>(e) Treasury Circular No. IAI/2002/02 dated 28 November 2002</p> | <p>A separate fixed asset register was not maintained for computer software and hardware total costed for Rs.174,331,393 as on 31 December 2021, as per circular provisions.</p> | <p>Information about computer software and hardware could be obtained from the computerized fixed assets register of the university.</p> | <p>Provisions of the Treasury circulars should be complied and ensure proper completion of computerized fixed asset register.</p> |

- (f) Letter No. SC & PMU/Grant/19 dated 25 July 2019 of the Director General, Department of Foreign Resources
- Although the foreign grants and technical assistance grant by other states, foreign development partners and foreign institutions should be received through the Department of Foreign Resources with the awareness and concurrence of that department and should be utilized in accordance with the instructions from Financial Regulation 610 to Financial Regulation 626, foreign grants of Rs. 51,591,900 received by the Department of Parasitology, Karapitiya Faculty of Medicine were not handled in the same way and were used for a project which had been carried out for filarial patients.
- Action had been taken to obtain the approval of the Department of Foreign Resources in relation to these financial grants.
- Projects should be implemented only after obtaining approval as per the provisions of the letter of the Director General of the Department of Foreign Resources.

2. Financial Review

Financial results

The operating result of the year under review amounted to a surplus of Rs. 1,452,308,690 and the corresponding surplus in the preceding year amounted to Rs. 293,250,162, thus observing an improvement of Rs.1,159,058,528 in the financial result. Increase in the government recurrent and capital grants and increase in the local and foreign donations were mainly attributed for this improvement.

3. Operational Review

3.1 Un-economical Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	161 litters of expired paint costing Rs.99,092 were	The procurement was made considering the minimum	The requirement should be identified

remained in the Wellamadama maintenance stores as on 23 June 2022 due to the procurement was made exceeding the requirement.

requirement of paint for the year 2020, but the university had to be closed for several months due to the Covid-19 situation and this happened because the maintenance works could not be carried out as expected.

correctly before procurement and necessary measures should be taken to use without wastage after procurement.

(b) A surcharge of Rs. 53,137 had been paid due to non-payment of electricity bills of the Wellamadama premises and its hostels within the stipulated time for the year under review. Arrangement had not been made to identify the responsible parties and to take necessary action in this regard.

The electricity bills could not be settled as scheduled due to the prevailed Covid epidemic situation in the country at that time and action is being taken to make a request to wave off the surcharge, imposed to the university by the Ceylon Electricity Board, Considering the situation of the Covid epidemic.

Action should be taken, as mentioned, to ask for a release from these surcharges imposed to the university or to identify the responsible parties and, then, further action to be taken.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Although the rental percentages had been increased with effect from January 2020 as per the decision taken at the 413th Governing Council meeting dated 17 June 2021, the rental arrears amounted to Rs.3,498,300 for the 22 months from January 2020 to October 2021 to be collected from the rented residencies in the Wellamadama premises had not been recovered even as on 31 December 2021.</p>	<p>The way of collecting of the relevant rentals is currently being discussed and action will be taken to collect rentals in instalments from the relevant parties in the future.</p>	<p>Arrears should be recovered promptly.</p>

3.3 Transactions of Contentious Nature

Audit observation	Comment of the Management	Recommendation
<p>A delay charges of Rs.10,000,000 collected from the suppliers in</p>	<p>Funds received to the university from the Treasury</p>	<p>Delay charges collecting from the</p>

previous years had been used for the fattening of the Agrahara insurance fund account established for the university staff.

had not been used for the Agrahara insurance, but the money recovered from the suppliers who breached the contracts had been used.

suppliers should be credited to the University Fund.

3.4 Defects in Contract Administration

Audit observation	Comment of the Management	Recommendation
<p>(a) The estimated cost of the improvement of the playground and the construction of the sport pavilion in the Wellamadama premises was Rs.341.60 million and, although the construction works had not been started even 21 December 2021, a total amount of Rs. 529,326 had been incurred as a sum of Rs.200,750 for soil testing in the construction area, a sum of Rs.85,000 as procurement committee allowances, and a sum of Rs.243,576 as bid preparation allowances in the years 2017 and 2018.</p>	<p>An amount of Rs. 529,325 was spent on the initial works, only after announcing that the Ministry of Higher Education had allocated financial allocations for this project, received the Cabinet approval, and informed to start the procurement activities. But the construction work of the project had not been started as the cabinet had given approval to start this project at another stage considering the cabinet memorandum submitted by the Ministry of Finance on 14 September 2020 at the end of the bid evaluation process.</p>	<p>Suitable measures should be taken to ensure that the money spent does not turn into an idle expense.</p>
<p>(b) Although an amount of Rs.1,898,164 had been spent as consultancy services and technical evaluation committee allowances in the year 2020 for the major renovation work of the administrative building of the Wellamadama premises, which was the estimated cost was Rs.400.42 million, the renovation work had not started even by 21 December 2021.</p>	<p>That the contractor requested to hand over the entire building for the commencement of rehabilitation work, but the financial department could not provide the office at once as the annual final accounts were being prepared, instructions were given to the contractor to start the works in the released areas except that section, the contractor had requested for an advance</p>	<p style="text-align: center;">-do-</p>

payment but due to the financial difficulties prevailed at that time, the advance could not be given, and according to the decision taken at the procurement committee and governing council meeting held in the months of January and February 2021 the contract was suspended by both parties on a mutual agreement.