

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rajarata University of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Rajarata University of Sri Lanka as at 31 December 2020, 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 Qualified Opinion

My opinion is qualified based 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 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 intend 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 Institute.

1.4 Auditor's Responsibility for Auditing 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 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 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 Institute
- 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 Audit observations on the preparation of financial statements

1.5.1 Internal Control over the preparation of financial statements

Entities are 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-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant standard	Comments of the Management	Recommendation
(a) As the useful life of non-current assets had not been annually reviewed in terms of Paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, the fully depreciated fixed assets costing Rs. 540,145,707 were further in use. No action had been taken to revise the resultant error in the estimation as per the Sri Lanka Public Sector Accounting Standard 03 even in the year under review.	All the requirements relating to revaluing the assets and including such values in the financial statements have been finalized. Steps are being taken to complete those activities in the year 2021.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.

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| <p>(b) In terms of Paragraph 15 of Sri Lanka Public Sector Accounting Standard 09, stocks should be measured at the cost or net realizable value, whichever is less. Nevertheless, unusable and expired stocks totaling Rs.5,194,264 had been brought to account at the cost.</p> | <p>Those have been stated in the financial statements under the cost until a separately appointed committee determines whether the net realizable value there of is diminishing.</p> | <p>Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.</p> |
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1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) A sum of Rs. 18,540,803 due from a senior lecturer who vacated the service during the year under review on the breach of bonds had not been brought to account.</p>	<p>The relevant accounting process is due to be completed after the receipt of the Council's approval in the year 2021.</p>	<p>Action should be taken to account for the balance due for the breach of bonds in the financial statements applicable to the relevant period.</p>
<p>(b) Without being correctly identified and brought to account sums totaling Rs. 2,799,794 directly credited to a bank account of the University during a period from 01 to 04 years, it had been stated under the sundry deposits.</p>	<p>An amount of Rs. 2,200,854 has been identified in 2021 and arrangements have already been made to transfer it to the relevant accounts. Action will be taken to identify the remaining value and make adjustments in the correct accounts.</p>	<p>Action should be taken to correctly identify and account for the revenue applicable to the year.</p>
<p>(c) As the paper marking charges of Rs. 1,805,250 relevant to the year 2019 had been brought to account as an expenditure of the year under review instead of being adjusted to the profit of the preceding year, the deficit of the year under review had been overstated by that amount in the financial statements.</p>	<p>Although this should be debited as an adjustment in the preceding year, it has been treated as an expenditure for the year 2020.</p>	<p>Action should be taken to account for all expenditures relevant to the year on accrual basis.</p>

- (d) The buildings worth totaling Rs.70,979,225 which were in use on completion of the work were stated as work-in-progress without being accounted for as property, plant, and equipment in the non-current assets, and as such, work-in-progress had been overstated and property, plant, and equipment had been understated by that amount in the financial statements. Similarly, the depreciation value of those buildings amounting to Rs.4,370,534 and Rs.6,413,200 applicable to the year under review and the preceding years respectively had not been brought to account.
- It is informed that action will be taken to transfer the two projects indicated herein to the Completed Property Assets Account from the Work-in-Progress Account in the year 2021.
- Assets that are in use on completion of their work should be brought to account under property, plant, and equipment.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Observation -----	Comments of the Management -----	Recommendation -----
No action had been taken to settle 49 sundry creditors balances of Rs.12,199,822 and 03 supply creditors balances of Rs. 3,782,650 older than 03 years even in the year under review.	Necessary measures have already been initiated to settle the sundry creditors' balances.	Action should be taken to settle the payable balances.

1.6.2 Advances

Audit Observation -----	Comments of the Management -----	Recommendation -----
In terms of Clause 2.10 of the Guidelines on University Research Grants, the advances obtained for research should be settled within 90 days. Nevertheless, advances totalling Rs. 2,662,233 obtained by 11 lecturers from the University Fund and the other funds had not been settled even as at 31 December of the year under review despite lapse of 01 to 13 years.	It is informed that action is being taken to recover this amount as well from among the unsettled advance balances.	Action should be taken to settle the unsettled advance balances

