

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Uva Wellassa University for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Sub Section 107(5) of the University Act No. 16 of 1978 and the National Audit Act No. 19 of 2018. 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 the 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 2022, 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 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.

1.4 Auditors Responsibility for 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 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;
- 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 Internal Control over the preparation of financial statements

The entity 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-Compliance with Sri Lanka Public Sector Accounting Standards

The following non compliances are observed.

Non Compliance with the Reference to Particular Standard	Comment of the Management	Recommendation
(a) Since useful life time of non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standards 07, assets costed for Rs.189,217,447 as at 31 December 2022 were further in use despite being fully depreciated. However, 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.	It was decided to carry out the revaluation process in several steps due to limited staff. Accordingly, the revaluation of buildings and laboratory equipment has been completed and the revaluation of other assets is expected to be completed in the year 2023.	The Sri Lanka Public Sector Accounting Standards should be followed.
(b) Capital grants of Rs.2,173,401 received during the year under review had not been recognized in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11.	According to the accounting policy No. 2.19.2 of the university an amount of Rs.216,067,868 was shown as non-exchangeable income in the year 2022 and an amount of Rs.2,173,402 shown as capital advance at the end of the year.	The Sri Lanka Public Sector Accounting Standards should be followed.

Agreed to reconcile this with the Accounting Standard in the future.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The assets total amounting to Rs.20,528,699 procured during the year under review by the Project for Acceleration of Higher Education Extension and Development (AHEAD) had been omitted from the accounts.	Identification, verification and getting approval of the Governing Council through the Finance Committee were not practicable for the assets procured by the project between the period from 01.11.2022 to 31.12.2022 within the year 2022. Accordingly, it was decided to hand over the assets to the University in the year 2023.	Assets purchased in each year should be capitalized in relation to that year.
(b) A sum of Rs.4,312,139 payable against the obtaining of security services related to the year 2021 had been recognised as an expenditure of the year under review instead of making adjustments to the profit of the previous year. As such, the loss of the year under review was overstated by that amount in the financial statements.	No answer was made.	The expenditure related to the year should be identified correctly and adjustments should be made in the financial statements.
(c) Due to excess removal of Rs.3,321,744 from the Provision for Depreciation Account during the adjustment of accumulated depreciation related to revaluation assets during the year under review, the value of revaluation reserve and accumulated depreciation were understated and overstated respectively in the financial statements.	During the revaluation process of assets, consumables costing Rs.38,356,778 were identified in the laboratory equipment accounts. The net value of those assets was Rs.559,012 and since the accounting error has been corrected, there was no impact to the loss for the year.	According to the relevant depreciation value, action should be taken to identify the revaluation surplus correctly.
(d) A receivable amount of Rs.10,423,394 due from 03 lecturers due to breach of bond agreements as on 31 December 2022 had not been disclosed in the financial statements of the year under review.	Since a receivable amount of Rs.3,231,845 from 02 lecturers can be permanently recovered from the University Provident Fund, it has not been mentioned in the receivable amount. The University Governing Council has decided to recover a sum of	The total receivable amount due on breach of bond agreements should be disclosed in the financial statements.

Rs.7,191,549 from a lecturer who had not submitted the doctorate degree certificate, and had been referred to the Attorney General for the inquiry of legal provisions in this regard. Until such instructions were received, he was not disclosed as a lecturer who breached the bond agreement

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
	Financial Regulation 571	Action had not been taken on 49 deposits amounting to Rs.49,950,980 retained for more than 02 years related to various constructions, supplies and services.	A total sum of Rs.19,854,646 will be released after payment of final bills and expiry of warranty period. A total sum of Rs.4,196,333 is currently being released and the necessary arrangements are being made to release the sum of Rs.25,900,000 or take it into the government revenue.	Action should be taken as per the financial regulations.
(b)	Establishments Code for the University Grants Commission and Higher Education Institutes			
	(i) Section 3.1 of Chapter XX and Public Administration Circular No. 03/2017 dated 19 April 2017.	A total sum of Rs.742,937,739 had been paid as salaries and allowances during the year under review without confirming the attendance of 184 members of the academic staff.	At the end of every month, the salary department obtains a confirmation from the respective heads that the officers were employed before paying the salaries.	Establishment Code for the University and the Public Administration Circular should be followed.
	(ii) Paragraph 7.6 of chapter V	Sufficient action had not been taken to recover a sum of Rs.110,016,322 as	That the amount due from each officer for the breach of the bond agreement will be recovered from the university	Establishment Code for the University Grants Commission and

- of 31 December 2022 due from 12 lecturers due to breach of bond agreements. pension fund and the balance will be collected in installments in the future. Higher Education Institutions should be followed.
- (c) State Accounts Circular No. 30/94 dated 20 April 1994 A sum of Rs.16,137,996 had been obtained for 06 projects in the year 2022 without informing the Director General of the Department of External Resources of the Treasury regarding 08 projects implemented on foreign grants. The Treasury was informed by the letter dated 19 April 2023 regarding the 08 projects implemented under foreign grants. The State Accounts Circular should be followed.
- (d) University Grants Commission Circular No. 09/2019 dated 25 November 2019 Due to the charging of quarters rent contrary to the provisions of the circular, 53 officers including the Vice-Chancellor had been undercharged a total of Rs.4,847,532 in quarters rent only for the year under review. Due to staff shortage in the academic and non-academic staff in the university till the year 2018, dormitory/staff facilities were provided on the recommendations of the Housing Board and the approval of the Governing Council for the development of these sectors. Provisions in the circulars should be followed.
- (e) Department of Management Audit Circular No. DMA/2009(2) dated 01 September 2009 An updated fixed asset register was not maintained in respect of fixed assets costing for Rs.869,829,650 as on 31 December of the year under review. The finance department of the university established 04 computer systems for reporting transactions in the general ledger, payroll processing, inventory and fixed assets etc. in the year 2016. It has been decided to complete the revaluation of asset of each category and update the fixed asset software. The circular should be followed.

