

Sabaragamuwa University of Sri Lanka - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sabaragamuwa University of Sri Lanka 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 sub section 107 (5) of the Universities 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 accompanying financial statements give a true and fair view of the financial position of the University 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

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 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.

1.4 Auditor's Responsibility for Audit of 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 skepticism 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.. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observation on the Preparation of Financial Statements

1.5.1 Non – Compliance with the Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the respective Standards	Comments of the Management	Recommendation
(a) Since the useful life of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets costed for Rs.1,253,598,110 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.	Action is being taken to prepare a fixed asset register presently. Once this fixed asset register is prepared it is possible to eliminate all of these deficiencies.	Should act in accordance with the Sri Lanka Public Sector Accounting Standards.
(b) Capital grants of Rs.426,000,000 received during the year under review had not been recognized and measured in the financial statements, in accordance with Sri Lanka Public Sector Accounting Standard 11.	Sri Lanka Public Sector Accounting Standard 11 will be followed in future.	-do-

- (c) Since useful life time of the intangible assets had not been reviewed in terms of Paragraph 103 of the Sri Lanka Public Sector Accounting Standard 20, intangible assets costed for Rs. 13,327,143 were further in use despite being fully depreciated. However, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.
- Action is being taken to prepare a fixed asset register presently. Once this fixed asset register is prepared it is possible to eliminate all of these deficiencies.
- Should act in accordance with the Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the statement of financial position prepared as on 31 December 2021, although the provision for gratuity on that date was Rs.514,666,493, as per the individual balance schedule of gratuity calculation it was Rs.601,158,480. The under provision of Rs.86,491,987 which occurred in the calculation of gratuity including the academic allowance for the academic staff and the lieu allowance for the non-academic staff in the year 2019, had not been corrected even by 31 December 2021.</p>	<p>The difference will be adjusted in the future.</p>	<p>Action should be taken to correct this error.</p>
<p>(b) Although a sum of Rs.73,414,154 received from self-generating financial activities during the year under review should be recognized as income of the year under review, instead of which only a sum of Rs. 36,425,658 were recognized as income in the year under review and the remaining balance of Rs.36,988,496 were directly credited to the Development Fund Accounts. As such, the surplus of the year under review was under stated by Rs.36,988,496.</p>	<p>That excess income received from the self-generating financial activities will be adjusted in the future through the statement of changes in equity.</p>	<p>-do-</p>

- (c) According to the information submitted for the audit by the Capital and Planning Division, although a sum of Rs.20,860,844 was due to the Central Engineering Consultancy Bureau by 31 December 2021 for the construction of the lecture hall complex of Faculty of Social Sciences and Faculty of Languages, no provision was made for it in the financial statements. That the necessary corrections will be made in the future. Liabilities should be properly identified and accounted for.
- (d) A sum of Rs.47,851,166 was removed from the building account and debited to the creditor account During the year under review, but the related journal entry was not prepared, so it was not possible to identify and check the transaction. A journal voucher was not prepared for the removal of this building value, but the entries were made subject to approval in the accounting system. The necessary journal vouchers to identify and verify the transaction should be prepared and submitted for audit.
- (e) A sum of Rs. 9,953,442 paid in the year 2019 for a construction of the Faculty of Management and Sociology should have been debited to the work in progress account, but instead it was debited to the building account. As such, the building account was overstated by the that amount on 31 December 2021 and the depreciation for building for the 03 years 2019, 2020 and 2021, was over accounted by Rs.1,493,016. That a sum of Rs.9,953,442 was paid by the Finance Department and transferred from the unfinished work account to the building account as the construction was used at that time. Work in progress and finished works should be accurately identified and accounted for.
- (f) According to paragraph 5.5 of Circular No. 4/2016 issued by the University Grants Commission on 01 March 2016, the project accounts prepared for the self-generating financial activities of the university were not disclosed as a note in the financial performance statement. Further, as per paragraph 5.5.2 of the said circular, contribution to funds at the end of the year should have been transferred from the statement of financial performance to the statement of financial position through the statement of change in equity, but had not been done so. That the project accounts prepared for self-generating financial activities will be submitted as an annexure with the accounts of the University in future. Circular provisions should be followed.

