

**1.1 Disclaimer**

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The audit of financial statements of the University of Kelaniya for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 108 (1) 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.

I do not express an opinion on the accompanying financial statements of the University of Kelaniya Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**1.2 Basis for Disclaimer of Opinion**

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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 Disclaimer opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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**

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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 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 Financial Statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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The University is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

<b>Non-compliance with reference to the relevant standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a). In terms of section 49 of Sri Lanka Public Sector Accounting Standard 7, if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that	Action will be taken to correct in future.	The Sri Lanka Public Sector Accounting Standards should be adhered to.

asset belongs should be revalued, but land and buildings valued at Rs. 127,033,367 had not been revalued. Also, the value of these un-revalued lands and buildings was not included in the financial statements.

- (b). Even though land and buildings had not been disposed during the year under review, a sum of Rs.135,602,989 from the revaluation surplus account had been incorrectly adjusted to the financial performance statement as per paragraph 55 of Sri Lanka Public Sector Accounting Standards 07. As a result, the surplus and revaluation reserve in the year under review were over stated and under stated respectively by that amount.
- It has been advised to re-study the accounting standards and take further action
- The Sri Lanka Public Sector Accounting Standards should be adhered to.
- ©. In accordance with the Sri Lanka Public Sector Accounting Standards 7, fixed assets of an entity should be categorized according to the nature of those assets and the manner in which they are used for operations and should be depreciated over the effective lifetime of each asset class. However, furniture, equipment and electrical appliance of the university had been categorized under the same asset class as furniture and
- Corrections will be made in the preparation of financial statements for the year 2020.
- The Sri Lanka Public Sector Accounting Standards should be adhered to.

equipment, regardless of their nature and effective lifetime. Also, without disclosing the percentage of depreciation of electronic appliance of 20 percent per annum in the financial statements, those assets costed for Rs. 1,477 million had been depreciated at 20 percent

### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a).The value of the lands assessed for Rs. 159,970,745 which had been given to an external entity had not been removed from the accounts, thus the total value of the lands stated in the financial statements was over stated by the above value.	Action will be taken to correct in the year 2020.	The value of the land should be correctly accounted for.
(b).A sum of Rs. 22,988,000 relevant to the vehicles amortization had been erroneous deducted from the amortization revaluation account in the year 2018, thus revaluation profit in the financial statements had been under stated by that amount.	Action will be taken to correct in the year 2020.	Amortization should be correctly accounted for.
©.Rent income relevant the year under review	Instructions had been given to minimize such	Income relevant to the year should be correctly identified.

amounted to Rs. 2,900,000, received in 2018, for People's Bank building located at the University of Kelaniya was adjusted to the income of the previous year and the surplus for the year under review was under stated by the that amount.

- (d).The unidentified direct credit valued for Rs. 525,000 coming from 2016 and 2017 in a bank current account had not been recognized and adjusted in the accounts. Also, 60 unrecognized direct debits amounting to Rs. 4,356,795 relevant to two current accounts had been accounted under sundry income without recognizing.
- Action should be taken to add to the income in future.
- Direct credits should be correctly identified and adjusted in the accounts.

#### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Documentary Evidences not made available for Audit	Management Comment	Recommendation
Government grants and earned revenue	5642 million	419 Journal Vouchers had not been submitted for audit.	Not submitted.	Financial statements should be submitted for audit in accordance with the National Audit Office circular No. AGGen / Sec / 2018/82 dated 18th December 2018.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a). A sum of Rs.694,603 (US \$ 3,840) paid to University lecturers as casual allowances without approval of the relevant Ministry had not been recovered even until the date of audit on 22 June 2020.	Relevant sections will be informed and action will be taken to recover the money.	Expenditure should be made on formal approval.
(b). Staff loan balance outstanding from 01 year to more than 04 years amounting to Rs. 82,561,766 and loan outstanding for more than 5 years amounting to Rs. 652,784 was shown in financial assets in the financial statement for the year under review. Only a provision of Rs. 43,652 was made available for bad debtors.	A final balance of Rs. 173,407 had been recovered from the loan balance, outstanding for more than 05 years, by February 2020, the recoverable outstanding balance is Rs. 101,857, unrecoverable outstanding balance is Rs. 326,060 and action will be taken to recover the balance due from retirees from the UPF fund.	Management should focus on recovering debt balances quickly.

### 1.6.3 Advances

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though advance should be settled soon after the relevant work was completed, advances amounting to Rs. 1,238,950 given in 14 instances had not been settled over more than 01 year.	Action will be taken to recover in future.	Proper control systems should be introduced to settle advances as soon as the relevant work is completed.

