

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the South Eastern University of Sri Lanka 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 asset 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 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 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 Institute'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 Institute'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 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 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**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) According to the paragraph 47 of Sri Lanka Public Sector Accounting Standard No. 07, the fair value of Property, plant and equipment should be revalued every three to six years. However, the University has not conducted a revalued of five land parcels, with a total cost of Rs. 450,330,000, since 2011.	A letter was received from the District Valuer in this regard indicating the valuation fee payable for the service with agreements, amounting to around Rs. 9.0 Million, which the University is unable to pay due to the current financial restrictions. However, action will be taken to allocate necessary funds in future to complete this task.	Should be comply with the Sri Lanka Public Sector Accounting Standards
(b) Actions had not been taken to capitalize the completed component amounting to Rs.8,141,358 of the Infrastructure Development Project of Agrotech Park of Malwaththa which is included in the work in progress.	Out of the 19 components of the project, only 4 minor elements have been completed. It is not material to capitalize these components separately. Upon the project's full completion, the entire project will be capitalized under Property, Plant, and Equipment.	Action should be taken to capitalize the completed components.

### **1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non- Compliance</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) Section 11 of the Finance Act No. 38 of 1971 and Section 1 of UGC Circular No. 04/2019, dated 19 July 2019.	The concurrence of the Minister of Finance and the approval of the Ministry of Education had not been obtained for the placement of fixed deposits aggregating Rs.124,601,767.	A letter has already been sent to the Treasury through the UGC and Line Ministry to obtain concurrence for all the remaining Fixed Deposits. However, we are still awaiting a reply from the Treasury.	Action should be taken in accordance with the provision of the Finance Act.

(b) Financial Regulations (FR) of the Government of the Democratic Socialist Republic of Sri Lanka

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| (i) FR 103(1)  | As per the Boards of Survey Report for the year 2023, ninety six items have been lost from 08 divisions of the University. However actions had not been taken as per the Financial Regulation.   | The delay in completion of the annual Board of Survey was mainly due to the flood that occurred at the University premises in Oluvil in early part of the year. The routine functions of the University returned to normalcy after several days causing significant delay in physically verifying the assets. | Action should be taken in accordance with the Financial Regulation.                                 |
| (ii) FR 571  | Retention money amounting to Rs.17,080,993, and refundable deposits amounting to Rs.4,378,800 which have remained in the accounts for a period ranging from 03 to 09 years without taken action to settle or credit to the government revenue. | Appropriate action will be taken to transfer any unclaimed amounts outstanding for more than two years into the Revenue   | Proper action should be taken with regard to lapsed deposits as instructed in Financial Regulation. |
| (c) Section 5.4 of Chapter XIX Establishments Code of the Democratic Socialist Republic of Sri Lanka | The University had not taken any actions to recover the rent amount of Rs.24,924,953 due from 38 academic staff and 02 non academic staff residing in the University quarters for the period of 2014 to 2023.                                  | Rates approved by the University Council as stated in the by law governing the allocation and the maintenance of University Quarters are duly and promptly recovered from the monthly salaries of the tenants residing in the Staff Quarters of the University.   | Outstanding rent should be recovered from the tenants as per the provisions in Establishments Code. |
| (d) Section 3 (1) of Chapter XX of Establishments Code of the University Grants                      | Salaries and allowances amounting to Rs.851,249,018 had been paid in the year under review without confirming  | As a common practice, the arrival and departure of academic staff are not maintained in the State University System in Sri  | Should be followed the provisions in the Establishment Code and Circulars.                          |

