

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the South Eastern University of 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

| Non Compliance with the reference to particular Standard | Management Comment | Recommendation |
|---|---|---|
| (a) 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.483,321,635 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. | Building, Office Equipment and Sports Equipment were revalued in 2020 and incorporated into the Financial Statement 2020 as well. Actions have been taken by the General Administration to revalue the balance category of items stated in the report. | Adhere to the Sri Lanka Public Sector Accounting Standards. |
| (b) Depreciation of an asset begins when it is available for use in terms of paragraph 69 of the Sri Lanka Public Sector Accounting Standard 07. Even though, 08 Laboratory Equipments costing Rs.39,399,513 which were received during the years 2017 to 2019 had not been ready for use as at 04 March 2021, the depreciation had been calculated since the date of goods received. | It is the responsibility of the Head of the User Department and Dean of the faculty to make sure the equipment purchased are used for the practical session of the students. If the equipment is not used, it is the inefficiency of the Dean of the faculty. | Adhere to the Sri Lanka Public Sector Accounting Standards. |

As a result, the Accumulated Depreciation and General Reserve had been overstated and understated respectively by Rs.16,505,637 in the financial statements.

1.5.3 Accounting Deficiencies

| ----- Audit Issue ----- | ----- Management Comment ----- | ----- Recommendation ----- |
|---|---|--|
| (a) Air Conditioners for Centre for External Degrees and Professional Learning at a cost of Rs.3,979,048 had been procured through the Self Financing Activities in September 2020. However, the cost of the assets had been taken as income for the year under review and debited to Development Fund account. As a result, the deficit for the year under review had been understated by that amount in the financial statements. | Action will be taken to spread out the capital expenditure amount and to recognize the utilized amount as the income of the year over the assets life time. | Action should be taken to recognize the amortized amount as the income for the year over the assets life time. |
| (b) Fully depreciated Office Equipments and Sports Equipment costing of Rs. 57,004,044 had been revalued at aggregating to Rs.20,637,790 on 01 July 2020 with the additional life time periods of 2 to 5 years as per the Council memo. However, due to an arithmetical error in calculating the depreciation for the revalued assets, the depreciation had been understated by Rs.3,310,493 during the year under review. Therefore, the deficit of the year understated by that amount in the financial statements. | There was a calculation mistake that had taken place in the calculation of the depreciation of the said revalued assets. Therefore, actions will be taken to incorporate the difference in the amount Rs. 3.3 million in the financial year 2021. | Actions should be taken to incorporate the understated depreciation of Rs.3,310,493. |
| (c) Forty-four iMac Computers costing of Rs.23,055,912 which procured through the Accelerating Higher Education Expansion and Development (AHEAD) Project in the year 2018 had not been accounted in the financial statements of the University. | Action will be taken to incorporate the figures on annual basis as stated in the letter quoted in the audit query, after getting the information from the Operational Technical Secretariat (OTS) in the University. | Action should be taken to incorporate the figures as per the instructions of AHEAD operation. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| Receivables balances from distress loan, festival advance, salary receivables, bond violations and Contractors and Institutions aggregating Rs. 9,719,273 had remained outstanding for a period ranging from 01 to 19 years without being recovered as at 31 December 2020. | Action has been taken to institute legal action against a balance and action has already been taken to recover the other balances. | Action should be taken to recover the outstanding receivables without further delay. |

1.6.2 Payables

| Audit Issue | Management Comment | Recommendation |
|--|---|---|
| The retention money payables to the contractors and suppliers totaling Rs.12,834,860 had been remained for period ranging from 2 to 7 years without being settled as at 31 December 2020. In this regard, adequate action had not been taken to pay the retention money or to treat as the income of the University. | Actions has been taken either to pay the retention balances or transfer the unclaimed due amount remaining for more than two years in to the University Revenue with the recommendation of the relevant sections. | Action should be taken to settle the payables or to transfer to the University revenue. |

