

1. Financial Statements

1.1 Opinion

The audit of financial statements of the University of Kelaniya 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 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 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

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 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 etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 371	A total advance amounting to Rs.7,551,320 given in 48 occasions had not been settled.	That actions are being taken for expeditious settlement of outstanding supplies and service advances.	Financial Regulations should be followed.
(ii)	Financial Regulation 571	Action had not been taken to settle the tender and security deposits total amounting to Rs.14,096,353 over 02 years and library deposits amounting to Rs.9,536,491 over 05 years	That the tenders and security deposits have been referred to the supervision of the relevant departments and the value of the library deposits to be refunded beyond 05 years will be taken into the income of the year 2024.	Financial Regulations should be followed.
(c)	Section 04(ii) of Management Services Circular No. 02/2014 dated 11 February 2014	A sum of Rs.11,382,909 had been paid as research allowances to 31 lecturers who had not submit interim research reports during the year under review.	The University lecturer's Association strongly opposed the condition regarding the submission of progress within 06 months from the date of commencement of research and the Vice-Chancellor was informed that the allowance is not a grant but a part of the salary.	Provisions in the circulars should be followed.

2. Financial Review

2.1 Financial Result

The operating result for the year under review had been a surplus of Rs.2,322,233,673 as compared with the corresponding surplus of Rs.3,613,377,751 for the preceding year, thus indicating a deterioration of Rs.1,291,144,078 in the financial result. The increase in total expenditure in the year under review had main reason for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Out of the stationery and maintenance items procured during the period from 2012 to 2023 without properly identifying the requirement, the value of nonmoving goods as on 31 December 2023 was Rs.5,736,393, the value of slow-moving goods was Rs.1,334,240 and, the value of damaged goods was Rs.401,834.	That an inquiry committee has been appointed and action will be taken as per the recommendations of it.	The requirement should be identified properly and arrangements should be made to procure the materials.

3.2 Under- utilization of Funds

Audit Observation	Comments of the Management	Recommendation
The total interest income of Rs.18,995,650 received from the investment of scholarship and prize fund as on 31 December of the year under review, remained underutilized without being spent for the relevant purposes.	That the University will take all necessary measures to increase the utilization of funds.	Funds should be used effectively.

3.3 Delays in Projects and Capital Works

Audit Observation	Comments of the Management	Recommendation
The construction of the 4-storied hostel building at Hettiawatta, Pancharama had been started constructions on 10 August 2020 and as per the instruction given by the of the Director (Infrastructure Development) of the Ministry of Education by the letter dated 21 June 2021, the constructions had been terminated due to reasons beyond the	That the expenditure incurred till the cancellation of the contract agreement has been shown in the work in progress account.	Necessary actions should be taken to complete and utilize the balance works the building to provide hostel facilities to the students.

control of the university and the contractor. Accordingly, an additional amount of Rs.4,029,430 the contractor had to pay as per the agreement of both parties to terminate the contract midway. As such, the construction of a required hostel building for the students had not been done and a sum of Rs. 65,457,463 had been spent by the end of the year 2023 was an idle expenditure.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>The Chief Security Officer had submitted a requirement of 09 guard rooms on 30 November 2021 and in less than a year, requirement of another 8 guard rooms had been submitted. In the first procurement, the cost of a guard rooms was Rs.276,000, but in the second procurement, it was increased to Rs.521,000, as such, an additional cost of Rs.1,715,000 had to be spent for the 7 guard rooms built for the second time. Also, the thickness of the galvanized sheets of the guard rooms was different from the expected specifications.</p>	<p>Although there was a requirement of 20 guardrooms, due to financial difficulties, first 09 guardrooms and then 08 guardrooms were procured and payment was made on the recommendation of the work engineer.</p>	<p>Procurement should be done in a manner that provides maximum economic benefits and only goods conforming to specifications should be procured.</p>

3.5 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>Although a total sum of Rs.15,013,437 has been paid as consultancy service fees in the years 2020 and 2021 to the institute providing consultancy services for the construction of a 10 storied faculty building for the Faculty of Commerce and Management, construction works of the building had not been commenced even until 31 December 2023.</p>	<p>As per the National Budget Circular No. 03/2022 and 04/2022 instructions have been given to suspend the construction works of the government, accordingly, the construction work of the relevant contract has been stopped.</p>	<p>The relevant approval should be obtained and the construction work of the building should be started.</p>

3.6 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved permanent academic cadre for the 6 faculties of the university was 829 and the actual cadre as on 31 December 2023 was 690 and out of them 125 staff had taken their sabbatical leave and study leave. As such, assistance of external lecturers was taken for actively carry out the studies of the 15310 students of the university and cover the syllabus and a sum of Rs. 36,105,195 had been paid as external lecturers fees in the year 2023. It was an increase of 28 percent compared to the year 2022.</p>	<p>That the sabbatical and academic leave will be given as much as possible without hindering to the educational activities of the students.</p>	<p>Adequate academic staff should be maintained to ensure uninterrupted educational activities of the students.</p>