

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 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 Auditor's Responsibilities for the Audit of 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 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non- Compliance with the reference to particular Standards	Management Comment	Recommendation
(a) According to Paragraph 69 of Sri Lanka Public Sector Accounting Standard 07, the depreciation of assets begins when it is available for use. However, as per the accounting policies of the university, assets will not be depreciated in the year of acquisition. As a result of that the deficit and fixed assets were understated Rs.3,232,596.	The Finance and Audit Committee will review the accounting policy regarding depreciation to ensure compliance with SLPSAS.	Adhere the Sri Lanka Public Sector Accounting Standards.
(b) The other assets amounting to Rs.110,173,417 and assets received from the Accelerating Higher Education Expansion and Development (AHEAD) Project amounting to Rs.348,908,722 had been shown under property, plant and equipment without categorizing of assets of a similar nature or function in an entity's operations according to Paragraph 50 of Sri Lanka Public Sector Accounting Standard 07	It is presented under the "AHEAD" category in the financial statement for clarity	Action should be taken to group the respective assets from AHEAD Project.
(c) Capital grant and donations amounting to Rs.313,109,540 received during the year under review had not been recognized as revenue in accordance with Sri Lanka Public Sector Accounting Standard 11.	Appropriate measures shall be undertaken to apply SLPSAS 11 with the approval of the governing authority	Adhere to the Sri Lanka Public Sector Accounting Standards.
(d) The sum of Rs.1,032,395 incurred for the modification of the Software for Fixed Assets Register during the years 2022 and 2023 had been charged as an expenditure without been capitalized in the financial statements. As a result the deficit and intangible assets were understated by that amount.	Action have already been taken to capitalize the expenditure incurred for the modification of fixed assets register system under the category of computer software.	Action should be taken to capitalize the respective expenses.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The land belonging to the university with an extent of 241.2 hectares had not been valued and brought to the accounts.	As soon as the transfer of ownership is completed, prompt and diligent measures shall be implemented in strict adherence to the Accounting Standards known as SLPSAS 07.	Action should be valued and taken to the accounts.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Out of total receivables balances of Rs.431,315,889 as at 31 December 2023, a sum Rs.238,964,922 or equal to 52 percent had not been recovered from 03 to 40 years. Out of that, the bond value of Rs.147,164,353 had failed to recover from 66 lecturers who breached the bond agreements from 10 to 41 years.	The letter of demand has sent to other bond defaulters and their sureties. Further, the Council decided to send the letter to relevant High Commission of Embassy to inform the bond defaulters.	Action should be taken to recover bond value from the bond violators.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
As at 31 December 2023, aggregating amount of Rs.3,973,526 had remained payable by the University for a period ranging from 3 to 18 years without taking proper action to settle them.	Efforts are currently underway to settle all outstanding payables in a timely manner.	Action should be taken to settle all outstanding payables.

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

Reference to Laws, Rules Regulations etc.	Non- Compliance	Management Comment	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulations 371 and Finance Circular Letter No. 05/2015 dated 9 September 2015 of the University Grants	There are 22 instances where the settlement of advances had been delayed ranging from 32 to 112 days with related to the events of Sri Lanka University Games (SLUG) aggregating to Rs.4,845,200,	Most of the advances have been settled within the stipulated periods.	Action should be taken in terms of the Financial Regulations.

Commission.

A decision was taken by the council of the university on 24 June 2023, that an advance can be paid up to a maximum of Rs.500,000 for the SLUG event contrary to the circular limit of Rs.100,000. Accordingly, advances totaling Rs.7,254,680 had been in 24 instances exceeding the limit without taking prior approval from the General Treasury.

(ii) Financial
Regulations 383

Direct debit deposits in three bank accounts aggregating to Rs.3,925,059 and Rs.1,604,146 respectively had been shown as unidentified debits and unrealized deposits in the bank reconciliation statement without being identified for more than 13 years.

The Council is unable to find documents before 2009 and necessary write-offs have been made as decided by the Council.

Action should be taken to identify the respective deposits before write off.

(iii) Financial
Regulations 571

Actions had not been taken to settle or credit to the Government revenue with related to 51 retention money deposits aggregating to Rs.16,264,477, and 08 types of refundable deposits aggregating to Rs.6,916,081 which have remained in the accounts for a period ranging from 03 to 08 years.

Appropriate actions will be taken In accordance with the aforementioned procedure.

Action should be taken according to the Financial Regulations

(b) Establishments Code of the University Grants Commission and the Higher Educational Institutions

(i) Sub-section 20.8 of Chapter III and Sub-section 4.1 of Chapter VI

The Council had accepted the resignation of Grade I Senior Lecturer of the Department of Botany on 29 August 2020. The Lecturer had been re-employed to previous post with effect from 02 September 2020. However, contrary to the provision of the Establishments Code, the Salary Step had been placed as Rs.119,520 instead of placing in the initial salary of Rs.91,310. As a result, a sum of Rs.3,633,900 had been overpaid to

Action has already been taken to readjust her salary point as per the decision of the 340th meeting of the Council.