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

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The following observations are made.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(a). Financial Regulation 396	Action had not been taken in terms of Financial Regulations regarding 287 cheques cancelled during the period 03 November 2016 to 28 June 2019 valued for Rs. 1,636,179 and had been shown under current liabilities in the statement of financial position.	Will be taken in to the income in future.	Action should be taken to get in to the income in accordance with the Financial Regulation.
(b).Financial Regulation 571	Action had not been taken in terms of Financial Regulations regarding the deposits in the University for various purposes over 02 years amounted to Rs. 64,179,618 and library deposits amounted to Rs. 11,312,500 deposited more than 05 years ago.	Action will be taken to settle in the year 2020.	Deposits should be made in accordance with Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result



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 The operations of the Institute for the year under review had been a surplus of Rs. 690.4 million as compared with the corresponding surplus of Rs. 613.9 million for the preceding year, thus indicating an improvement of Rs.76.5 million in the financial result. The increase in the personal emoluments by Rs. 797 million, compared to the increase in government recurrent grants by Rs. 745 and increase in internal income by Rs, 168 million had main reasons for this improvement.

### 3. Operational Inefficiencies

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#### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) No action has been taken to update the fixed asset register after 2007 to strengthen the security and control of assets.	The relevant divisions were informed to prepare the fixed assets register in the year 2020.	Action should be taken to maintain the register properly.

#### 3.2 Operational Inefficiencies

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The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a). A sum of Rs. 24,849,209 had been paid without properly confirming the arrival and departure of external lecturers at the University during the year under review.	At present a register is maintained to confirm the arrival and departure.	A proper procedure should be followed to record arrival and departure
(b). 22 Lecturers who had gone abroad for Postgraduate and Doctoral degrees since 2011 had not reported for duty and due to breach of bond agreements a sum of Rs. 97,259,926 had to be recovered as on 31st December of the year under review. Also, due to the non-return of	Academic leave is recommended for academic staff to complete their postgraduate qualifications with the approval of the Governing Body.	Management should focus on recovering the amount due for breach of bond agreements and should prepare a mechanism to bring back the expatriate lecturers.

experienced and qualified lecturers from overseas, the opportunity of obtaining that knowledge was lost to the university.

- (c) It was observed in the audit that, study leave with capital grants had been granted for 5 lecturers with full salaries and allowances to complete the postgraduate qualifications but had returned without completing that qualifications and, as such, the basic objectives of improving the quality of education through the knowledge of the lecturers could not be fulfilled.
- Two lecturers were re-registered at the University of Kelaniya to pursue postgraduate qualifications. The other three lecturers have informed that they are reading for postgraduate degree.
- Lecturers should complete the postgraduate degree within the relevant time period and fulfil the qualification.

### 3.3 Funds Under Utilization

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a). A total sum of Rs. 1,628,462 had in 04 funds had not been utilized for the intended purpose over a period of 02 years. Also, total grant of Rs. 6,450,752 received in 2011 and 2013 for the construction of a hostel for foreign students in Pali and Buddhist Studies remained underutilized without being utilized for the relevant purposes. The balance of grant received for One Asia Foundation program amounted to Rs.	The ministry approval had not been granted for Rs. 6,450,758 received for the hostel. Appropriate action will be taken in the future regarding the other funds.	Arrangements should be made to utilize funds for funds raising purposes.

205,589 remained over more than 02 years, Rs. 4,149,700 received from the University Grants Commission and the balance of money received for international conferences and workshops amounted to Rs. 6,907,764 were underutilized during the year under review.

- (b).A total sum of Rs. 7,730,800 received as interest income as at 31 December 2019 from 10 Scholarship Funds and 11 Gift Funds amounting to Rs. 5,720,965 shown in the financial statements of the University was underutilized without being utilized for the intended purposes. Action will be taken in the future regarding inactive scholarships and gift funds. Arrangements should be made to utilize funds for funds raising purposes
- (c).The primary objective of the Code of Ethics for university lecturers is to develop and teach students and, accordingly, all lecturers are required to conduct research regularly. But the total amount received for the implementation of such research in 29 funds amounted to Rs. 8,096,327 had not been utilized for more than a year. Appropriate action will be taken on research which is not operational. Funds received for research should be utilized to improve the performance of the University.

### 3.4 Ideal or Underutilized Property, Plant and Equipment

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Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>Cameras, televisions and computers procured on 27 January 2017 for the Studio of the Drama and Reflective Arts Unit at a cost of Rs. 9,929,568 and, 5 cameras and 7 computers received in 2016 costed Rs. 4,124,830 were remained idle from those years until the date of the audit of 26 June 2020.</p>	<p>-----</p> <p>These equipment will be used after the construction of the studio is completed.</p>	<p>-----</p> <p>Arrangements should be made to procure the items after the completion of construction work.</p>

### 3.5 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>The approved and actual cadre in 06 faculties in the University was 728 and 636 respectively as at 31 December in the year under review. As such, while there were 142 vacancies, 148 lecturers had taken sabbatical leave and annual leave and only 494 lecturers were employed for providing education for 12,028 students. Accordingly, it was observed during the audit that there was not enough academic staff in the service to provide a quality education to the students.</p>	<p>-----</p> <p>Without interrupting to the students' academic activities Sabbatical annual and academic leave are provided.</p>	<p>-----</p> <p>Action should be taken to fill the vacancies immediately.</p>