

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Technology of the University of Moratuwa for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 Section 107 (5) of the University Act No. 16 of 1978 and 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 paragraph 1.5 of this report, the financial statements of the institute give a true and fair view of the financial position of the Institute as at 31 December 2023 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

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 Institute financial reporting process.

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

1.4 Responsibility of the Auditor on Audit 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 Institutes' 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 Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute 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 -----	Comment of the Management -----	Recommendation -----
(a) The valuation basis of the investment property valued at Rs.205,322,908 was not disclosed in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 13 and a classification of assets related to the said investment property was not presented with the financial statements.	That the value relating to the investment properties indicated by you was shown in Schedule E (Schedule- E) in the page number 29 of the final accounts.	That information was not given in Schedule E and should be done according to Sri Lanka Public Sector Accounting Standards.
(b) Over provision of Rs.3,621,257 in the estimated cost of 13 expenditure items was credited to the General Reserve Account instead of being adjusted to the income of the year contrary to paragraph 39 of the Sri Lanka Public Sector Accounting Standard 03.	The value of Rs.3,621,257 indicated by you was the overestimates made in relation to accrued expenses. That these accrued expenses were the expenses identified in the accounts of the year 2022 and thus have been adjusted with respect to previous years.	Sri Lanka Public Sector Accounting Standards should be followed.

1.5.2 Accounting Deficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Due the deduction of nighttime investments amounting to Rs.53,000,000 in respect of two bank accounts from the balance in the cash books as on 31 December 2023, a negative balance of Rs. 18,320,420 was shown in the cash books. But in the statement of financial position, the total of those balances was shown as Rs.34,679,580.	The reason for the negative values of the revised cash balances related to these two accounts was the investment of money in nighttime deposits of the General Treasury. Since it was inappropriate to show these negative values in the accounts, instead of showing them in short-term investments, the real balances have been shown. However, action will be taken to record the accurate cash balances from January 2024.	Action should be taken to rectify this error.
(b) The audit fees payable for the years 2021 and 2022 amounting to Rs.1,406,400 were accounted as expenses of the year. As such, the deficit of the year under review was overstated by that amount. Further, an amount of Rs. 1,406,400 was allocated again for those years and adjusted to the General Reserve Account.	That will be corrected in the financial statements of the year 2024.	Action should be taken to rectify this error.
(c) A sum of Rs.485,000 spent for the maintenance expenses of the multi-purpose building owned by the Technology Institute and the Mechanical Engineering Technology Department had been capitalized instead of being written off as recurrent expenditure.	Noted to correct and present with the accounts of the year 2024.	Capital and recurrent expenditure should be accurately identified and accounted for.
(d) A sum of Rs. 7,939,011 received during the year under review in relation to the previous year had been taken into the income of the year, as such, the deficit of the year under review was understated by that amount. Also, the balance in the receivable account had been deducted from the general reserve account	Noted to identify the receivable income in the previous years and the income received in the current year and account for accordingly.	The income for the year should be identified correctly and financial statements should be prepared.

- (e) An income of Rs.4,421,623 from the income of the shopping complex had been directly credited to the funds accounts of the institute without being accounted as income of the year, as such, other income of the year was understated by that amount.
- That the crediting percentage of the income from the shopping complex related to the four funds namely Technology Institute Development Fund, Welfare Fund, Multipurpose Development Fund and Director's Fund will be done on the recommendation of the Finance Committee and the approval of the Management Board.
- All income for the year should be disclosed in the financial statements.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
An amount of Rs.12,571,822 should have been recovered from two lecturers who had taken study leave and gone overseas due to breach of contracts and bonds as on 31 December 2023.	Letters have been sent to those lecturers informing them to pay the related bond money and legal proceedings also will be commenced.	Immediate action should be taken to recover the dues from the officers who breached the bonds.

1.6.2 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to settle Bursary and Mahapola balances of Rs.3,029,900 and Rs.453,650 respectively for more than 02 years.	That actions have been taken to settle in the year 2024.	Action should be taken to settle the bursary and Mahapola balances without delay.
(b) The creditors balances of Rs.5,725,853 from 01 year to 02 years and Rs.4,612,584 old more than 02 years had not been settled.	That action will be taken to release of these creditor balances as far as possible in the year 2024.	Action should be taken to settle the liabilities without delay.
(c) The refundable bid security deposits and refundable deposits of Rs.861,920 from the year 2018 to the year 2022 were not settled even as at 31 December 2023.	Regarding bid security deposits and all deposits over 02 years will be dealt with in the year 2024 as per Financial Regulations.	Action should be taken to settle the refundable deposits as per the financial regulations.

