

## Eastern University, Sri Lanka - 2021

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Eastern University, Sri Lanka (“University”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 Qualified Opinion

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### 1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University 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 financial reporting process.

As per Section 16(1) of the National Audit Act, No. 19 of 2018, the University is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the University.

#### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 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 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 Observations on the preparation of Financial Statements

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

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Non- Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to the paragraph 99 of the Sri Lanka Public Sector Accounting Standard 1, all income should be included in the surplus or deficit, but the interest income from short term investment of Rs.24,700,208 earned during the year under review had been credited to the restricted fund without recognizing as revenue. As a result, the deficit for the year under review and restricted fund had been overstated by that similar amount in the financial statements.	That it is not recognized as income in the financial statement as it is reserved for restricted purposes.	Should be comply with the Sri Lanka Public Sector Accounting Standards.
(b) The cost of other assets of Rs.105,634,056 had been shown under property, plant and equipment without grouping of assets of a similar nature or function in an entity's operations according to Paragraph 50 of the Sri Lanka Public Sector Accounting Standard 7.	That the assets will be grouped under correct assets categories in preparing the financial statement for the year 2022.	-do-

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| (c) The useful lifetime of fixed assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 7. Property, Plant and Equipment costing Rs.609,026,512 had been fully depreciated but still being used by the end of the year under review. No action had been taken to rectify the above estimated error in accordance with Sri Lanka Public Sector Accounting Standard 3. | That the action will be taken to re-value the assets as per the standard.      | -do- |
| (d) Capital grants received for the acquisition of non-current assets from treasury during the period from 1986 to 2017 had not been amortized. Furthermore, capital grants of Rs.1,087,500,000 received for the acquisition of non-current assets from treasury during the period from 2018 to 2021 had not been recognized as revenue in terms of Sri Lanka Public Sector Accounting Standard 11.                             | That the grants will be amortized with the consent of the governing authority. | -do- |

#### 1.5.2 Accounting Policies

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##### Audit Issue

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A sports goods depreciation policy had not been identified and the sports goods in the university's main center and Trincomalee campus had been depreciated by 10 percent and 20 percent respectively. Therefore, the accuracy of the accumulated depreciation of the sport goods amounting to Rs.16,159,548 could not be verified satisfactorily.

##### Management Comment

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That a 25 percent depreciation rate for sports items will be applied in the 2022 final account.

##### Recommendation

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One depreciation rate should be applied for sports goods.

#### 1.5.3 Accounting Deficiencies

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##### Audit Issue

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- (a) The land around 241.2 hectares at 15 locations of the University had not been valued and brought to the accounts.
- (b) Even though, 275 items of Non-Current Assets costing of Rs.23,055,912 had been handed over to the University by Accelerating Higher Education Expansion and Development Project during the period from 2019 to 2021, value of those assets had not been brought to the accounts in terms of the instruction given by that project.

##### Management Comment

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- That the action has been taken to obtain the ownership of the land.
- That the value of these assets with relevant prior year adjustment for depreciation will be brought to the accounts for the year 2022.

##### Recommendation

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- Lands value should be brought to the accounts.
- Assets value should be brought to the accounts.

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| (c) | The Pathology Laboratory constructed in 2008 at a cost of Rs.3,666,316 had been depreciated by Rs.280,116 instead of Rs.2,566,312 by 31 December 2021. As a result, the accumulated depreciation had been understated by Rs.2,286,196 in the financial statements.  | That it will be corrected in the final accounts for the year 2022.          | Action should be taken to correct the accumulated depreciation. |
| (d) | Bond violations aggregating to Rs.34,042,950 due from 09 lecturers who currently serve at the University had not been brought to the accounts as receivable. As a result, the current assets and the bond obligation reserve had been understated by that similar amount in the financial statements.   | That the action will be taken to apply an appropriate accounting treatment. | Value of bond violations should be brought to the accounts.     |
| (e) | Three storied building complex for English Language Teaching Unit had been completed at a cost of Rs.224,269,514 and handed over on 27 August 2020, but it had not been capitalized. As a result, the accumulated depreciation as at 31 December 2021 and the deficit for the year under review had been understated by Rs.14,913,923 and Rs.11,213,476 respectively. | That the action will be taken to capitalized the assets.                    | Action should be taken to capitalize the assets.                |

#### 1.5.4 Documentary Evidences not made available for Audit

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Audit Issue -----	Management Comment -----	Recommendation -----
Direct debit in a bank account aggregating Rs.3,925,059 had been shown as unidentified debits in the bank reconciliation without being identified since 12 years. Further, Deposits in 02 bank accounts aggregating to Rs.1,604,146 had been shown as unrealized deposits in the bank statement for more than 11 years, action had not been taken to identify the reasons for un-realization.	That the approval will be obtained to write off the balances within the limits of the Accounting Officer.	Action should be taken to identify those balances.

