

## University of Moratuwa - 2023

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### **1. Financial Statements**

#### **1.1 Opinion**

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

In my opinion, the financial statements give a true and fair view of the financial position of the University as at 31 December 2023 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 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 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 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 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; 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 Accounts Receivables and Payables

### 1.5.1 Accounts Payables

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	175 cheques issued in the year 2022 but not presented for payment amounting to Rs.1,900,172 have been taken back in to accounts. But those balances were not settled even by 31 December 2023.	That the relevant parties will be informed and the balances will be settled in the future.	An efficient system should be established for settlement of liabilities.
(b)	Payable Bursary and Scholarship allowances amounting to Rs. 1,719,675 brought forward from the year 2020 had not been settled.	That this will be looked into in the future and necessary actions will be taken.	An efficient system should be established for settlement of liabilities.
(c)	The retention money related to the procurement of capital goods by the university from the year 2017 to 2020 amounting to Rs.1,044,385 and a sum of Rs.2,429,936 retained in the settlement of the bills of 03 contracts completed in the years 2012 and 2014 had not been settled even by 31 December 2023.	That the balances retained from suppliers and contractors will be checked and action will be taken to release the money in the future.	An efficient system should be established for settlement of liabilities.

## 1.6 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	The approval of the concerned minister and the Finance Minister had not been obtained for the	As it takes time to obtain the approval of the Finance Minister through the University Grants Commission and the	Instructions of the Financial Act and circulars should be followed.

Letter No. 04/2019 dated 29 July 2019	investments of Rs.1,902,499,871 as at 31 December 2022 and the investments of Rs.690,173,492 made in the year under review.	Ministry of Education, the investments have been made on the recommendation of the Finance Committee and the approval of the Governing Council.	
(b) (i) Section 23(a) of National Environment Act No. 47 of 1980.	Although 03 waste water treatment plants costing for Rs.36,770,496 had been constructed and treatments had been done in the years 2016 and 2017, environmental permits had not been obtained even until February 2024.	That the necessary actions are being taken to get the environmental permit.	Actions should be taken according to the Environmental Act.
(ii) List III (a) relating to capacity limits in Extraordinary Gazette No. 2264 /17 dated 27 January 2022 published by the Minister of Environment in accordance with the powers of the Act.	The wastewater had been discharged from the treatment plants installed in the hostels into the public drain system located in the surrounding area without obtaining sample test reports confirming that it complies with the capacity limits.	That action will be taken to act according to the correct method in the future.	Sample tests should be carried out periodically to confirm that the treatment wastewater is within the relevant capacity limits.
(c) Financial Regulation 211 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to settle the total creditors balances of Rs.2,113,993 existing between the year 2002 and 2008.	The relevant departments have been informed about this and instructions will be given to make the relevant payments after getting the bills and quality reports.	Financial Regulations should be followed.
(d) Section 3.1 of Chapter IX of the Establishments Code for University Grants Commission and Institutes of Higher Education	A sum of Rs. 1,986,839,051 had been paid as salaries and allowances of the year under review, without confirming of	It is difficult to obtain an effective service by restricting the activities of university academic staff by marking their arrivals and departures. However,	The provisions of the Establishment Code should be followed.

the arrival and departure of the academic staff of the university. that the attendance records of all academic and non-academic staff members should be obtained from the Heads of Departments and Divisions in making payment of salaries.

- (e) Para 4 (ii) of University Grants Commission Circular No. 01/2022 dated 03 January 2022 Annual verification on library books has not been conducted since the year 2013. According to the University Grants Commission circular, actions have been taken to conduct verification of books. Circular should be followed.
- (f) Paragraph 5 of the circular letter No. BD/HRD/126/214/19/2023 dated 18 January 2023 addressed to the Secretary, Ministry of Education by the Secretary to the Treasury A sum of Rs.45,696,764 collected from 20 lecturers during the year under review whose bonds were breached had not been sent to the Treasury. That the University has taken action in accordance with the circulars and letters issued by the University Grants Commission regarding the amount recovered from breach of bonds. The Treasury instructions should be complied.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 293,469,333 as compared with the corresponding surplus of Rs. 86,759,504 in the preceding year, thus observing an improvement of Rs. 206,700,829 in the financial result. Increase in recurrent grants from the government by Rs.254,000,000 and capital grants and donations by Rs.76,156,048 had mainly attributed to the said deterioration.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An initial payment of Rs.1,400,000 was made for a land of 12 perches belonging to the Urban Development Authority and acquired to the university under a lease agreement for a period of 50 years in October	A reminder letter will be sent in this regard and follow up will be done to recover the amount.	Prompt action should be taken to recover this amount.

