

## **1. Financial Statements**

### **1.1 Opinion**

The audit of financial statements of the University of Kelaniya 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 the provisions in Sub-section 107 (5) of the Universities Act No. 16 of 1978 and provisions in National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, 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 its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Opinion**

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 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 determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

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

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that

an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the University, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University has complied with applicable written law, or other general or special directions issued by the governing body of the University;
- Whether the University has performed according to its powers, functions and duties; and

- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Accounts Receivable and Payable**

### **1.5.1 Accounts Receivable**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Out of the total sum of Rs.2,021,205 due from 22 officers, nothing had been recovered during the year under review.	Action will be taken to recover the relevant balances due in the release of provident funds and pension funds of the persons who have taken these loans in the next years.	Recoveries should be made promptly.

### **1.5.2 Accounts Payables**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The payable amount for 359 cancelled cheques stated under various creditors with a total value of Rs.5,837,960 as on 31 December of the year under review relevant to the period from January 2019 to June 2022, had not been settled.	That the cheques to be cancelled on 31.12.2022 will be rectified in the year 2023.	Action should be taken to settle without delay.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371	Action had not been taken to settle the advances issued in 89 instances total amounted to Rs.6,875,758 during the period from the year 2015 to 2022 given for various activities of the university even till 31 December of the year under review.	That recoveries and necessary settlements are being made.	Action should be taken to settle promptly.

(ii).Financial Regulation 571	Action had not been taken regarding tender deposits and security deposits total amounted to Rs.31,150,036 over 02 years and library deposits total amounted to Rs.6,059,000 over 05 years in accordance with the Financial Regulations.	That deposits exceeding 2 years will be taken into income in the future.	Action should be taken in accordance with the Financial Regulation.
-------------------------------	---	--	---

(b) Section 2.3 (a) ii of National Budget Circular No. 01/2021 dated 28 July 2021	Although the instructions had been given by circulars to limit expenditure, fixed assets total amounting to Rs.154,884,302 had been procured during the year under review.	As the number of students enrolled annually increases gradually, the university should provide them with the necessary facilities.	Circular provisions should be followed.
---	--	--	---

**2. Financial Review**

**2.1 Financial Result**

The operating result for the year under review had been a surplus of Rs. 3,612,869,460 as compared with the corresponding surplus of Rs. 2,343,859,893 for the preceding year, thus indicating an improvement of Rs.1,269,009,567 in the financial result. The increase in investment income, distance and continuing education sector revenues and internal income had main reasons for this improvement.

**2.2 Ratio Analysis**

- (i) Return on Investment  
The rate of return on equity capital was 11.8 percent in the year 2021 and was 15.6 percent in the year under review. It was an improvement compared to the year 2021.
- (ii) Current Assets Ratio  
The current assets to current liabilities ratio should be at least 2:1 and in the year under review it was 3.9:1 and in the year 2021 the ratio was 2.65:1.

**3. Operational Review**

**3.1 Management Inefficiencies**

Audit Observation	Comments of the Management	Recommendation
(a) Due to 05 items with a value of Rs.15,302,360 were not recorded in the stock ledger, 47 items with a total value of Rs.259,194 were identified as excess stock and 22 items with a total value of	The items received during the period when the store was closed in the time of annual board of survey was held have been taken to the stock ledger in January 2023, the excess stock	Internal control over the stock control should be strengthened.

Rs.746,444 were identified as shortage stock during the annual board of survey, internal control over the stock management were remained weak.

will be entered in the stock, and arrangement will be made to prevent shortage and excess stock.