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

The following observations are made.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(b) Financial Regulation 571	Action had not been taken as per the Financial Regulations in relation to tender deposits aggregating to Rs. 2,297,392 continued to exist for the period from 2012 to 2017 and contract and miscellaneous retention money totaling Rs.68,157,974 that remained in existence over a period from 02 to 16 years.	Action has been taken to pay the money in these retentions to the relevant payees in consultation with them from the preceding year and necessary action is being taken to release the remaining amount in the future.	Action should be taken in accordance with the Financial Regulation.
(c) Section 3.1 of Chapter XX of the Establishments Code of the Universities	Even though every individual working in every higher education institution should record his/her arrival and departure, the academic staff had not complied therewith.	The procedure presently in operation in the University system in this connection is followed by our university as well.	Action should be taken in accordance with the Establishments Code of the Universities.
(c) State Finance Circular No.03/2015 dated 14 July 2015. Paragraph 2 (b)	Although advances up to the maximum of Rs. 100,000 can be granted to the officers in the staff grade for a specific purpose, contrary to that advances from Rs. 106,386 to Rs. 150,000 had been provided on 03 occasions.	Grant of advances is presently maintained subject to a maximum limit of Rs.100,000.	Action should be taken in accordance with the Circular.

2. Financial Review

2.1 Financial Results

The operations of the University for the year under review had resulted in a deficit of Rs.140,295,545 as compared with the corresponding deficit of Rs. 162,043,893 for the

preceding year, thus observing an improvement of Rs.21,748,348 in the financial results. This improvement was mainly due to an increase in the course income and laboratory income by Rs. 16,024,853 and a decrease in the travelling expenses by Rs. 4,515,285.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
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<p>Having planned to establish an Engineering Faculty to the Sri Lanka Rajarata University, a sum of Rs. 6,120,913 had been spent thereon since the year 2014. The project proposal to establish the Faculty of Engineering was suspended by the Secretary of the University Grants Commission on 24 December 2019 due to the failure on the part of the University to develop a specialized curriculum outside the traditional curriculum. Further, no directive made in terms of the powers vested in the Minister under Section 21 (d) of Part IV of the Universities Act No. 16 of 1978 was made available to the Audit regarding the establishment of the Faculty of Engineering. Accordingly, the cost incurred by the University Fund had become a fruitless expenditure.</p>	<p>On the recommendations and approval of the Board of Governors and Senate, the University has appointed a Committee to establish a new Faculty of Engineering as stated in paragraph 06 of the letter No. UGC / AC / 2018 / ENG / 13 dated 24.12.2019 of the University Grants Commission. The Committee will conduct relevant discussions and take action on the decisions taken by this Committee after referring them to the relevant divisions in the future.</p>	<p>If action is not taken to establish a Faculty of Engineering, measures should be taken to recover the expenses incurred thereon from the responsible persons.</p>

3.2 Management Weaknesses

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) No action had been taken to settle or credit to the University Fund the remaining amount of Rs.1,018,727 of 07 research projects although more than 02 years had elapsed from the</p>	<p>Arrangements will be made to return the funds or to credit them to the University Reserve Fund as per the agreements in the year 2021.</p>	<p>Action should be taken to settle the unsettled advance balances.</p>

- completion of the research activities.
- (b) Although 08 lecturers who had obtained full pay leave have engaged in the service at present without being completed their postgraduate degrees, bond value totalling Rs.35,621,947 due from those lecturers had not been recovered even by the end of the year under review
- Four lecturers have been informed to submit progress reports up to the due date of the completion of the postgraduate course. It has been decided to recover the total bond value relating to the bond and the agreement entered into with the University from one of the lecturers within one month and to implement the decision made by the 4th Bond Violations and Review Committee at Rajarata University for another lecturer.
- Action should be taken to recover the bond value due from the officers who do not complete the postgraduate degree.
- (c) The bond amounting to Rs.411,844 due from lecturers who had vacated the post from the year 2016 and Rs,3,784,401 due from a lecturer whose service had been terminated due to not completing the relevant degree after availing of academic leave to follow the MPhil degree had not been recovered even up to the end of the year under review.
- A decision has been reached to recover the due amount of Rs. 411,844 from his Provident Fund and to inform the Deputy Registrar of the Academic Establishments Division to sign a new bond with the Lecturer W.M.S. Fernando.
- Action should be taken to recover the bonds due.
- (d) A sum of Rs.7,108,000 to be credited to the University Fund by the Provincial Council for computerizing, analyzing, and reporting the data relating to the project called "Gama" jointly implemented by the Department of Social Sciences of the University and the North Central Province had been credited to personal accounts of three officials of the Academic Division and it included an amount of Rs. 150,000 paid for the use of the laboratory of the University.
- In this regard, the Council will appoint a committee to review the matters pointed out by the audit, and having observed the findings of the committee report, the council will take action to implement its decisions.
- Action should be taken to recover the dues to the University Fund.