2009. According to the terms of the lease agreement, if the development work on the land is not completed within 02 years, the lease agreement will automatically be cancelled and the ownership of the land will be vested in the lessor. Accordingly, the Urban Development Authority had transferred this land to another institution as the University had violated the condition. Accordingly, recovery of this amount from the Urban Development Authority was remained uncertain.

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| (b) | A sum of Rs.173,752,491 was receivable from 36 lecturers who breached their bonds as at 31 December for the year under review. In that amount, an amount of Rs.1,156,268 was due from two officers for 21 years to 30 years and a sum of Rs.5,826,865 was due from 09 officers for the period from 31 years to 41 years.                                                                                                                                                                                                                                                           | That the recovery of this money is in progress.                                                                                                                                                                                                                                                                                                                                                                                                                                     | Prompt action should be taken to recover this money from the lecturers who breached the bond.                              |
| (c) | Although clinical training essential in professional units for the final year students of the faculty of Medicine is scheduled to begin by January 2025, currently, there are no such facilities in the Nagoda Hospital where clinical training is provided. According to the decision of the Committee on Public Enterprises held on 15 November 2023 and the previous decision of the Cabinet, it was recommended to use Neville Fernando Hospital for this clinical training, but those recommendations were not implemented until April 2024. Accordingly, if Neville Fernando | A discussion was held at the Presidential Secretariat on 17.05.2024 to resolve this issue. It has been agreed to take over the Neville Fernando Hospital and to commence its operations by July and August and to provide the necessary facilities and financial provisions to continue the studies in SAITM. Accordingly, if the activities are carried without interruption, the clinic activities of the final year students can be commenced by January 2025 without any issue. | Action should be taken to promptly establish the facilities required for the clinical training of the final year students. |

Hospital fails to be maintained as a government hospital with these professorial units by January 2025, there is a high risk that the final year students of this medical faculty will not get their medicine degree within the stipulated period.

(d) Sixty six long term research projects worth of Rs.83,577,700 awarded to lecturers from the year 2015 to the year 2021 have not been completed even by 31 December 2023. Also, there were 06 research grants worth of Rs.4,112,000 approved in the year 2016.	Instructions have been given for expediting the research grants which have been delayed in completion.	An efficient system should be established to utilize research grants effectively.
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### 3.2 Extraneous Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to the discussion of the Committee on Public Enterprises held on 20 November 2014 regarding the establishment of the Uniconsultancy Service Company with a Board of Directors consisting of senior officers related to the academic and administrative affairs of the university and running it within the university premises, it was recommended that the approval of the Cabinet should be obtained, but such approval had not been obtained until May 2024	That the necessary information to handle with this has already been given to the University Grants Commission.	Action should be taken to obtain the Cabinet approval.

### 3.3 Underutilization of Funds

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A balance of Rs.264,698,078 was available in 91 fund accounts under the Department Development Fund and Course Development Fund as at 31 December of the year under	The funds for this department development fund will be received from the various course research and consultancy services conducted by the relevant	The relevant funds should be used effectively for the needs of the university.

review. The sum of Rs.5,602,090 available in 15 funds had not been utilized for 07 years.

academic department on self-financed basis and even if the funds are remained unused for one year or several years but will be used for related purposes in the future.

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| (b) | A sum of Rs.22,056,082 remained underutilized as on 31 December of the year under review, including receipts of Rs.1,127,010 for 06 donation funds.                                                                                                                                                                                                                                                                                                   | That these donation funds will be investigated in detail and necessary further action will be taken. | The relevant funds should be effectively utilized for the intended purposes.                                |
| (c) | Action had not been taken to award any scholarship from 27 scholarship funds with a total value of Rs.19,386,959 existed from a period of 3 years to 13 years as at 31 December 2023.                                                                                                                                                                                                                                                                 | That necessary action will be taken to award these scholarship funds in the future.                  | New criteria should be developed to suit to the present and actions should be taken to utilize these funds. |
| (d) | According to the decisions of the Governing Council, the total sum of Rs.3,356,683 existed in 22 scholarship funds which have been inactive for a long time was credited to a new fund account called Awards & Scholarship Account on 31 December 2020. Since the criteria required for awarding scholarships from this fund had not been prepared even by 31 December 2023, the balance of Rs.13,791,376 existed on that date could not be utilized. | That prompt actions will be taken to prepare the criteria for payment of scholarships.               | The relevant criteria should be prepared promptly and the funds utilized effectively.                       |

### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Rs.2,850,097 worth of 340 toners and cartridges procured in the year 2019 and earlier remained in the warehouse at the end of the year under review without used.	A committee has been appointed by the Governing Council regarding the toner cartridges in the stores and	The report of the committee should be taken promptly and action should be taken to implement the



action will be taken as per the recommendations of the committee in future regarding this stock.