<p>Commission and the Higher Educational Institutions and Circular Letter No. 10/2017 dated 10 July 2017.</p>	<p>the arrivals and the departures of the academic and library staff.</p>	<p>Lanka.</p>	
<p>(e) University Grants Commission's Establishment Circular No. 15/2015 dated 17 November 2015.</p>	<p>The results for the examinations conducted in the four Faculties for the academic years from 2017/18 to 2020/21 had been released after a delay for the period ranging from 4 months to 7 months. As a result students had not been completed their degree programme within the stipulated period.</p>	<p>In some cases, the results for one or two subjects have been slightly delayed. This delay is due to second examiners from other universities, particularly for subjects in the Faculty of Technology and the Faculty of Management &amp; Commerce, who have been late in submitting their marks sheets. As a result, the pass list for a semester cannot be finalized until all marks are received, leading to delays in releasing the semester results for certain faculties.</p>	<p>Action should be taken in accordance with the circulars.</p>
<p>(f) Management Services Circular No 02/2014 dated 11 February 2014</p>	<p>Research allowances of Rs. 23,008,525 had been paid to 12 officers of the non - academic staff during the period from 01 November 2014 to August 2023 without taking the approval of the research management committee and obtaining any interim or final research report.</p>	<p>The following procedures outlined in section 12 of Chapter VII of the revised UGC Establishment Code commencing from the year 2024. An interim report of the research including its progress against the action plan of the proposal should be submitted to the Research Committee within a period of six months from the date of commencement of research. The Committee should determine the commencement date for payment of Allowance according to the progress of research. The Research Allowance can be paid up to a maximum period of</p>	<p>Action should be taken in accordance with the circular.</p>

three years during the active conduct of the research.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review was a deficit of Rs.52,534,712 as against deficit of Rs.130,456,831 in the preceding year, thus observing a improvement of Rs.77,922,119 in the financial result. The main reasons for the improvement are the increase of total income.

### **2.2 Trend Analysis of Major Expenditure items**

The expenditure of the University such as Travelling, Supplies, Maintenance, Contractual Services and Self – financing programs for the year under review had been increased by 18 percent to 64 percent as compared with preceding year.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Loans and Advances amounting to Rs.1,629,655 due from 06 officers who had been vacated their posts as at 31 December 2023 had not been recovered despite the lapse of 02 to 23 years.	Letters have been already sent to the relevant personnel by the Establishment Division and some are in legal cases	Action should be taken to recover the outstanding balances from the relevant officers
(b) A sum of Rs.2,145,783 due from University as at 31 December 2023 in respect of service providers of the University had been remaining as unsettled despite the lapse of more than 02 years.	Necessary steps have been taken to resolve any outstanding balances and transfer any unpaid funds that have been unclaimed for more than two years to the University Revenue.	Action should be taken to settle the outstanding payables.
(c) A sum of Rs.20,687,716 had not been recovered from 07 lecturers who had breached the bond agreements during the period from 2009 to 2023.	Letters send to his/her sureties have saved to pay the dues from monthly salary in installment basis and to be recover his /her UPF and pension balances from relevant lectures.	Action should be taken to recover the dues from relevant officers.

### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The University purchased four mechanical equipment items valued at Rs.50,368,729 for the use of Mechanical Engineering and Automobile Engineering students from 2017 to 2019. However, these items have remained unused for over four to six years due to insufficient demonstrations of their operation, improper installation, and failure to properly hand over to the relevant departments.	Two machines are now working condition and have been made to start the practical before the end of November 2024. Another two machines are not in working condition due to similar repairs and purchase some spare parts. It's have been made to start the practical before the end of November 2024	Action should be taken to use idle assets fruitfully.

### 3.3 Contract Administration

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The University signed two agreements with contractors for a total cost of Rs.14,275,018 for the construction of light posts and infrastructure development at Agrotech Park in 2021 and completion deadline of June 2023. By September 2023, the University had expended Rs.69,655,764 (Including VAT) and recommended mutual termination of the Faculty of Agro Technology have been unable to utilize the park for its intended purpose, rendering the expenditure ineffective.	Action has been taken to re-tender and complete the work within the allocated budget by 2024.	Action needs to be taken to signed mutual termination agreement and complete the balance construction works without further delay.