- |  |   |   |
|--|---|---|
| <p>(b) A total of Rs.331,889,180 was due as on 31 December 2022 from 36 academic and non-academic staff members who breached their bonds after traveling overseas for academic purposes. Out of total amounting to Rs.148,125,179 in relation to 11 officials, no amount was recovered during the year under review.</p> | <p>That reminder letters have been sent to the academic staff who could not collect the bond money, and related instructions will be taken from the Labour Department regarding the non-academic staff, and accordingly, the related money will be recovered.</p> | <p>Necessary action should be taken to recover immediately.</p> |
|--|---|---|

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) The commencement of courses for the students registered for the 2016 academic year for external degree courses was delayed until March 2019 and for the three academic years 2017, 2018 and 2019 were delayed until June 2022. Due to delays in student registration for academic years, inability to conduct examinations on time and longtime taken to release examination results, the registered students had to spend more time to complete external degree courses.</p>	<p>About 27,700 students qualified and applied for external degree courses in the 2012/2013 academic year and it was difficult for the university to manage them, accordingly, conferences and study assistance were provided to those students locally. Due to this situation, the student registration was delayed in the academic years 2014, 2015 and 2016 and the registration of students for the academic years 2017, 2018, 2019 was stopped according to the circular instructions of the University Grants Commission.</p>	<p>Actions should be taken to enroll students and conduct examinations and issue results as scheduled, avoiding unnecessary delays.</p>
<p>(b) Although 22 research projects were expected to be carried out using the government capital allocation of Rs.6,472,850 in the year under review, only Rs.390,025 was spent on 4 research projects.</p>	<p>That requests for funds have not been made for 16 research projects and contracts have not been signed for 6 research projects approved for the Faculty of Computer Science.</p>	<p>Funds allocated for research activities should be utilized to the maximum extent.</p>

### 3.3 Under- utilization of Funds

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Out of the interest income of Rs.3,691,428 received during the year under review on the investment of scholarship and prize money, only a sum of Rs.402,98 6 had been spent for the related purposes. An interest income amounting to Rs.14,575,335 as on 31 December of the year under review had not been spent for the relevant purpose.	Action will be taken to change the criteria to provide more benefits to the students.	The objectives of the scholarship and prize fund should be reviewed in time and arrangements should be made to utilize the relevant money so that the students can benefit.

### 3.4 Delays in Projects and Capital Works

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A total sum of Rs.15,013,437 was paid as consultancy service fees to the consultancy service company in the years 2020 and 2021 for the contract for the construction of a 10-storied faculty building for the Faculty of Commerce and Management, but the construction work of the relevant building was not started even until 31 December 2022.	As per the National Budget Circular No. 3/2022 and 4/2022 instructions have been given to stop the construction work of the government, accordingly, the construction work of the relevant contract has been stopped.	Government funds should be used effectively.
(b) The construction work of the 4-storeied Hettiawatta Panjarama hostel building was started on 10 August 2020 and as per the instructions of the Director (Infrastructure Development) of the Ministry of Education in the letter dated 21 June 2021 construction work was suspended on the agreement of both parties, as a result, additional sum of Rs.4,029,430 had to paid to the contractor due to the cancellation of the construction agreement. Further, mobilization advance of Rs.32,698,197 had been paid to the contractor for the relevant contract.	That payment was made as per the contract agreement for the work of the 4 storied Hettiawatta Panjarama Hostel building.	Government funds should be managed effectively.

### 3.5 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
34 multi-projectors worth Rs.4,726,000 procured for 22 departments of the university under emergency procurement were received to the stores on 21 April 2022. After more than 2 months of receipt to the stores i.e. during the period from 05 July to 24 November 2022 only 28 machines had been distributed.	That the procurement was made by considering all the requests made by the Director of the Information and Communication Technology Center.	Arrangements should be made to utilize the procured items.

### 3.6 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The approved permanent academic cadre for the 6 academic faculties was 814 and the actual staff as on 31 December 2022 was 679. Out of that 135 had taken sabbatical leave and study leave and the assistant of external lecturers had been taken to actively carry out their studies and cover the syllabus and a sum of Rs. 28,103,205 had been paid as external lecture fees during the year 2022 alone. It was an increase of 56 percent compared to the year 2021.	Newspaper advertisements for all faculties have been published and calling of applications have been completed at present, but as new recruitments have been temporarily suspended, appointment letters will be issued as soon as approval is received.	Maximum contribution from the academic staff should be taken to provide the necessary knowledge to the students.