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) Establishments Code of the University Grants Commission and the Higher Educational 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 | The concurrence and prior approval of the Ministry of the Finance and the Ministry of Education and the Finance Committee of the University with regards to the Fixed | In the year 2020, earned fund balances and bond violation amounts were only deposited in the fixed deposits. However, action will be taken to get the concurrence and prior approval of the Ministry of Finance, | Action should be taken in terms of the Establishments Code of Higher Educational Institutions and the Finance Act. |

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| Enterprises Circular No. PED/12 dated 02 June 2003 | Deposit totaling of Rs. 31,559,910 which invested in year 2020 had not been obtained. | Ministry of Education (Line Ministry), University Council and the Finance Committee as stated in the Audit Query and referred circulars therein, before depositing those in the Fixed Deposit. |
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| (ii) Section 3 (1) of Chapter XX and Circular Letter No. 10/2017 dated 10 July 2017 of the University Grants Commission. | All staff should be entered their arrivals and departures in the finger print scanner. However, the academic staff not comply with that. | As a common practice, the arrival and departure of academic staff are not maintained in the public University system in Sri Lanka. Further, the University system is facing challenges in implementing this system to the academic staff even though this matter is continuously raised by the audit queries. | Action should be taken to mark the arrivals and departures in terms of the Circular Letter 10/2017 of the University Grants Commission. |
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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. 16,054,534 and the corresponding deficit in the preceding year amounted to Rs.229,656,231. Therefore, an improvement amounting to Rs. 213,601,697 of the financial result was observed. The reasons for the improvement are the decrease of expenditure of Gratuity and Contractual Services mainly attributed to the above improvement.

3. Operational Review

3.1 Management Inefficiencies

Following observations are made

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|--|---|
| (a) The University had sustained a loss of Rs.1.73 million due to the negligence of the responsible officers who had delayed for more than six years to take action for recoveries of the bond value for breaching agreement by a lecturer. | Non-academic establishment division is notified to recover the loss of Rs. 1.73 Million from the responsible officers who have not performed duties in a responsible manner from 06 December 2000 to 13 July | Action should be taken to recover the losses from the officers responsible. |

However, no action had been taken against such officers even up to now. 2020.

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| <p>(b) The EPF payments for 28 employees hired on Ad-hoc / daily paid basis at the University during the years 1999 to 2008 had not been made in terms of the Employees Provident Fund Act, No. 15 of 1958 (as amended). As a result, a sum of Rs. 1,215,442 had been surcharged from the University on failure to pay contribution on due date in year 2018 and 2019. In this regard, the employee contribution aggregating to Rs. 1,022,380 had been paid from the University fund without taken action to deduct from the employees' earnings.</p> | <p>The Labour Department had instructed the University to pay the employee contribution. As a result, the University had to pay the employee contribution for total amount of Rs. 1,022,380 from the generated fund of the University with the approval of the University Council. Furthermore, most of the officers who got involved in the process and few employees who had obtained the contribution have been retired from the University service as of now.</p> | <p>Action should be taken to recover employee contributions from the relevant employees or the officers responsible.</p> |
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3.2 Operational Inefficiencies

| ----- Audit Issue ----- | ----- Management Comment ----- | ----- Recommendation ----- |
|---|--|---|
| <p>The University had collected a sum of Rs. 24 million from 511 students for Bachelor of Arts and 89 students for Bachelor of Business Administration for the first year external degree programme - 2016/2017 in year 2019. However, the degree programme had not been commenced even up to 20 July 2021 due to the suspension and restructuring curriculum for BA and less number of applicants for BBA. As a result, the future career of the students will be badly effect due to the delay of commencement of the course.</p> | <p>The application for registering new students for Bachelor of Business Administration (BBA) and Bachelor of Commerce (Bcom) were re-called due to less number of applications and accordingly more applicants are registering for BBA and Bcom programmes and it is expected to commence the programme by June 2021.</p> | <p>Action should be taken to commence the degree programme and to issue the course manuals without further delay.</p> |