1.7 Unauthorized Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	<p>A total amount of Rs.69,239,305 had been paid as house rent allowances for 181 members of the university staff from 01 January 2017 to 31 December 2022 without obtaining the approval of the University Grants Commission and the Treasury.</p>	<p>It has been referred for the second time to get the approval of the University Grants Commission for this payment and the approval has not yet been received.</p>	<p>Allowances should not be paid without formal approval.</p>
(b)	<p>A Chief Engineer of the Uva Provincial Building Director office was appointed in the year 2015 on part-time on the basis of payment of an allowance of Rs.50,000 for a period of 06 months with effect from 02 December 2015 for an engineering post which had not in the approved cadre of the University. The service had been extended and the monthly allowance had been increased to Rs.75,000 from 01 June 2018 and a total sum of Rs.5,325,000 had been paid for the period from December 2015 to 31 December 2022.</p>	<p>According to the appointment letter dated 30.12.2016, he was in charge of the procurement activities and construction works of 05 projects worth of Rs.1,200 million and he was paid from the financial allocations allocated for the consultancy services of the 05 projects.</p>	<p>The approval of the Department of Management Services should be obtained for the recruitment of officers who do not belong to the approved cadre.</p>
(c)	<p>A retired Land Commissioner had been recruited from 06 December 2017 to supervise the lands acquisition activities which had not in the approved cadre and a total sum of Rs.3,050,000 had been paid from the date of appointment to 31 December 2022 at the rate of Rs.50,000 per month without complying with the Management Services Circular No. 3/2018 dated 18 July 2018. Furthermore, the said appointment had been made after announcing that land had been acquired for the construction of Uva Wellassa University by the Special Gazette No. 1403/23 dated 28 July 2005, then the future activities were</p>	<p>A retired Land Commissioner with expertise knowledge was recruited on 11 December 2017 with the approval of the University Governing Council on the recommendations given by the University Grants Commission letter No. UGC/IDD/ GEN/ 01. After the arrival of this officer, the transfer of 0.8119 hectares of land has been completed and the acquisition of 12 acres and 05 acres of land is in progress.</p>	<p>As per the above activities should be expedited.</p>

entrusted to the Divisional Secretary. Even though 05 years had passed after the appointment, the university was unable to acquire the land.

- (d) According to University Grants Commission Circular No. 921 dated 23 April 2010, an unqualified applicant was informally recruited for the post of Senior Assistant Librarian by the letter of appointment dated 25 July 2018 and a total sum of Rs.14,061,053 had been paid as salary and allowances from August 2018 to 31 December 2022. Further, an unqualified person was recruited for the post of Trainee Technical Officer Grade II "B" Group and a sum of Rs.3,275,787 had been paid as salary and allowances from April 2016 to October 2021.
- As per the observations and recommendations made by the sub-committee appointed on this matter in the 178th Governing Council meeting, educational qualification and six years of experience were required. As such, he has been recruited to the post of Assistant Librarian (Transition) for a period of three years from 01 August 2018 and then the Governing Council decided to promote him to the post of Senior Assistant Librarian with effect from 01 August 2021.
- Eligible applicants should be recruited.

1.8 Inappropriate Evaluation or Estimation

Audit Observation	Comments of the Management	Recommendation
Due to the rejection of the bid of the company that had submitted the lowest bid for maintaining the security service without giving reasonable reasons and the contract was awarded to the third lowest bidder, the university had overpaid a sum Rs.11,827,308 for obtaining security services for the period from 01 October 2020 to 31 December 2022.	The tender was awarded to the tenderer who has correctly submitted the tenders as per the daily minimum wages.	The procurement process should be implemented in a manner that maximizes the benefit to the government.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs.225,687,938 and the corresponding surplus in the preceding year amounted to Rs.142,962,594. Accordingly, a deterioration amounting to Rs.368,650,532 of the financial result was observed. The reasons for this deterioration had been mainly attributed to the decrease in government capital grants by Rs.223,158,284, increase in operational expenses by Rs. 256,952,249 and non-operational expenses by Rs.36,285,606 in the year under review.

3. Operational Review
3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
According to the Cabinet Paper No. 2004/ED/HE/45 dated 28 October 2004, although the University should construct hostels and provide hostel facilities to the students and officers, no arrangements were made to allocate provisions or identify suitable places and construct hostels. As such, a total sum of Rs.202,907,314 had been paid as rent for obtaining external hostel facilities from January 2018 to December 2022.	Basically, hostel facilities have been constructed for 502 students and other students have been provided with hostel facilities around the university. The construction of hostels was being carried out since 2015 and for that, action is being taken to acquire 12 acres of land and expected to provide hostel facilities for approximately 2000 people.	Prompt action should be taken to provide hostel facilities to the students.