

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the South Eastern University of Sri Lanka 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 net asset 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 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 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 Institute 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 Institute 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

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 Institute'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 Institute'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 Institute 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 Institute, 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

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comments	Recommendation
(a) Even though the fixed assets costing Rs.2,081,685,748 as at 31 December 2022 had been fully depreciated, the useful lifetime of assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard (SLPSAS) 7 and they were being further used, action had not been taken rectify the estimation error in terms of Sri Lanka Public Sector Accounting Standard 3.	Action will be taken to expedite the process.	Action to be taken to comply with the Provisions in Sri Lanka Public Sector Accountancy Standard
(b) Although the fair value of property plant and equipment should be revalued in every three or five years in terms of paragraph 47 of the Sri Lanka Public Sector Accounting Standard 7, 05 Lands of the University had not been revalued after 2011.	Government Valuation Department has been communicated to revalue the 05 lands of the University and this task will be completed in near future	Should comply with the provision in Sri Lanka Public Sector Accountancy Standard

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Even though the building completed at a cost Rs.1,400,203 and handed over to the university on 02 May 2022, the amount was shown under works-in-progress instead of being capitalized under the property, plant and equipment.	These assets will be recorded in the Property, Plant, and Equipment category in the year 2023.	Action should be taken to capitalize in the year of works completed.

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

Reference to Laws, Rules Regulations etc.	Non- Compliance	Management Comments	Recommendation
(a) Financial Regulations (FR) of the Government of the Democratic Socialist Republic of Sri Lanka -----			
(i) FR 103(1)	According to the Boards of Survey Report for the year 2021, 80 items have been reported as lost from 18 Divisions of the University. However, action had not been taken as per Financial Regulation.	Action will be taken by seeking clarifications for the loss occurred and further actions will be instituted based on the responses received from them.	Instructions in the Financial Regulation with regard losses should be followed.
(ii) FR 571	Retention money amounting to Rs. 18,403,762 and refundable deposits amounting to Rs. 329,000 which have remained in the accounts for a period ranging from 03 to 10 years without taken to settle or credit to the government revenue.	Appropriate action will be taken to transfer any unclaimed amounts outstanding for more than two years into the Revenue	Proper action should be taken with regard to lapsed deposits as instructed in FR.
(b) Establishment s Code of the Democratic Socialist Republic of Sri Lanka -----			
Section 5.4 of Chapter XIX	The University had not taken any action to recover the amount of Rs.20,130,410 due from 37 Academic staff and 03 Administrative officers residing in the University quarters for the	Amounts approved by the University Council and as stated in the bylaw are duly recovered from the monthly salaries of the tenants residing in the Staff Quarters of the University.	Outstanding rent should be recovered from the tenants residing in the Staff Quarters as per the

	period commencing from 2014 to 2022.		provisions in Establishments Code.
(c) Section 3 (1) of Chapter XX of Establishments Code of the University Grants Commission and the Higher Educational Institutions and Circular Letter No. 10/2017 dated 10 July 2017 of the University Grants Commission.	Salaries and allowances amounting to Rs.716,558,562 had been paid in the year under review without confirming the arrivals and the departures of the academic and library staff.	As a common practice, the arrival and departure of academic staff are not maintained in the State University System in Sri Lanka.	Provisions in the Establishment Code and Circulars should be followed.
(d) Sub Clause 03(X) of National Budget Circular No.03/2022 dated 26 April 2022 (Finance Circular letter No. 04/2022 dated 27 April 2022 of UGC)	The University had paid Rs.2,556,943 as loan facilities to 12 staff grade officers even though granting loan facilities to staff grade officers was suspended by these Circular provisions.	These loans for university employees should be paid using the recoveries or internally generated funds.	Circular instructions should be followed.
(e) University Grants Commission's Circulars Finance Circular Letter No. 03/2022 and dated 23 February 2022.	The monthly fuel limit had been limited to 145 liters to the Vice Chancellors of state universities for the year 2022. However, 1,942 liters of fuel worth Rs. 579,687 had been provided excessively in contrary to the approved limit during the period from January to December 2022.	Approval for Addition Fuel Consumption for the months from January 2022 to June 2022 had been forwarded to the UGC and they returned the documents to the University in October 2022. Further, approval for additional fuel consumption for the months from August 2022	Should be followed the circular instructions with regard to utilization of fuel

to December 2022 has been obtained from the Council.