1.5.3 Unreconciled Control Account and Records

Subject	Value as per the Financial Statement Rs.	Value as per the Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a) Amount payable to Central Engineering Consultancy Bureau for construction of 03 faculty buildings	40,289,882	-	40,289,882	After consulting the Capital and Planning Division and the Central Engineering Consultancy Bureau the relevant corrections will be made in the future if the amount is not available for payment.	Liabilities should be properly identified and accounted for
(b) The value of work in progress in the construction of the main library building	48,882,099	75,503,800	26,621,701	The Capital and Planning Division recognizes only the payments made to the contractor for each project as work-in-progress value and all costs incurred for the project are recognized as work-in-progress in the financial statement.	Work in progress value should be accurately identified and accounted for.
(c) Accrued expenditure payable to a private Company	1,647,000	-	1,647,000	This will be further investigated and corrected in the future.	Liabilities should be properly identified and accounted for.
(d) Balance due to Central Engineering Consultancy Bureau for construction of playground	14,700,327	11,569,096	3,131,231	This will be further investigated and corrected in the future.	Liabilities should be properly identified and accounted for.

and
Geomatics
Faculty

(e)	Balance due to Central Engineering Consultancy Bureau for construction of male hostel	7,486,262	10,807,708	3.321.446	-do-	-do-
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1.5.4 Lack of Documentary Evidence for Audit

Subject	Amount (Rs.)	Evidence not submitted	Comments of the Management	Recommendation
Sundry Deposits	1,168,125	Detailed Schedules	The Accounts Division maintains a schedule from the year 2021 with respect to various deposits.	Schedules should be properly maintained to identify the balances of various deposit accounts.

1.6 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
12 balances of disaster loans, computer loans, vehicle loans, employee loans and festival advances amounting to Rs.439,429 belonging to 07 employees from a period of 04 years to 21 years had not been recovered even by 31 December 2021.	Recovering of due balances is not possible due to ongoing legal proceedings regarding academic and non-academic staff contract violations of the University.	Loan recoveries should be done.

1.7 Payable Accounts

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 2,201,150 payable to Mahapola Trust Fund from the year 2019 was not settled even during the year under review.	The Rs. 2,201,150 payable to Mahapola Trust Fund will be settled in the future.	Action should be taken to settle the payable balances.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 11 of the Finance Act No. 38 of 1971 and paragraph 8.2.2 of the Circular No. PED / 12 of 02 June 2003 of Director General of Public Enterprises.	Although the excess money in the institutions can be invested subject to the approval of the Minister of Finance, a sum of Rs. 116,660,274 had been invested in 08 fixed deposits in the year under review without such approval.	The surplus funds of the University had not been invested in Fixed Deposits and the University has invested money on temporary basis in Fixed Deposits with the approval of the Finance Committee and Governing Council.	Should act in accordance with the provisions of the Finance Act and Circulars.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371 (5)	Although the ad-hoc imprest issued should be settled immediately after the completion of the relevant work, advances given for project, recurrent capital and research issued to 23 officers and 06 institutions in 32 instances	A certificate of recovery of unsettled advances from the payee's salary will be taken from this year along with the advance application form and this will be followed in future.	Financial regulations should be followed.

amounting to Rs. 6,743,084 from the year 2016 to the year 2021 had not been settled even by 31 December 2021.

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| (ii) Financial Regulation 571 | Retention money amounted to Rs. 16,686,382 related to the period from 2016 to 2019 was not credited to the government revenue after inquiring from the concerned parties. | The university is liable to pay these retention money to the respective parties and therefore cannot be taken in to the income. | Financial regulations should be followed. |
| (c) Paragraph 7 of Chapter V of the Establishments Code of the University Grants Commission and Higher Educational Institutions | A sum of Rs. 50,516,467 receivable from 11 officers due to breach of the bonds, who had gone for overseas on study leave from the year 2000 to 2017, had not been recovered even by 31 March 2022. | The relevant documents have been submitted to the Attorney General's Department to take legal action to recover Rs.28,079,397 due from three officials. | Should comply with the provisions of the University Institution's Establishments Code. |

2. Financial Review

2.1 Financial Results

The operating results of the year under review had been a surplus of Rs. 72,767,750 as compared with the corresponding deficit of the preceding year amounting to Rs. 100,763,338. Accordingly, an improvement of Rs. 173,531,088 was observed in the financial results. Even though the recurrent expenditure was increased by Rs. 216,393,885 the increase in recurrent grant by Rs. 297,500,000 and other income by Rs. 28,697,543 in the year under review had mainly attributed for this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) A total sum of Rs. 1,370,300 had	Actions are being taken so	Arrangements should be

been paid in 08 instances as a sum of Rs.400,000 for the preparation of a software for the fixed asset register and a sum of Rs.968,300 for the preparation of the asset register by entering data into the software from the year 2016 up to year 2019. But the fixed assets register including property and equipment costing Rs.6,614,202,769 as on 31 December 2021 had not been prepared even by 30 May 2022.

far to prepare a fixed asset register by physically verifying, valuing and computerizing all fixed assets including land and buildings.

made to complete the preparation of fixed asset register promptly.

