

## **Technology Institute of the University of Moratuwa - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Technology Institute of the University of Moratuwa for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 Section 20 of the Technology Institution of the University of Moratuwa Regulation No. 03 of 2000 enacted in terms of Section 18 of the University Act No. 16 of 1978 and National Audit Act No. 19 of 2018. 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 financial statements give a true and fair view of the financial position of the Institute as at 31 December 2021 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**

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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 qualified 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 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 Institute 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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 Responsibility of the Auditor on Audit 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 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 Institutes' 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 Institutes' 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 Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

<b>Non Compliance with the Reference to Particular Standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The capital grants received during the year under review amounted to Rs. 5,298,000 had not been recognized and measured in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11.	Capital grants receive by the institution are recognized and accounted for separately in the capital grants receipts accounts shown in the budget allocation at the same time as they are received.	Sri Lanka Public Sector Accounting Standards should be followed.

### **1.5.2 Accounting deficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Computers costed for Rs. 5,346,000 had been acquired during the year under review and the payment made to the supplier in the year amounted to Rs. 4,276,800 had only been accounted as on 31 December 2021, as such, property, plant and equipment and creditors were under stated by Rs. 1,069,200 in the financial statements as on 31 December 2021.	Noted to keep accounts accurately for its value in respect of computers procured.	Necessary corrections should be made and arrangements should be made to prepare the financial statements correctly.
(b) A sum of Rs.1,013,731 paid for the procurement of property, plant and equipment during the year under review, had been considered as an operational expenditure and written off against the profit. As such, the deficit	It was observed that out of the pointed out purchased value of Rs.1,013,731.00 by you, only some items were capital items and the value of those items was Rs.262,020.00. The	Necessary corrections should be made and arrangements should be made to accurately identify

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| of the year and the cost of property, plant and equipment were over stated and under stated by that amount in the financial statements respectively.   | balance value was related to recurrent expenditure. Accordingly, noted to make the relevant adjustments.             | and account for operating expenses and capital expenses.   |
| (c) Depreciation amounting to Rs. 5,069,933 related to the revalued assets in the years 2017 and 2018 was debited to the revaluation reserve account instead of being debited to the depreciation account. As such, the revaluation reserve account and the general reserve account were under stated and over stated by that amount respectively in the financial statements.   | Noted to keep accounts accurately for the amount of depreciation related to the revaluation assets in 2017 and 2018. | Necessary corrections should be made and arrangements should be made to prepare the financial statements accurately. |
| (d) Although the provision for gratuity for the year under review amounted to Rs.7,678,951 should have been adjusted to the deficit of the year under review under Non-financial activities and the gratuity payment in cash during the year under review amounted to Rs.2,083,888 should have been shown as a cash outflow under Investing activities in the cash flow statement, the cash flow statement was prepared by adjusting the difference of Rs. 3,177,113 in the provision for gratuity account during the year under review to the deficit of the year under Non-financial activities. | Noted to look into the matters pointed out and will be corrected regarding the cash flow statements.                 | Action should be taken to prepare the cash flow statement accurately.  |
| (e) Although cash receipts and cash payments to the Restricted Fund account during the year under review should be shown under Financial activities and investment activities respectively when the cash flow statement were prepared, the cash flow statement was prepared by stating the difference of Rs.8,319,954 in that account under financial activities during the year under review.   | Noted to look into the matters pointed out and will be corrected regarding the cash flow statements.                 | Relevant corrections should be done.   |

## 1.6 Accounts Receivables and Payables

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### 1.6.1 Accounts Payables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Action had not been taken to settle the creditor balance total amounting to Rs.8,839,815, which was more than a year old, till 31 December 2021.	Reasons can be given such as insufficient funds to settle creditor balances, lack of other earned income of the organization.	Action should be taken to settle the creditors balances.

## 1.7 Non-compliance to Laws, Rules, Regulations and Management Decisions

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<b>Reference to laws, rules, regulations</b>	<b>Non compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Section 45(2)(1)(xv) of the Universities Act No. 16 of 1978	Action had not been taken to invest a total amount of Rs. 42,781,072 held in 12 other funds of the institution as on 31 December 2021.	All other funds available to the institution from the year 2017 to date have been utilized, due to insufficient funds for recurrent expenses. Even though an amount of Rs.42,781,072.00 was shown as the balance in the respective fund accounts, it has not been possible to invest the money as it was not actually in the accounts.	The University Act. Should be followed.

## 2. Financial review

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### 2.1 Financial results

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The operating result of the year under review had been a deficit of Rs. 24,900,166 as compared with the corresponding deficit of Rs. 1,564,284 for the preceding year, thus observing a deterioration of Rs. 23,335,882 in the financial result of the year under review. Increase in personal emoluments expenditure by Rs.34,373,048 had mainly attributed to the said deterioration.

### 3. Operational review

#### 3.1 Identified Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Paint and grout costing Rs.1,221,100 and stocks of medicines costing Rs.35,564 available in the medical center had also expired as on 31 December of the year under review.	The reasons for non-use of medicines were due to the fact that students were not called to the institute and the institute was also closed for staff from time to time due to the corona epidemic in 2020/2021. Actions have been taken on the recommendation of the committee regarding this stock handed over by the ICC.	Stock purchases should be made as per requirement.

#### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.10,557,026 could not be recovered due from three academic staff officers who breached their contracts and bonds as of 31 December 2021.	Action is in progress regarding the recovery of receivables to the institution for the breached of contracts and bonds by the academic staff.	Immediate action should be taken to recover the relevant money
(b) .A sum of Rs.25,000,000 had been paid to the Urban Development Authority on 29 November 2009 to take over the ownership of the land, valued for Rs.175,376,800 from the Urban Development Authority, which the technology institute was located. Even though 12 years have passed from the date of payment to the date of the report, the ownership of the land had not been transferred.	An request had been made to the Divisional Secretary, Homagama on 06 May 2021 to clear the issues related to land ownership and an application had also been submitted to the Commissioner General of Lands regarding the acquisition of ownership of the land on 17 August 2021. In response to those requests, a meeting was called by the Homagama Divisional Secretariat office on 03 March 2022 and the Divisional Secretary informed that they will continue the relevant works.	Actions should be taken to obtain the legal ownership as soon as possible.

### 3.3 Transactions of Contentious Nature

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A sum of Rs.340,823 and Rs.663,180 had been paid as employee incentives in the years 2020 and 2021 respectively considering as indirect expenses by wrongly interpreting the circular No. 04/2016 of the University Grants Commission dated 01 March 2016 from the application fee charged from the students for the NDT course.	The University Grants Commission does not make any selection of students for the Technology Diploma course. All the staff of the Institute of Technology of the Moratuwa University should be engaged in the entire procedure including selection and registration of students. Therefore, an application fee is charged for this process when students submit their applications.	Should be complied with the circular.

### 3.4 Under Utilization of Funds

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A total sum of Rs.8,125,524 in 03 funds for more than 10 years from the date of establishment of the funds and a total sum of Rs.955,030 in one fund more than 04 years were not utilized for the related purposes even during the year under review.	A sum of Rs. 5,842,405.00 from these funds has been spent on recurrent expenditure. A further amount of Rs.3,238,149.00 has been invested in fixed deposits until the applications are received from the relevant divisions.	Action should be taken to utilize the funds for the purposes of establishment of funds.