(f) National Budget Circular No.03/2022 dated 26 April 2022	The University had appointed 18 academic staff and paid a sum of Rs.2,270,995 without getting special approval from the Ministry of Finance.	Further, the UGC had requested details of appointments made only after the Cabinet decision dated 23.09.2022. However, it should be noted that all the above 18 appointments had been done before the above cabinet decision was made.	Circular instructions should be followed when appointing the academic staff.
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2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs.130,456,831 as against surplus of Rs.32,976,512 in the preceding year, thus observing a deterioration of Rs.163,433,343 in the financial result. The main reasons for the deterioration are the increase of total income for 23 percent of Rs.39,518,390 as against in the preceding year decrease of total income of Rs.171,551,372 and increase of operating expenses for by Rs.202,951,732 as against in the preceding year.

2.2 Trend Analysis of Major Expenditure items

The expenditure of the University such as personal emoluments, Supplies, Contractual Services and Self-financing programs for the year under review had been increased by 30 percent to 303 percent as compared with preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the student’s guide book of External Degree Programme for the Bachelor of Arts, Bachelor of Business Administration and Bachelor of Commerce scheduled be completed within 03 academic years. However, the degree programmes had taken to complete the period ranging from 05 to 08 years. As a result, this delay could be negatively impact the career and employment opportunity of the students.	The main delay occurred due to the time taken to complete the marking of answer scripts since the number of students in a batch is high. Therefore, we have implemented the panel marking and decided to release the results within a three month time period.	Action should be taken to complete the Degree program in scheduled time.

(b) The research grants aggregating Rs.15,307,313 had been awarded for 36 academic staff during the period from 2017 to 2022. However, out of 36 academic staff, 18 academic staff had not completed their research even up to 31 May 2023.

Due to the Covid 19 lockdown, the political and economic instability situations of the country, most of the grantees requested extensions which are still be unable to complete.

Actions to be taken to get complete the research works within the specified time period.

(c) The interview for the recruitment of the post of Senior Lecturer in Economics and Statistics of the Faculty of Arts and Culture was held on 07 August 2021. Accordingly, five (05) eligible applicants out of twelve (12) were called for the interview. After that, an applicant having a BSc Degree in Agriculture with 2nd Class Upper Division was recommended by the Selection Committee for the above post. However, this applicant was shortlisted under the 3rd category instead of the 1st category. The Vice-Chancellor of the University was accused of purposefully misinterpreting the category of the recommended applicant. In this connection, the second-ranked applicant filed a complaint with the Human Rights Commission, alleging a violation of their fundamental rights. The Human Rights Commission upheld the complaint and recommended the appointment of the second-ranked applicant. However, the Vice-Chancellor had failed to implement the recommendation of the Human Rights Commission, despite the guidelines provided in the Public Administration Circular No.17/2005 dated 05 October 2005 and the University Grants Commission Establishment Circular No.03/2006 dated 23 February 2006.

Recruitment for all categories of lecturers is governed by UGC Commission Circular no 721. Thus, candidates possess academic qualifications required for lecturer (probationary) are eligible for Senior Lecturer Grade II and I, if they have Masters or PhD degrees in the relevant field with required experience. Thus, selection committee collectively gave marks and recommended the most eligible candidate considering his qualifications and experience to the post of Senior Lecturer Grade I in Economics and it was approved by the Council of SEUSL. Moreover, the University has taken note of the recommendations of Human Rights Commission in this regard. Further a court case filed challenging the appointment of lecturer in Economics before the court of Appeal is also pending for final determination. (Case No - CA (writ) Application No. 261/2022)

Action to be taken under the UGC instruction and Circular instructions should be followed when appointing this post.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Two Laboratory Equipment purchased at a cost of Rs.24,397,000 during the period from year 2017 to 2019 had been remained idled for more than 4 years.	Stricter monitoring and oversight measures will be implemented to prevent such delays and idling situations in the future.	Fruitful action need to be taken get use of items purchased and avoid the idling situations in the future.

3.3 Contract Administration

Audit Issue	Management Comment	Recommendation
The contract for the Infrastructure Development of Agro tech-park (19 allocated units of works) at Malwaththa had been awarded to a contractor for an amount of Rs.138,444,958 (without VAT) on 29 March 2021 and the works to be completed on or before 28 June 2022. In this regard, only 45 per cent of the works had been completed and 05 units of works aggregating Rs. 39,390,993 had not been commenced even by 31 May 2023.	We can re-evaluate the project and initiate a new bidding process for a fresh contract in order to achieve the research and academic purpose by students. It is crucial to acknowledge that the circumstances beyond the contractor's control, such as the pandemic and inclement weather, have significantly affected the project's progress.	Action needs to be taken to complete the construction works without further delay.