

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eastern University, Sri Lanka (“University”) 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 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 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 effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2020, 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 Qualified 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 University 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 financial reporting process.

As per 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 Audit Scope

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 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 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

Following observations are made

Non- Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The cost of other assets of Rs. 104,464,552 had been shown under property, plant and equipment without grouping of assets of a similar nature or function in an entity's operations according to Paragraph 50 of the Sri Lanka Public Sector Accounting Standards 07.	Classification of the other assets has been furnished on page number 201 in the schedule.	Adhere the Sri Lanka Public Sector Accounting Standards.
(b) The useful lifetime of fixed assets had not been reviewed annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07. Property, Plant and Equipment costing Rs. 536,453,179 had been fully depreciated but still being used by the end of the year under review. No action had been taken to rectify the estimated error in accordance with Sri Lanka Public Sector Accounting Standard 03.	Action will be taken to re-evaluate the assets as per the standard and the committees are being appointed to reevaluate the assets	Adhere the Sri Lanka Public Sector Accounting Standards.

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| (c) The land around 210 hectares at 11 locations of the University had not been valued and brought to the financial statements in terms of paragraphs 43,45 and 72 of the Sri Lanka Public Sector Accounting Standard -07. | Obtaining ownership of the land and the revaluation process of Buildings belongs to the EUSL is in progress. | Adhere the Sri Lanka Public Sector Accounting Standards. |
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1.5.3 Accounting Deficiencies

Following observations are made

Audit Issue -----	Management Comment -----	Recommendation -----
(a) The interest income from short term investment amounting to Rs. 18,894,941 had been shown under restricted fund shown under non-current liability in the Statement of Financial Position without recognizing as income. As a result, the surplus for the year under review had been understated by Rs. 3,198,334, general reserve and restricted fund had been understated and overstated by Rs. 18,894,941 respectively at the end of the year under review in the financial statements.	Action will be taken with the approval of the Council	Action should be taken to rectify.
(b) Even though buildings should be depreciated at 5 per cent as per the depreciation policy, the Pathology Laboratory costing of Rs. 3,666,316 had been depreciated at 10 per cent. As a result, the accumulated depreciation had been overstated by Rs.1,283,156 in the financial statements.	It has been rectified now.	Action should be taken to rectify the overstated value in the financial statements..
(c) Direct debits in 3 bank accounts aggregating Rs.4,060,132 had been shown as unidentified debits in the bank reconciliation without being identified as expenditure in the financial statements.	As per the Committee appointed by Registrar, obtain approval to write off the balances within the limit of accounting officer and submit a request to get the approval of the chief accounting officer for the balances which are beyond the approval limit of the accounting officer.	Action should be taken on the unidentified debits.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Following observations are made

Audit Issue	Management Comment	Recommendation
(a) Total bonds value of Rs.155,332,578 had not been recovered due to the breach of agreements by 71 Lecturers period ranging from 3 to 38 years as at 31 December 2020.	Legal action is in progress on the cases within 10 years. As per Council meeting on 19.12.2020 decided to send Letter of demand to the bond violators in terms of Commission Circular No.920.	Action should be taken to recover bonds value from Lecturers or officers who are responsible for the delay to take legal action.
(b) Receivable balances from loan and advances to staff aggregating Rs.20,839,969 and receivables balances from third parties aggregating Rs.84,161,724 had been remained outstanding for a period ranging from 03 to 15 years without being recovered as at 31 December 2020.	The settlement process started for the unsettled advances after 2010 as information is traceable, where before 2010, information is untraceable, which was informed to COPE also. Hence action will be taken to write off with the approval of relevant authorities.	Action should be taken to recover the receivables from the staff and third parties.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
The action had not been taken to settle the payable balances by the University for sundry creditors and other payables totaling of Rs.20,810,414 had been remaining for a period ranging from 03 to 15 years as current liability.	Some of the payable brought forward more than ten years, and for which we do not have relevant documents. However, University is working on them to clear from the books of account.	Action should be taken to settle the payables.

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

Following observations are made

Reference to Laws, Rules Regulations etc.	Non- Compliance	Management Comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic	Although imprest should be settled or surrendered before 31 December in the financial year which the	Action is being taken as per the Council decision on 19 December 2020; to recover the dues from the	Action should be taken in terms of the Financial Regulation

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imprest was issued, the advance payment totaling Rs.994,306 had granted to 10 staff of the University during the period from year 2002 to the year 2009 had not been settled even up to 23 June 2021.

respective staff from their salary and if any staff has any documentary proof for the settlement made earlier, they can get their names removed from the records.

(b) Establishment Code
of the University of
Grant Commission
and the Higher
Education
Institutions

(i) Section 02 (XV)
of the Chapter
VII, Section 11 of
the Finance Act,
No. 38 of 1971
and Section 8.2.2
of the Public
Enterprises
Circular No.
PED/12 dated 02
June 2003.

Action had not been taken to obtain the concurrence and prior approval of the Ministry of Finance and the Ministry of Education with regards to the Investment totalling Rs.104,088,440. Further, the Investment Register had not been maintained as per the format prescribed in the Circular.

