

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the University of Kelaniya for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 in Sub-section 107(5) of the Universities Act No. 16 of 1978 and provisions in 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, the accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2024, 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 Opinion

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 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 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 intends 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 Sub-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 Scope of Audit

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulation 571 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to settle the security deposits totalled to Rs.12,504,525 for more than 02 years and library deposits amounting to Rs.15,363,991 for more than 05 years.	These deposits had not been paid due to the fact that applications had not been submitted, the university did not have an active address or telephone number, and certain institutions were not currently operated and that library deposits will be paid after the relevant student makes a request. Also, that relevant analysis will be carried out for deposits exceeded 5 years and necessary action will be taken in the future.	Should be followed Financial Regulations
(b)	Section 04(ii) of Management Services Circular No. 02/2014 dated 11 February 2014	Although an interim research report including progress as per the Action Plan related to the project proposal should be submitted to the Committee for Research Management within 06 months from the date of commencement of a research, 29 non-academic executive officers who received Rs.10,693,540 as	The University Teachers' Union Association strongly against this condition and informed the Vice-Chancellor that the research allowance was not a grant but a part of the salary, and that the entire salary, including the allowance, was subject to income tax.	Action should be taken as per the circular instructions.

research allowances in the current year had not submitted interim research reports.

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| (c) Paragraph 5 of the Circular No. BD/HRD/126/21 4/19/2023 dated 18 January 2023 of the Secretary to the Treasury addressed to the Secretary, Ministry of Education. | Action had not been taken to remit a total amount of Rs.717,291,990 including Rs.194,401,919 recovered during the current year to the Treasury due to bond violations. | This money had not been remitted to the Treasury to date. | Action should be taken in accordance with Treasury circulars. |
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2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.717,160,997 and the corresponding surplus in the preceding year was Rs.2,346,239,282. Therefore, a deterioration of Rs.1,629,078,285 of the financial result was observed. The decrease in non exchange capital income, increase in capital and recurrent expenditure had mainly caused for this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although a space of 185.8 square meters was allocated in 2017 for the establishment of a library in the Faculty of Computer and Technology building, the proposed library had not been installed there. However, 709 books worth of Rs.7,935,048 had been procured for that library between the year 2019 and 31 December 2020 and those books had been kept in the main library of the University for almost 5 years without being used by the relevant students.	As the Faculty of Computer Science does not have a library, students come to the main library to use those books and currently underway to fix furniture and equipment for the proposed library. Once that work is completed, all the books belonging to the Faculty kept in the main library can be returned to the Faculty of Computer Science and Technology for use by students.	The library should be arranged as planned and made available for the students for use.

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| <p>(b) A proper mechanism had not been implemented to recover the</p> | <p>Loans given to employees to be</p> | <p>Action should be taken to recover employee</p> |
| <p>outstanding employee loans totalling to Rs.77,823,917 which had not been recovered for a period of 1 to 5 years.</p> | <p>recovered within a period of 05 years remain uncollected even after 05 years due to non-recovery during festive months as per the circular.</p> | <p>loan balances promptly.</p> |
| <p>(c) A proper procedure had not been prepared to recover the total amount of Rs.436,728,258 which was receivable from the year 2017 to the end of the year under review from 40 lecturers who had breached their agreements.</p> | <p>Those money will be recovered from the Provident and Pension Funds with their consent, information about members who have defaulted on payments will be reported to the Corruption and Fraud Investigation Office. Reminders will be sent to members with copies to guarantors who have not paid for more than 03 months.</p> | <p>Action should be taken to promptly recover the bond values receivable.</p> |
| <p>(d) In the physical inspection conducted by the University on 31 December 2023, although it was identified that 05 laptops worth of Rs.1,625,000 had misplaced out of the Computers and Laptops provided to the Science Faculty through the Accelerating Higher Education Expansion and Development Project, formal investigation had not been conducted and no actions had been taken to recover the loss from those responsible persons.</p> | <p>According to the preliminary investigation report, the value of the 5 laptops, including a 25 per cent surcharge will be recovered from the Provident Fund of the one officer out of the responsible officers, and after receiving the provident fund application from the other responsible officers, further actions will be taken to recover the value of Rs.2,041,645 and a complaint had been filed with the police regarding this and action will be taken to release or not the withheld amount based on those decisions in the future.</p> | <p>Action should be taken to recover the losses incurred by the University.</p> |

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) A stock of stationery and maintenance materials worth of Rs.4,591,538 procured by the University between the year 2012 and year 2024 without properly identifying the requirement remained underutilized as of 31 December of the year under review.	According to the report of the committee appointed to implement the recommendations of the stock verification report, the value of the stock distributed among the sectors is Rs. 71,457 and action should be taken to dispose of the stock as per the circular.	Action should be taken to dispose of damaged and expired stocks. Action should be taken to accurately identify the requirement and purchase.
(b) As per the instructions of the Director (Infrastructure Development) of the Ministry of Education in the letter dated 21 June 2021, the construction of the 4-storied Pangcharama Hostel building, which was scheduled to be completed within 18 months after the construction work commenced in the year 2020 had been suspended by cancelling the agreement with mutual consent of both parties. Due to the commencement of this construction without the necessary primary approvals for the construction the amount of Rs.65,457,463 paid to the contractor was a financial loss to the government, and actions had not been taken to identify the responsible parties and recover it, or to evaluate whether this construction can be used for another construction.	The Department of National Planning had recommended the construction of a 560 square meter single-story building for foreign monks at a cost of Rs. 245 million from funds earned by the University.	Action should be taken to recover the loss from the responsible parties or to use it for another construction.