#### 1.6 Accounts Receivable and Payable

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##### 1.6.1 Receivables

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Audit Issue -----	Management Comment -----	Recommendation -----
(a) As of 31 December 2021, Rs.245,496,675 equal to 58 percent of the total receivable balances of Rs.423,554,640 had failed to be recovered from 03 to 39 years.	That the University is working to recover/write off the unsettled advances based on the available information as per the existing rules and regulation.	Action should be taken to recover receivables.

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| (b) Out of the above total receivables, the bond value of Rs.151,365,855 to be recovered from 70 lecturers who breached the contracts had failed to be recovered from 10 to 39 years. | That the Bond Recovery and Review Committee was advised to obtain the consent from bond defaulters to recover the bond values from their available UPF balances. | Action should be taken to recover bonds value from Lecturers. |
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### 1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Out of total payables balances Rs.112,665,300, the balances of Rs.15,996,706 had been remained unsettled for over 03 years as at 31 December 2021 which represent 14 percent of total payables.	That the action will be taken to pay relevant authorities in future.	Action should be taken to settle the payables.

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

Reference to Laws, Rules Regulations etc.	Non- Compliance	Management Comment	Recommendation
(a) Financial Regulation 571 of the Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka.	Action had not been taken to settle or credit to the government revenue in respect of 19-retention money of Rs.9,091,397 remained for the period ranging from 03 to 06 years.	That the retention money will be paid after the defect liability period.	Financial Regulation should be followed.
(b) Establishments Code of the University Grants Commission and the Higher Educational Institutions			
(i) Sub-section 20.8 of Chapter III and Sub-section 4.1 of Chapter VI No.10/2017 dated 10 July 2017	The Council had accepted the resignation of Grade I Senior Lecturer of the Department of Botany on 29 August 2020. Subsequently, the Lecturer had been re-employed to previous post with effect from 02 September 2020. However, contrary to the provision of the Establishments Code the Salary Step had been placed as Rs.119,520 instead of placing in the initial salary of Rs.91,310 and a sum of Rs.1,375,407 had been overpaid during the period from 03	That the authority was granted by the Council at its 307th meeting as per the Section 2.2 & 2.3 of Chapter XVII and Section 20 of Chapter III.	E-code should be followed.

	September 2020 to 31 December 2021.		
(ii) Sub-section 26.7.2 of Chapter III	Although the vacancies should be advertised in the press when hiring Visiting Lecturers from other Higher Educational Institutions or other recognized organizations, the Visiting Lecturer had been hired only with concern of Heads or Deans in the particular Faculty or Department contrary to the sub section.	That the Faculty of Applied Science has now started to practice the existing code of practice for visiting appointments.	E-code should be followed.
(iii) Sub-section 3.1 of Chapter XX and Circular Letter No.10/2017 dated 10 July 2017 of UGC.	Although all staff should be proven their attendance through the finger print machine, the academic staff had not complied with that requirement.	That the academic staff do not record their attendance in the finger scanner by tradition.	Circular instructions should be followed.
(iv) Sub-section 2.6 of chapter XXVI and the Para 03 of Circular No.2004/LD/1 dated 22 December 2016 of National Library and Documentation Board.	The stock verification on Library Books & Periodicals cost of Rs.128,861,691 had not been made since the commencement.	That the stock verification will be carried out.	Circular instructions should be followed.
(v) Section 3 of Chapter XXVI as amended by the Establishment Circular Letter No.04/2013 dated 10 April 2013 of UGC.	Although the Annual Board of Survey for the year under review should be conducted and the report thereon should have been furnished to the Auditor General on or before 17 March 2022, such report had not been furnished to audit by 18 July 2022. Further, the action on board of survey report and disposal of unserviceable thereon for the year 2020 had not been completed even up 18 July 2022.	That this delay is due to the Covid-19 pandemic and action will be taken to complete.	Circular instructions should be followed.
(c) The order of the University Service Appel Board dated 21 October 2014 and paragraph 4 of the Letter	Although the promotion should have been given with effect from 24 June 2015 as per the order of the University Service Appel Board and the view proposed by the court, a	The selection committee met on 21 December 2015 recommended	Order of the University Service Appel Board should be followed.