3.3 Idle or underutilized Property, Plant and Equipment

 Following observations are made

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|--|--|
| <p>(a) The construction works of a Laboratory Block for the Faculty of Applied Science had been commenced on 31 October 2011 and completed on 15 February 2014 with the cost of Rs. 84,156,395. Further, a sum of Rs. 1,856,467 had been spent for the electrical fittings in year 2016. However, the Laboratory Block had not been utilized for the intended purpose for over 6 years due to the delays in the procurement of necessary Laboratory Equipments and incompleteness of the drainage, gas and water lines needed for the laboratory.</p> | <p>Water supply, drainage and gas supply works are in progress, hopefully it can be completed by mid of December, 2021.</p> | <p>Action should be taken to utilize the Laboratory block without further delay.</p> |
| <p>(b) Nineteen Function Generators at Mechanical Engineering Laboratory costing of Rs.546,250 which had been procured with 5 years of warranty periods on 15 March 2017 had not been utilized for the intended purposes for over four years.</p> | <p>The Head of the department at that time together with Dean of the faculty have requested to purchase these function generators without proper planning. This is due to inefficiency of the Head and Dean.</p> | <p>Action should be taken against the inefficiency and to utilize the Generators without further delay.</p> |
| <p>(c) The Laboratory Equipments aggregating Rs.93.5 million. which had been procured during the period from year 2017 to 2019 had been idled without being utilized for the intended purposes for the periods ranging from 1 to 4 years. Further, 02 air conditioners, 20 computer tables and an electronic screen aggregate cost of Rs.461,577 and 02 lecture halls which allocated to the Center for External Degrees and</p> | <p>Being a newly established Faculty, the Department had planned to secure the required space and equipment simultaneously, given the circumstances and urgency. Due to the limitations in securing the capital fund for the expansion of space, commissioning of some of the equipment had to be delayed. We will take necessary action to relocate these resources of lecture halls for their maximum usage in the future.</p> | <p>Action should be taken to utilize the Equipments in productive manner and to ascertain the smooth functioning during the warranty and service period.</p> |

Professional Learning during the period from 2013 to 2016 had not been utilized for the intended purposes for over 5 years.

3.4 Procurement Management

| ----- Audit Issue ----- | ----- Management Comment ----- | ----- Recommendation ----- |
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| <p>The tender for the procurement of CNC Machine EDM Solid had been awarded to the amount of Rs.11,647,200 to a supplier on 25 November 2016. However, the supplier had not proceeded due to the delay of tender awarding and price escalation. Subsequently, another Invitation for bids had been advertised and procured for Rs.21,104,229 from another supplier in 2019. As a result, the University had paid an additional amount of Rs. 9,457,029 than the first awarded price.</p> | <p>Since we had some internal delays such as conducting TEC members were experts from other established Universities and DPC meetings, we requested all the suppliers to submit an extension of the above bid security validity. The price difference are inflation and price fluctuation of the country and country of origin is a European product and the above one is from Taiwan. Normally, performance of these type of European products of similar specification is considerably higher than the Taiwan, Asian and Chinese products.</p> | <p>Action should be taken to award the tender before the expiry of bid bond and to avoid the uneconomic transaction in future.</p> |

3.5 Defects in Contract Administration

| ----- Audit Issue ----- | ----- Management Comment ----- | ----- Recommendation ----- |
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| <p>The University had awarded a contract to construct a Building Complex to the Faculty of Management and Commerce in 2010 at a contract value of Rs.112 million and should have been completed on or before 28 February 2014. Although the construction works were completed on 20 April 2014, the liquidated damages amounting to Rs.2,977,412 had not been recovered from the contractor as per the agreement and retention money amounted to Rs. 2,808,880 had been kept without settling against the liquidated damages over six years.</p> | <p>A letter was issued to the contractor to settle the due amounts from the retention money.</p> | <p>Action should be taken to recover the liquidated damages from the contractor without further delay.</p> |