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| <p>(b) A hostel had been closed for a long time due to the dilapidated and dangerous roof of the hostel building and 06 rooms which could accommodate 24 students were also closed due to the dilapidated and dangerous condition of the roof of the third floor of the new hostel complex. However, they had not been repaired even by the end of the year under review. Further, A hostel that could provide hostel facilities for 86 students at a time, the number of students getting hostel facilities was limited to 12 due to existed as a hall without partitioning of rooms and also due to other common facilities were not sufficient.</p> | <p>Necessary actions have been taken to carry out these maintenance works and will be completed soon.</p> | <p>Maintenance work should be completed promptly and arrangements should be made to provide adequate hostel facilities for the students.</p> |
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### 3.5 Delays in Projects or Capital works

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>A biogas production system had been established at a cost of Rs.1,434,319 as on 22 February 2017 as a pilot project to produce biogas through the management of food waste discharged from the student canteen and use that gas for cooking in the canteens. As the quantity of bio gas produced there is not enough to light the ovens of the restaurant, although it was proposed to increase the capacity of the gas system, the capacity of the system had not been improved and put into use even until 30 April 2024.</p>	<p>The concerned professor has informed that the estimated rehabilitation cost of this project is Rs. 1.5 million. Accordingly, it has been recommended to implement the rehabilitation activities of this project subject to the relevant approvals and action will be taken to deal with it accordingly.</p>	<p>The rehabilitation works of this project should be completed without delay.</p>

### 3.6 Defects of the Contract Administration

Audit Observation	Comments of the Management	Recommendation
(a) The first phase of works of the multi-purpose building constructed for the Faculty of Engineering and the building constructed for the Faculty of Architecture were completed in the year 2016. The sheets of the roofs of the buildings rotted before the buildings were put into use due to water leakage and an additional cost of Rs.14,056,253 had been incurred to re-sheets the roofs. This amount had not been recovered from the institute which provided the consultancy services.	The performance certificate submitted by the consultancy agency has confirmed that the work has been completed as scheduled. If the additional expenses incurred by the university were due to the negligence of the State Engineering Corporation, further action will be taken after making an inquiry with the State Engineering Corporation regarding the recovery of the said amount from them.	Action should be taken to recover the loss incurred due to non-standard construction from the consultancy service agency .
(b) According to the specifications for the roof construction in the contract document related to the multi-purpose building built for the Faculty of Engineering in 2014, a sheet roof covered with zinc aluminum was planned to withstand the heat and noise and Rs. 6,000,000 had been paid for it. Later, under the new contract awarded for the completion of the remaining work, a sum of Rs. 5,356,600 had been paid for laying a sound barrier for the roof. As such, the sound barrier was not done with proper quality according to the original specifications and the same work was done after paying again under the balance work contract.	That the university has given instructions to use Zn/Al sheets instead of using 16 mm standard plywood sheet mentioned in the contract agreement. The University taken over the building on the basis of the certificate of the consultancy agency that these items had been completed to the proper standard at the time of handover of the building. In the preparation of the estimates for the second phase, the same consulting agency has included to fix 50 mm thick sound barriers in the Bill of Quantity. Therefore, the State Engineering Corporation has been informed in writing to	Action should be taken to recover the additionally paid amount from the consultancy services company.

provide details on this matter, accordingly, the explanations provided will be submitted to the audit in the future.

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| <p>(c) The State Engineering Corporation acted as the consultant for the building constructed with the lecture hall built for the Faculty of Architecture and the multi-purpose building constructed for the Faculty of Engineering of the university. But arrangement had not taken action to obtain a professional liability insurance to recover the losses may cause to the institution due to the properly non-performance of the consulting services.</p> | <p>It is true that the consultancy services firm is required to have professional liability insurance. In Section No. 04 of the agreement entered between the State Engineering Corporation and the University, the responsibility of the consultancy agency has been clarified and accordingly the consultancy agency is bound for it.</p> | <p>Arrangements should be made to obtain professional liability insurance for consultancy services.</p> |
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### 3.7 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>Action had not been taken to fill of the 316 vacancies in the academic cadre of the University and external lecturers had been recruited and a sum of Rs.49,718,264 had been paid in the year under review.</p>	<p>Vacancies in the relevant post could not be filled due to non-apply of qualified applicants and then the services of external lecturers had been taken to continue the academic activities.</p>	<p>Prompt action should be taken to fill the existing vacancies in the academic cadre.</p>

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

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The annual report of the university for the year 2022 had not been tabled in Parliament even by 31 March 2024. Further, the draft annual report related to the year under review had not been submitted for audit even by 15 August 2024.	The University has made all arrangements to table the report for the year 2022 in the Parliament and had informed the Ministry of Education to table it. That action will be taken to submit the draft annual report with the financial statements in the future.	Circular instructions should be followed.