No.CA/201/2014/EUSL dated 09 December 2014 of the Deputy Solicitor General. lecturer had promoted to the rank of Grade II Senior Lecturer with effect from 03 July 2011. As a result, during the period from 2011 to 2021, personal allowances of Rs.3,208,006 had been overpaid to the lecturer. promotion to the post of Senior Lecturer Gr.II with effect from 03 July 2011.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs. 244,038,580 as compared with the corresponding deficit of Rs.291,444,058 in the preceding year, thus observing an improvement of Rs.47,405,478 in the financial result. The increase in net income from other activities by 172 per cent as against the preceding year and the decrease in expenditure on depreciation & amortization and other operating expenses by 26 per cent and 19 per cent respectively as against the preceding year had mainly attributed to this improvement.

2.2 Trend Analysis of Major Expenditure items

The expenditure of the University such as personal emoluments for the year under review had been increased by Rs. 43,828,684 and 3 per cent as compared with preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although it is a common practice in other universities to deposit the money in the REPO deposit at the end of each day and earn additional income, the responsible officials of the Trincomalee campus had not done so and it was observed that at the end of each day of the year under review, there was an amount ranging from Rs.50 million to Rs.156 million in the current account.	That the approval has been taken from the council to invest the excess funds and will take necessary actions accordingly.	Action should be taken to earn an additional income from deposit.
(b) Although a sum of Rs.6,247,846 had been paid for the preparation of Fixed Assets Register to the Private Firm during the period from 2013 to 2015, it had not been systematically updated and some of transaction had not been entered by the 31 December 2021. Further, action had not been taken to update and rectify the issues in the Fixed Assets Register and considerable discrepancy had been	That up to now, verification in three departments had been completed and verification in Finance Branch is in progress.	Action should be taken to update the Fixed Assets Register.



observed among the existing physical assets value, assets value as per the financial statements and the assets value in the Fixed Assets Register. Hence the expenditure incurred for the preparation of such Register had become fruitless.

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| (c) Even though, the consultancy fees of Rs.1,215,000 had been paid to settle the ownership of 15 lands of the University since 2016, the ownership of those lands had failed to be transferred up to 25 July 2022. | That the actions have been already initiated to obtain the ownership of lands. | Action should be taken to settle ownership of the lands. |
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### 3.2 Operating Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) According to the Ethics and Academic Accountability for the Academic Staff issued by the University Grants Commission in the year 2015, the minimum student contact hours per year by the Head, Chair Professor, Professor, Senior Lecturer, Lecturer, Instructor Grade I and Instructor Grade II should reflect in the personal time table as 180, 300, 360, 380, 450, 480 and 510 hours respectively. As per the information made available for audit, 38,580 student contact hours should have been allocated among 100 academic staff in 6 Faculties during the year 2021, only 17,948 hours representing 47 per cent of above norms had been allocated. Further, as any report had not been made available for audit to prove the work norm allocation for the supervision of student research or industrial placements, clinical work and academic coordination, it could not be ascertained that the University had developed a guideline based on the work norms to reflect the total student contact hours and total workload of academic staff.	That it should be compared with the workload of the staff and student contact hours spent on participation and supervision of research and relevant notional hours have to be considered when calculating the work norms.	Action should be taken to develop a guideline based on the work norms to reflect the total student contact hours and total workload of the academic staff.
(b) The existing subjects and syllabus of the University should be updated to suit the job market and the national economy of the country and also the curriculum should also include technical subjects and language skills to adapt to the ever-changing job market. However, it was observed that the syllabus in 03 Faculties such as Agriculture, Technology and Applied Science had not been revised over since commencement.	That the Faculty of Arts and Culture, Faculty of Science and Faculty of Commerce and Management had revised their curriculum and other faculties are attending to revise the curriculum.	Action should be taken to revise the curriculum.