- (b) Although the Committee on Public Enterprises had ordered on 09 August 2017 that the defects in the university's playground and the pavilion, which had been built at a cost of Rs.123,052,693 in 2014, should be completed, action had not been taken to repair the playground using the retention money of Rs.5,156,160 even by 30 May 2022.

It has been informed that it was discussed with the Central Engineering Consultancy Bureau who was constructed the playground and they completed the work properly and satisfactorily and handed over the playground and pavilion to the university on 30 April 2012, and that the maintenance period was also ended on 30 April 2013. Also, they have informed that the final bill and retention money should be paid to them and if not, they will have to proceed as per the agreement since it is not fair to use their retention money and final bill payments to works done through a third party.

The order of the Committee on Public Enterprises should be followed.

- (c) Out of Rs.5,434,801 received as a grant during the period from 2013 to 2015, according to a memorandum of understanding signed with the University of Gothenburg, Sweden, a sum of Rs.1,676,970 remained underutilized for 03 years.

The Coordinator has informed the Finance Department in writing regarding the way of using the relevant amount and accordingly, will be acted subject to the recommendation of the Finance Committee and the approval of the Governing Council in the future.

The funds received should be utilized effectively and properly.

- (d) A three-member inquiry panel was appointed in February 2018 to investigate on non-compliance with the prescribed specifications of 130 desktop computers procured at a cost of Rs.15,964,000 in June 2016. According to the inquiry board report dated 19 May 2018, it was recommended that disciplinary action should be taken against the officials who had acted irresponsibly in the entire procurement process, but disciplinary action had not been initiated even till 30 April 2022 and the retention amount of Rs.1,596,400 had also been released to the contractor on 21 June 2018.
- The retention money was released based on the committee decision and other relevant measures have been taken according to the decision of the 280th Governing Council held on 24 January 2022, accordingly, a two-day workshop to aware the administrative staff about the administrative and financial regulations and an awareness program for academic and non-academic staff about the procurement process had been conducted.
- Disciplinary action should be taken according to the recommendations of the inquiry board regarding the officials who had acted irresponsibly during the procurement process.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Five officers who had gone overseas to complete their post-graduate qualifications between 2012 and 2017 on paid study leave had reported back to the office without completing their studies, and had not completed their post-graduate qualifications even by February 2022. According to Article 19 of the agreement entered into with the university when those officers went abroad on study leave, all the expenses incurred for the studies should be surcharged due to abandoning the studies or not completing them within the stipulated time. As such, due to non-compliance, it was unable to recover the bond values of Rs. 42,853,450 even by 31 December 2021.</p>	<p>If these officers do not complete their post-graduate qualifications, will act as per the contractual conditions on the instructions of the governing body.</p>	<p>Should act according to the contractual conditions.</p>

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| (b) | A total sum of Rs.6,081,025 was paid as research allowances to 13 officers belonging to the non-academic staff of the university during the period from January 2020 to October 2021, but none of the officers who received the allowances had submitted research reports at the end of the research period. The research committee had arranged to approve grants for the next year for new research proposals regardless of the progress of the previous research. | Six final research reports of research proposals related to the research grants given for the years 2020 and 2021 have been submitted so far. | Research reports should be obtained from all officials received research grants. |
| (c) | An officer who had taken 36-month foreign study leave from 15 March 2014 to 14 March 2017 to pursue a post-graduate study course at the University of Malaya, Malaysia. Further, the approval was given to him for his request for no pay leave to serve as the chairman of Lanka Electricity Pvt. Ltd. for 03 years from 19 November 2015. The studies were not completed within the stipulated time but the bond value of Rs.10,313,221 was not recovered by the university. Instead, the officer was granted study leave with pay from 20 February 2019 to 13 June 2020 to pursue a postgraduate degree in the university's postgraduate faculty and opportunity was given to enter to a new postgraduate bond including the pre-bond value. But even that postgraduate degree was not completed by 30 May 2022. | That he will be notified to submit the Darshana Wisharada degree certificate and if the course is not completed, it will be dealt with according to the contractual conditions on the advice of the governing body. | It should be done according to the contractual conditions. |

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
A rainwater collection and treatment plant, a vehicle washing station and a small	After all the house owners are occupied, they will be informed regarding the use of the facilities in the	Assets should be utilized effectively.

building for garbage storage project and action will be taken to use these facilities as usual. The mini shopping complex could not be leased out in the last period due to the delay in providing water and electricity from the relevant institutions and the country's economic activities being paralyzed due to the covid epidemic.

were built in the housing complex at a cost of Rs.21,000,000 in the year 2020 remained idle without being used. Further, the mini shopping complex which was built at a cost of Rs.15,000,000 remained idle for 02 years without being used for its intended purpose.