1.7 Non-compliance with the Laws, Rules, Regulations, and Management Decisions

Reference to the Laws, Rules, and Regulations	Non Compliance	Comments of the Management	Recommendation
(a) Treasury Circular No. 842 dated 19 December 1978	A fixed asset register had not been updated for non-current assets worth of Rs.10,503,679,754 as on 31 December 2023.	That a computer software for the fixed asset register of the institute is available and it is being updated by correcting the minor defects in it.	Fixed asset register should be maintained up to date
(b) Section 3.1 of Chapter IX of the Establishment Code for University Grants Commission and Institutions of Higher Education	A sum of Rs.209,826,653 had been paid as salaries and allowances without confirming the arrival and departure of the academic staff during the year under review.	That the academic staff does not mark the arrival or departure of any institution within the university system.	Provision of the Establishment Code for Institutions for Higher Education should be followed.

2. Financial review

2.1 Financial results

The operating result of the year under review had been a deficit of Rs.516,415,005 as compared with the corresponding deficit of Rs.698,739,979 for the preceding year, thus observing an improvement of Rs.182,324,974 in the financial result of the year under review. Increase in recurrent grant by Rs.52,367,889, increase in recurrent receipts from exchange transactions by Rs.29,772,227 and decrease in depreciation and amortization expense by Rs.168,980,883 had mainly attributed to this improvement.

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Although a sum Rs. 8,821,053,785 worth of buildings were constructed and the institute was started in the year 2017 under the project of relocating and developing the technology institute, the legal ownership of the land was not obtained even by April 2024.	That the Divisional Secretary, Homagama has been requested by letters in 3 occasions from the year 2022 to the year 2023 to clear the ownership of the land.	Arrangements should be made to obtain the legal right to the land.

3.2 Deficiencies in Contract Management

Audit Observation	Comments of the Management	Recommendation
Two floors of 2 six-storied hostel buildings have not been constructed in a building complex costing for Rs.8,821,053,785 and room partitioning works of another two floors has not been done. Further, the Director of the institute had taken over the buildings in 2017 even the furniture and equipment for those floors had not been supplied and the construction of the roofs of the 02 buildings had not been done. As the roofs of the buildings were not constructed, there was a high risk of damage to other structural parts due to climate change during the audited period from 2017 to April 2024.	The financial allocation for the completion of the incomplete constructions has not been made, as such, unable to complete those constructions. However, the Ministry of Higher Education has been informed regarding these incomplete constructions from time to time.	Action should be taken to complete the incomplete constructions.

3.3 underutilized of Funds

Audit Observation	Comments of the Management	Recommendation
The total amount of Rs.19,753,388 included in 05 other funds remained idle for a period of 01 year to 12 years. A total of Rs.25,190,592, including Rs.4,352,305 received for 09 funds during the year under review, had not been utilized by 31 December of the year under review.	The applications for these funds valued for Rs.19,753,388 have not yet been received.	Relevant funds should be used effectively for intended purposes.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
A shopping complex with 13 shops and a guest house were built in 2014 without a proper feasibility study at a cost of Rs. 205,322,908. Since the completion of the construction in the year 2014, 05 shops are remained	Enough bids were not received to lease the shops in the shopping complex in previous years and the contractors who started the businesses were also informed that the businesses were not	Necessary urgent measures should be taken for effective utilization of these buildings.

without earning income until April 2024. Also, the guest house also was remained underutilized without generating enough income to cover the maintenance cost.

successful within a limited period and were handed over the keys. Furthermore, the guest house, which was built at a very high cost, does not earn the expected income. Even though necessary publicity campaigns were launched for these, they were not successful.

4. Accountability and Good Governance
4.1 Tabling of Annual Reports in Parliament

Audit Observation	Comments of the Management	Recommendation
<p>According to paragraph 6.6 of the Public Enterprises Circular Operation Manual No. 01/2021 dated 16 November 2021, the annual report should be tabled in Parliament within 05 months after the end of an accounting year, but the annual report for the year 2022 had not been tabled in Parliament even by 26 March 2024.</p>	<p>The Cabinet meeting held on 26.02.2024 decided that the relevant report is suitable for submission to the Parliament and the reports are being prepared until the date to be submitted is informed by the Parliament.</p>	<p>The provisions in the Circulars should be followed.</p>