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| <p>(c) According to the student's guide book of External Degree Programme for the Bachelor of Business Management, the minimum time period to be completed the Degree programme was 03 academic years. However, the Bachelor of Business Management degree programme for the academic year 2016/2017 had not been completed over five years. The career and employment opportunity of the students would be affected adversely by the delay in completion of the degree programme.</p>   | <p>That the delay due to the Covid-19 pandemic situation.</p>  | <p>Action should be taken to complete the degree program within the stipulated period.</p> |
| <p>(d) The action had not been taken to recommence the Bachelor of Art degree programme over 10 years by the Centre for External Degrees and Extension Courses and the Faculty of Arts &amp; Culture. As a result, the interested students in the region of Batticaloa District had lost the opportunity to complete the external Bachelor of Art degree in the region during last 10 years whereas such students had to follow the Degree Programme in the Universities located in other District or Province. Further, the action had not been taken to conduct the 11 programme such as M.Phil, Degree, Diploma and Certificate courses since 2018 by the University.</p> | <p>That the faculty is in the process of revising the curriculum for the internal degree programme and it will be applied for the external degree programme as well.</p> | <p>Action should be taken to recommence the Bachelor of Art degree programme.</p>          |
| <p>(e) A sum of Rs.7,500,000 had been approved in the year 2015 as research grants for a professor to complete the research in May 2020 as per final extension. However, out of that allocation, Rs.4,500,000 had been spent but the research had not been completed even up to 28 June 2022.</p>  | <p>That the awaiting the final completed report incorporating reviewers' comments.</p>   | <p>Action should be taken to complete the research without delay.</p>                      |

### 3.3 Idle or underutilized funds

<p>Audit Issue</p> <p>-----</p>	<p>Management Comment</p> <p>-----</p>	<p>Recommendation</p> <p>-----</p>
<p>(a) As of 31 December 2021, government grants of Rs.3,482,240 received for research activities had been remained unused for a period of 03 to 05 years.</p>	<p>That there was a smaller number of applications from staff members due to country's situation.</p>	<p>Action should be taken to utilize the grants for the intended purposes.</p>
<p>(b) One hundred and sixty-five personal Computers, twenty-four Compact wall mount speakers and</p>	<p>That the completion of interior work and</p>	<p>Action should be taken to utilize the</p>

four Sound Mixers aggregating Rs.23,046,063 provided by the Accelerating Higher Education Expansion and Development Project in the year under review for the Faculty of Agriculture and Faculty of Science had not been used for the intended purpose more than one year and the warranty period of 01 year were elapsed.

installing the computer items effectively. hubs are in progress.

### 3.4 Delays in Projects or Capital Works

Audit Issue	Management Comment	Recommendation
(a) Without a proper feasibility study and adequate funding, Phase-I of the contract for the construction of an internal road in the Trincomalee campus had been awarded to the Road Development Authority on 02 May 2017 and the contract value was Rs.55,775,000. As per the agreement, the contract had to be completed on 01 November 2017, but the contract had been abandoned in November 2017. Subsequently, the contract had been restarted on 03 December 2019 and the overall physical progress was only 45 percent by 25 March 2022.	That the construction has been abandoned and delayed due to fund constraint and pandemic situation.	Action should be taken to complete the construction within the time frame.
(b) The contract for the construction of Building complex for Multipurpose Auditorium for Trincomalee Campus had been awarded with a contract value of Rs.674,467,920. As per the agreement, the contract had to be completed on 04 November 2020, but as of 25 March 2022, the physical progress was only 08 percent and after one and half year delay, the prevailed high inflation and the price escalation will be badly affecting the initial contract amount.	That the progress of the work was delayed due to Covid-19 pandemic situation in the country which continued up to the mid part of 2021.	-do-

### 3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
In the year 2018, based on the National Championship qualification certificate submitted by the concerned candidate, the University had recruited the said candidate for the post of physical education instructor grade II/I. However, the Eastern Provincial Sports Department had confirmed that the candidate did not participate such a competition and the certificate was fake.	That the certificate submitted by concerned candidate was requested to authentication.	Action should be taken to validate the certificate.

#### 4. Accountability and Good Governances

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##### 4.1 Annual Action Plan

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###### Audit Issue

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According to the action plan for the year 2021, 06 faculties had planned to implement 680 activities. Out of those, 329 activities whatsoever had not been commenced.

###### Management Comment

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That many activities could not be implemented and completed due to the prevailing epidemic situation and that could be included in the 2022 action plan.

###### Recommendation

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Action should be taken to implement the activities to achieve the goals.

##### 4.2 Budgetary Control

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###### Audit Issue

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During the year under review, a sum of Rs.86,490,795 equal to 41 percent of the capital grants of Rs.213,000,000 were not spent for the intended purposes and another capital grant amount of Rs.33,500,000 had not been fully utilized.

###### Management Comment

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That this was resulted from delay in receiving the goods ordered due to the prevailing epidemic situation.

###### Recommendation

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Action should be taken to utilize the allocation effectively.