

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Human Resource Advancement affiliated to the University of Colombo 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 equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and other explanatory information 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 23 of the Human Resource Development Institutions Ordinance No. 11 of 1979 enacted under Section 18 of the University Act No. 16 of 1978 and the Section 107(5) and of the Universities Act and the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported 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 2022, and its financial performance and 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 determines 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'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 intends 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's financial reporting process.

As per Sub-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 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 audit 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 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 audit 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 audit 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Review

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non - Compliance with the Reference to the Particular Standard	Comment of the Management	Recommendation
According to paragraph 49 of Sri Lanka Public Sector Accounting Standard 7, the entire class of assets should be revalued during the revaluation of assets. But during the revaluation of 04 classes of assets in the year under review, the assets costing for Rs.33,188,378 were not revalued.	Noted to revalue and disclose correctly in the next year.	The entire asset class should be revalued in accordance with Sri Lanka Public Sector Accounting Standard 07.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) The course income amounting to Rs.13,632,566 received during the year under review and application fees amounting to Rs.845,900 had been directly accounted in the Development Fund and the Deferred Income respectively instead of being accounted as income of the year. As such, the surplus of the year under review was understated by Rs. 14,478,466.	This income was the remaining balances of the currently completed courses of the institute and according to the time of receiving the money, it has been recognized as income as well as deferred income in the financial statements according to the period of time when the courses were conducted. That the balance money remaining in the budget in the course	The answer is not acceptable. Income related to the year should be correctly recognized and accounted for.

- has been transferred to the development fund according to the budget policy of the course at the end of the period related to the course.
- (b) The accuracy of Rs.105,547,615 allocated as deferred income from the course income could not be verified due to the schedules including the period of the respective courses were not submitted to the audit. As this happens automatically through the accounting package, the balance of those heads of income has been transferred to course income at the end of the year. Schedules required for audit should be submitted.
- (c) An amount of Rs.3,294,944 had been adjusted as depreciation for the year under review for the value of revalued assets of Rs.8,817,858 as on 31 December 2023. As such, the surplus of the year and the property plant and equipment had understated by that value. These assets have been revalued as on 31 December 2022 but the report was received later, this has been entered into the computer system on 01.01.2023. As such, the depreciation has been calculated based on the useful life for the year 2023. Depreciation adjustment should be done on the correct value.
- (d) Although the total library deposits received from the year 2016 to 2022 total amounting to Rs.6,474,000 were credited to a fund named "Library Development Fund" in the previous year and the year under review, the objectives of establishing that fund and method of using that fund had not been disclosed in the financial statements. That the Library Development Fund has been established as per the approval of the Management Committee and the details of the utilization thereof are enclosed herewith. Necessary disclosures should be made in the financial statements.
- (e) Prepayment payment of Employee Welfare Medical Insurance Rs.374,917 has been accounted as expenditure of the year under review and in taking of unpaid old balance of Rs.124,458 to the income, it had been accounted as income in the year under review instead of adjustment to accumulated surplus. Accordingly, Action will be taken to correct in the next accounting year. Accounts should be prepared correctly.

the surplus of the year was by Rs.250,459, the accumulated surplus by Rs.124,458 and the pre payments by Rs.374,917 were understated.

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| (f) | Although the Recurrent Surplus for the year under review should have been shown as Rs.70,135,469 in the Financial Performance Statement, Recurrent Surplus was shown as Rs.52,655,823 and transfers to Development Fund as Rs.17,479,646 separately. | The transfer to the Development Fund has been accounted as expenditure in the relevant course income. As such, the transfer to this development fund has been re-added to course income and shown as profit in the financial statements and transferred back. | Proper recognition of surplus should be done in the preparation financial statements. |
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1.6 Accounts Receivables

Audit Observation	Comment of the Management	Recommendation
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A balance of Rs.17,427,523 due from an officer for breach of bond as at the end of the year under review had not been recovered even during the year under review.	The balance due from breach of bond of Rs. 5.3 million has been recovered so far and the remaining amount is being recovered.	Prompt action should be taken to recover the receivable amount.
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 394(c) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken as per the Financial Regulation regarding the cancelled cheques total amounting to Rs.730,395.	That cancelled cheques will be kept as deposits for a period of 02 years and after 02 years it will be credited to revenue.	The Financial Regulations should be followed.
(b) Section 11(a) of the Finance Act No. 38 of	A sum of Rs.35,000,000 had been invested in fixed	Action will be taken to obtain the	The Finance Act should be

1971		deposits during the year under review without obtaining the prior approval of the Minister concerned and the Finance Minister.	necessary approvals.	followed.
(c)	Section 03(viii) of National Budget Circular No. 03/2022 dated 26 April 2022	A sum of Rs.818,000 had been spent from the generated fund for the health insurance scheme during the year under review, which was implemented as an employee welfare scheme contrary to the circular instructions referred to.	This health insurance coverage system has been in operation since 2016 and the self-generated funds of the institute will be used for this, subjected to the approval of the Finance and Management Committee.	Circular provisions should be followed.
(d)	Paragraph 05 of the circular letter No. BD/HRD/126/214/19/2023 dated 18 January 2023 by the Secretary to the Treasury addressed to the Secretary, Ministry of Education	An amount of Rs.5,327,234 recovered from a lecturer who had breached bond during the year under review had not been credited to the state revenue.	According to the University Grants Commission Circular No. 5/2023, these funds will be used for the air fares of the academic staff entitled to the new sabbatical leave.	Circular provisions should be followed.
(e)	University Grants Commission Circular No. 15/2015 dated 17 November 2015	Release of the results of the examinations held from the year 2021 for Bachelor of Labour Management was delayed from 05 months to 13 months in 06 instances.	That this was due to delay in receiving of marks from answer sheet examiners.	Circular provisions should be followed.

2 Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs.50,263,302 and corresponding surplus amounted to Rs.41,801,341 in the previous year, thus observing an improvement of Rs.8,461,961 of the financial results. The increase in distance course income and other income had mainly attributed to said improvement.

2.2 Trend Analysis of major Income and Expenditure items

39 percent of the total income of the university consisted of distance course income of the year under review and government capital grants by 100 percent and government recurrent grants by 29 percent had decreased compared to the previous year.