3.4 Procurement Management

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Due to exceeding the authority limit of the Departmental Procurement Committee, the procurement was divided into four parts and Rs.34,123,169 worth of laboratory equipment was procured for the Faculty of Medicine on the recommendation of the Departmental Procurement Committee. Furthermore, procurement of 172 desktop computers were divided into 5 parts and 76 laptop computers were divided into 3 parts and those computers were procured at a cost of Rs. 44,983,730 on the recommendation of the Departmental Procurement Committee.	There was no action taken to deviation of the procurement process or disregard of authority and the procurement process was initiated and implemented according to the preparation of specifications based on the prevailing situation in the country. Also, the rapid increase in the price of goods in a very short period of time, shortage of goods, uncertainty in the market due to the Covid epidemic situation etc. were specially taken into consideration while choosing the procurement method.	Procurement guidelines should be followed.
(a) The project to build a housing complex for the university staff was awarded to a construction company on 30 October 2017 for a contract value of Rs.355,715,000 tax-free on Design & Built basis. Due to over-estimation of the requirement of internal road system and safety fence in the bidding documents and the fact that the Technical Evaluation Committee had not performed a proper evaluation of	If there is an overpayment on the length of the fence built around the land, it will be calculated and recovered from the contractor. A price offer of Rs. 23,500,000 had been included for the construction of the internal road system and other matters related to the price proposals in the bid	Action should be taken to recover the financial loss incurred.

those items, the plans were revised without regard to the cost after the procurement was awarded and the contract was signed, etc. and, accordingly, the university had incurred a loss of Rs. 20,116,000 approximately due to such factors.

3.5 Deficiencies in Contract Administration

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>Construction of the new library building Phase I was awarded to a contractor on 30 January 2018 with a contract value of Rs.315,051,433 excluding value added tax on the condition that the completion of works within 24 months. A sum of Rs.63,010,286 had been paid as mobilization advance and the advance payment guarantee had expired on 07 February 2020. But action had not been taken to extend its period. In the meantime, the contractor had abandoned the construction and the final certified works was valued for Rs. 43,058,226 by the work engineer. Since a sum of Rs.83,010,286 had been paid to the contractor as mobilization advance and the value of work done, the amount to be recovered from the contractor was Rs.39,952,060.</p> <p>The performance bond amounted to Rs.15,752,572 had been encashed during the year under review, and spent on recurrent expenditure of the university. On the request of the contractor and without the approval of the procurement committee, a tripartite agreement was entered into with a subcontractor on 01 February 2021 and according to that</p>	<p>A bill worth Rs.23,750,499 was submitted on 31 July 2021 regarding the construction works done by the subcontractor and the governing body has decided not to pay the bill until the concerned institution submits the performance guarantee. Further, the subcontractor has been informed that the Mobilization Advance will be fully recovered by deducting 50 percent of the value of the bills presented in the future. That the governing body has decided to take legal action with the parties concerned if the performance guarantee is not provided by the above date.</p>	<p>The building should be completed by solving the existing issues and disciplinary action should be taken against the parties responsible for not encashing the advance guarantee before expiry.</p>

agreement, the works should be completed before 24 February 2022. While failing to submit the advance bond of Rs.53,442,615 to be submitted by the subcontractor within 07 days from the date of signing the new agreement and the submission of the performance bond of Rs. 15,752,572 had been delayed until 24 March 2022, it was recommended to extend the contract period till 23 January 2023 without dealing with it.

3.6 Human Resources Management

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
Out of 461 approved posts in the academic cadre, 113 and out of 541 approved posts in the non-academic cadre, 149 were vacant as on 15 May 2022. Vacancies in non-academic staff also led to the payment of Rs.17,947,941 as holiday and overtime payments during the year under review.	Six staff recruitments have been made from January 2022 to 19 May 2022 and the interviews for the applications received for other recruitments are expected to be conducted in the future. As per the Cabinet Decision No. 21/1596/304/134 dated 31 August 2021 on Public Expenditure Review, all recruitments have been temporarily suspended as instructions have been given for the suspending of all recruitments for the time being.	Action should be taken to fill vacancies according to the remaining rules and regulations.