All Investments should be made only with the recommendation and approval of the Finance Committee and in terms of Section 11 of the Finance Act No.38 of 1971 and Section 8.2.2 of the Public Enterprises Circular No. PED 12 dated 02.06.2003.

Action should be taken to comply with of the relevant circulars.

(ii)Section 3(1) of
Chapter XX and
Circular Letters
of the University
Grants
Commission
No.10/2017 dated
10 July 2017

All staff should be entered their arrivals and departures in the finger print scanner. However, the academic staff not comply with that.

By tradition the academic staff do not record their attendance as in all other Universities. However, all most all departments signed the presence in the attendance book in their respective departments.

Action should be taken to enter the arrivals and departures.

(iii) Section 3 of
Chapter XXVI as
amended by
Establishments
Circular Letter
No. 04/2013
dated 10 April
2013

The Annual Boards of Survey for the year under review should be conducted and the report thereon should have been furnished to the Auditor General on or before 17 March 2021. However, such report had not been furnished to audit even up to 21 June 2021. Further, action had not been taken on 139 shortages of inventory items at cost of

Board of Survey has already been completed in time; however, the finalization was delayed due to the COVID pandemic and it will be submitted by forthcoming week. Action is in progress to rectify this issue of shortages.

Action should be taken submit the Report of Board of Survey in terms of the circulations.

Rs.1,379,602 as per the Boards of Survey Report for the year 2019.

(c) Circular No. 2004/LD/1 dated 22 December 2016 of National Library and Documentation Board	The annual stock verification on Library books had not been conducted since the commencement of the University.	The library has nearly 98,000 books & periodicals at present. Since the stock verification processes have been started 3 years ago, there were many obstacles to complete this task. If the situation returns to normalcy, the rest of the tasks will be expedited.	Action should be taken in terms of the Circulars.
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 291,444,058 and the corresponding deficit in the preceding year amounted to Rs. 576,266,345. Therefore, an improvement amounting to Rs. 284,822,287 of the financial result was observed. The reasons for the improvement are the decreases of depreciation and amortization expenses by Rs. 213,733,657 and the decreases of contractual services by Rs 30,629,921 mainly attributed to the above improvement.

2.2 Ratio Analysis

At the end of the year under review, the current assets of the University amounted to Rs. 1,259,560,040 and the current liabilities were Rs.132,674,003. Accordingly, the current ratio was 9:1 and the standard ratio was 2:1. Thus, the University has Rs. 9 in current assets for every Rs. 1 in current liabilities and its current liabilities covered 9 times instead of 2 times as per standard.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
A sum of Rs. 2,164,630 had been earned by the Trinco Campus as an additional income from the Repo deposit during year 2019. Even though, there was a possibility to invest in repo deposit by the Campus, management had not been made an effort to earn such additional income during the year	During the year 2020 received capital grant from treasury on February 2020 and had committed bills from this grant. And also due to Covid 19 situation office works not took place on a regular basis and treasury did not release the fund as usual. Therefore, unable to	Action should be taken to earn an additional income from the Repo deposit as per the availability of the funds.

under review and up to the date of the report.

continue for overnight deposits. However, will continue for the REPO investment as per the availability of the funds in the future.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
Without considering expected objectives of payment of academic allowances to the lecturers, a sum of Rs 10,892,078 had been paid since the year 2004 to June 2021 to the dependent of demised lecturer in 2004 due to the terrorist violence, based on the public administration circular No 21/88 dated 13 July 1988.	According to the Public Administration Circular No. 21/88 dated 13.07.1988 as subsequently amended, the dependent of demised employee should be paid the Salary and other allowances receivable by him till such time of his age of retirement. According to the above provisions we paid the salary and allowances to the dependent of the employee who demised in 2004.	Action should be taken to achieve the particular objectives of providing academic allowance

3.3 Idle or underutilized funds

Audit Issue	Management Comment	Recommendation
The action had not been taken to use the inventories amounted Rs.1,336,416 which had been idled for the last 3 years in Eastern University and Trinco campus.	The Department of Maintenance will use these items whenever a requirement arises and actions will be taken for the non-moving consumable items based on the recommendations of the appointed committee as soon as possible.	Action should be taken to use the Inventories.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
There were 285 approved cadres for academic staff while the actual number of academic staff was 218. Thus, number of vacancies were 67 and out of that, 15 vacancies were belonging to Senior Professor posts. The number of vacancies in the non-academic staff were 120. The University had not filled the vacancies even up to now.	The University has taken action to advertise the academic posts periodically on many occasions. Limitation in suitable applicants has been a significant issue. We are managing the created vacuum by appointing visiting lecturers.	Action should be taken to fill the vacancies without further delay.

4. Accountability and Good Governances

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
Significant variance ranging from 07 percent to 309 percent were observed between the budget and the actual expenditure relating to 07 objects for the year under review, thus indicating that the budget had not been made use as an effective instrument of management control.	Expenditure is made the actual needs of the situation and priority basis, which was not foreseen at the time of budget preparation. Further, the 2019 ordered items received only in 2020, which increased the actual expenditures.	Measures should be taken to minimize the budget variances and utilize the provisions effectively.