Action should be taken according to the provisions in the Establishments Code

the above lecturer during the period from 02 September 2020 to 31 December 2023.

(ii) Section 3. of Chapter XXVI as amended by the Establishment Circular Letter No.04/2013 dated 10 April 2013 of UGC.	Reports of the Annual Board of Survey and the report for the year under review had not been furnished to the Auditor General even by 17 July 2024. Further, the actions on the recommendation made in the Board of Survey report for the years 2020, 2021 and 2022 had not been completed.	Action has been taken to dispose all the unserviceable item and records will be adjusted accordingly.	Action should be taken according to the provision in the Establishments Code.
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(c) University Grant Commission

(i) Letter dated 12 October 2018	Actions had not been taken to get the reimbursement of the component of Mahapola Trust Fund amounting to Rs.2,305,000 which was remained as recoverable for over three years.	The University maintains regular communication and diligent follow-up with the University Grant Commission regarding the reimbursement of bursary funds.	Action should be taken according to the UGC Circular.
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(ii) Paragraph 4 of Commission Circular No. 01/2022 dated 03 January 2022.	The verification of the cost of Library Books and Periodicals amounting to Rs.131,242,338 as at 31 December 2023 had not been conducted.	The normal routine standard procedures for the procurement of books and periodicals, which commenced in January 2024, are currently in progress.	Action should be taken according to the UGC Circular.
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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.379,540,072 and the corresponding deficit in the preceding year amounted to Rs.503,716,980. Therefore, an improvement amounting to Rs.124,176,908 of the financial result was observed. The reason for the improvement is increase in recurrent grant mainly attributed to the above mentioned improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Study leave was granted to a lecturer from English Language Teaching Unit who signed a bond of Rs.14,258,446 to pursue a Ph.D. in the UK, Despite a computation error in study leave calculation that led an overpayment of course fees and allowances totaling Rs.3,601,837, no action has been taken against the responsible officer.	During the Competent Authority period, the Council approved extending a probationary period and payments as a special case and it will not proceed in future.	Action should be taken strictly to adhere to the Establishments Code and UGC Circulars of the UGC and HEIs.

3.2 Delay in Projects or Capital Works

Audit Issue	Management Comment	Recommendation
(a) According to the Cabinet Decision No. 21/2084/306/094 dated 06 December 2021 and the Letter No. 4/1/1/501 VOL XIII dated 30 December 2021 from the Secretary to the State Minister of Rural Housing and Construction & Building Materials Industries Promotion, the compensation for price variations to contractors should not exceed 20% of the contract value, using the price variation formulae of the CIDA. However, in the construction for Design, Construction, and Commissioning of a two-storied building complex for a Multipurpose Auditorium, the contractor has claimed Rs.36,762,239 as price escalation, which is 32.2% of the work done amount, exceeding the limit by Rs.13,928,550.	As per the letter of the Secretary, Ministry of the Education dated 23.09.2022 letter no. HE/IDD/GEN/2022/01, there is no such limit mentioned (20% of the contract sum) for the amount of compensation of price escalation.	Action should be taken strictly to adhere to the instructions from the relevant authorities.

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| (b) The building construction works of the Faculty of Communication and Business Studies building was not completed, due to defects of power supply, the contract made for the connection of network, amounting to Rs.28,756,766, in August 2022 could not be completed due to the aforesaid reason. | Due to many unavoidable circumstances, Faculty of Communication and Business Studies building construction project completion date was extended many times and due to this reason. However, Supply and installation of Network connection had successfully completed on 29.02.2024 | Action should be taken to provide power supply and complete the construction works without further delay. |
| (c) The construction of the Internal Road of a 3 km in the Trincomale Campus was awarded to a Private company through RDA in 2017, with a contract value of Rs.145 million. However, the construction was not completed during the contract period, and four extensions were granted from 2017 to September 2023. Despite these extensions, only 1.3 km of the road, costing Rs.60 million, was completed. There was a substantial delay of six years, and the remaining 1.7 km had not been completed up to 31 December 2023. | Due to the economic crisis in the country the price of the fuel cost increased drastically, as a result of these, the Road Development Authority was revised the estimate several times and the fund is not sufficient to complete the balance 1.7 Km. road. | Action should be taken to complete the construction works without further delay. |

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
A total of 136 posts, which is 49 percent of the approved cadre in Academic, Non-Academic, Academic Support Staff, and administrative positions, remained vacant during the year under review. Although this situation had badly affected the educational activities of the students, the Campus had not taken proper action in this regard.	As per a letter dated 22 February 2022 from the Ministry of Education, the recruitment process for permanent and temporary posts has been stopped.	Action should be taken to fill the vacancies.