

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the University Grants Commission for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of income, 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 the Finance Act No. 38 of 1971 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, the accompanying financial statements give a true and fair view of the financial position of the Commission 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 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 Commission'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 Commission or to cease operations, or has no realistic alternative but to do so

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission 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 Commission.

#### **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 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 Commission'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 Commission 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has 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 Non-compliance with Laws, Rules, Regulations and Management Decisions

	<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Section 11 of the Finance Act No. 38 of 1971 and University Grants Commission Internal Audit Circular Letter No. 04/2019 dated 29 July 2019	A sum of Rs. 2,084,930 had been invested in fixed deposits as on 31 December 2022 without the approval of the Finance Minister.	Maintaining of Employee Development Fund and Employee Security Deposit in a fixed deposit account is not an investment of surplus funds. In addition, according to the Good Governance Guidelines for Public Corporations and Institutions dated 16 November 2021, the powers to invest surplus funds have been delegated to the Investment Committee of those institutions.	Circulars should be followed.

<p>(b) Section 07 of Paragraph 05 of the Establishment Code of Institutions for Higher Education and Circular No. 2/2018 dated 17 December 2018 of the University Grants Commission</p>	<p>Due to breach of bonds a sum of Rs. Rs.1,317 million was due from 514 academic and non-academic staff of 21 universities as of 31 December 2022.</p>	<p>Instructions were given by the Internal Audit Circular Letters to form review committees for recovery of bond values of higher education institutions, introduce guidelines to them and publish bond balances and details of guarantors in the website. There were 533 bond breaches as on 31.12.2022 and 84 bond breaches recovered during the year.</p>	<p>The arrears should be collected as per internal audit circular letters.</p>
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**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a deficit of Rs. 282,613,533 and the corresponding surplus of the preceding year amounted to Rs. 47,293,185. As such, a deterioration amount of Rs. 329,906,718 of the financial result was observed. The decrease in capital grants was the main reason for this deterioration.

**3. Operational Review**

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<p>(a) Due to insufficient space and transportation difficulties of the 3,337 square feet building that the Commission had obtained on rent of Rs.350,000 per month in 2017, the approval of the Director General of National Budget had been taken to cancel the lease agreement and rent 7,000 square feet building at a monthly rent of Rs.950,000. But contrary to that approval, the</p>	<p>The reasons for not cancelling the rental agreement related to the 3337 square feet building acquired on rental basis was not being able to bring the departments located there to the new building acquired on rental basis. This was reported to the 1094th meeting of the University</p>	<p>Economical decisions should be taken which are most beneficial to the government.</p>

new building was acquired on a rental basis without cancelling the rent agreement of monthly rent of Rs.350,000, and an additional amount of Rs.4,200,000 had been paid as building rent in relation to the year under review too.

Grants Commission held on 26.01.2023 and was instructed to submit a letter explaining the reasons to the National Budget Department. The letter was forwarded to the National Budget Department on 14.03.2023.

- (b) Although it was informed by the letter of the Secretary to the Ministry dated 03 February 2022 to the University Grant Commission to conduct an investigation in accordance with F.R.104, based on the investigation conducted by the Ministry regarding the loss incurred by the commission due to the cancellation of the decision taken to procurement of 07 computers in the year 2017 and renting of 04 computers, an investigation was not conducted in accordance with F.R. 104 and the relevant actions were not taken until now.

According to the recommendation of the Ministry Secretary, as per the preliminary inquiry done under the Finance Regulation 104, decision to rent 04 computers instead of buying 07 computers according to the requirement at that time was lengthy studied in the 373rd Management Committee and the 1086th Commission session. Already action had been taken to inform the ministry on the decisions reached in this regard.

According to the decisions of the investigation of the Ministry, action should be taken in accordance with F.R.104.

### 3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The commission had not prepared a new system to minimize the loss of university admission to students due to the non-filling of 3,008 vacancies after the completion of the admission of students to universities for the academic year 2020/2021.	At present, about 4 rounds of filling of vacancies have been completed for the academic year 2020/2021.	Efforts should be made to minimize the number of vacancies and provide university admission opportunities to students as much as possible.
(b) Apart from the university admission policy approved by the Cabinet in the year 2021, aptitude tests were conducted to admit students to 38 courses in government universities	Apart from achieving Z-score for 39 academic courses, pass of practical/ aptitude tests are mandatory.	The final decision in this regard should be expedited to be fair to the students.

and higher education institutions. Although there was no requirement to pass practical/aptitude tests for 21 courses, those students will be selected from the academic year 2023/2024 onwards with a change in the minimum qualifications to be met to gain admission to the courses.

According to a decision of the Committee on Public Enterprises on 08 December 2021, it was decided that it was not fair to conduct aptitude tests, but 18 out of the 38 courses were planned to admit students based on the results of aptitude tests in the 2021/2022 academic year.

### 3.3 Underutilization of Funds

Audit Observation	Comment of the Management	Recommendation
(a) A sum of Rs. 9,127,804 received in the years 2017 and 2018 for the expenses of the gender and social equality/equity project remained underutilized for more than 03 years.	The Commission will be informed in this regard, and further action will be taken.	Action should be taken to utilize the funds effectively.
(b) A sum of Rs.12,681,589 had been given by the Ministry of Health in the years 2014, 2015 and 2017 for the training of health officials and after the completion of the relevant project the remaining balance of Rs.4,918,087 had been retained in the commission for about 2 years without settlement.	That after meeting all expenses from the money received from the Ministry for the training of registered medical officers, the balance is considered as the payment related to the management of the program and it has been decided to use the money to meet the expenses of the Commission.	Action should be taken to settle the balance provision.

### 3.4 Deficiencies in Contract Management

Audit Observation	Comment of the Management	Recommendation
(a) Although a sum of Rs. 1,413,500 had been spent for the development of software in the years 2017 and 2019, the relevant work had not been completed even till the end of the year under review.	Action will be taken to capitalize the value shown in the work in progress account after the completion of these works.	The relevant works should be completed promptly and capitalized.
(b) The balance of the unsettled contract retentions from the year 2017 was Rs.1,291,916 as on December 31 of the year under review.	Out of the retention money of Rs.171,247, to release of Rs. 46,731 have been referred to the Engineer recommendation. Regarding the balance, action will be taken in the future.	Arrangements should be made to clear the overdue retention money.

### 3.5 Human Resources Management

Audit Observation	Comment of the Management	Recommendation
The approval of the Management Services Department for the recruitment procedure for the non-academic staff of the University Grants Commission had not been obtained even till the date of report.	That a letter dated 23 March 2023 has been sent to the Management Services Department requesting an opportunity to discuss the issues raised in preparing the recruitment and promotion procedures for approved posts in the non academic cadre.	Recruitment procedure should be approved and staff vacancies should be filled.