

University of Peradeniya – 2015

The audit of financial statements of the University of Peradeniya for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and 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 Sub-section 107(5) of the Universities Act, No.16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University’s preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Section 111 of the Universities Act, No.16 of 1978 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the University of Peradeniya as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) Even though it was stated according to Note No. 1.2 to the Accounts furnished with the financial statements that the accounts are prepared on the accrual basis, contrary to that, the accounts of the Funds maintained by the University had been prepared on cash basis.
- (ii) Even though assets and liabilities should not be set off against each other unless otherwise required or permitted by the Sri Lanka Public Sector Accounting Standards, the debit balances of 05 Fund Accounts totalling Rs.2,768,380 had been set off with the credit balances and shown in the accounts.

(b) Sri Lanka Public Sector Accounting Standard 07

Even though fully depreciated household goods and fixtures costing Rs.447,379 had been in further use due to the failure to review the effective life of non-current assets annually, action in terms of the Sri Lanka Public Sector Accounting Standard No. 03 had not been taken for the revision of the estimated error.

(c) **Sri Lanka Public Sector Accounting Standard 09**

- (i) A stock transferred to an entity through a transaction without an exchange should be brought to account at the fair value existing on the date of acquisition. Nevertheless, 90 items of stocks received by the Faculty of Dental Science as donations from the Japan International Co-operation Agency Project had not been so brought to account.
- (ii) The stores materials valued at Rs.12,897,191 purchased in the year by 7 other Funds of the University had not been brought to account.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken for the identification and accounting for the value of 153 items of chemicals amounting to Rs.1,877,853 of the Pathology Department of the Faculty of Medicine, 667 items of chemicals of the Faculty of Medicine and the Faculty of Science and 740 items of laboratory equipment as at the end of the year under review.
- (b) The activities of the Postgraduate Institute of Humanities and Social Science established in terms of the Notification published in the Gazette No. 843/845 of 03 January 2014 had been formally commenced on 15 September 2015. Instead of preparing the financial statements of the Postgraduate Institute for the relevant period of the year under review, the income of Rs.1,885,872 and expenditure of Rs.16,948,455 relating to the period had been included in the financial statements of the University and as such the deficit for the year had been overstated by a sum of Rs.15,062,583. The Fund of Rs.11,910,487 relating thereto had been shown under the other Funds, thus resulting in the overstatement of the non-current liabilities in the statement of financial position by that amount.
- (c) The management of the University had not taken action to value through a Government accepted Valuer and account for the Gal Bungalow at Kurundugodella, Uda Peradeniya Mahakanda and the lands 1,120 acres, 3 roods 21.8 perches in extent of the Faculty of Dental Sciences acquired by the University during the years 1956 – 1959 and not disclosed in the financial statements.
- (d) The arrears of lease rent of Rs.5,960,000 receivable by the University from 31 December 1992 to 31 December 2015 on the land 40.97 perches in extent situated at Getambe leased out for a period of 30 years to the Department of Kandyan Peasantry Rehabilitation, had not been brought to account.

2.2.3 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.375,584 between the Distress Loan Ledger and the schedule existed as at the beginning of the year under review and that balance had increased to Rs.728,385 by the end of the year under review.
- (b) Even though a sum of Rs.2,163,049 had been brought to account as the purchase of animals by the Faculty of Agriculture during the year, according to the Physical Verification Report that amounted to Rs.2,356,049, thus revealing a difference of Rs.193,000.

2.2.4 Lack of Evidence for Audit

The evidence indicated against 09 items of account totalling Rs.1,410,024,855 of the year under review had not been furnished to audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Research Allowances for the Academic and Non-Academic Staff from January to December 2015	150,113,165	Relevant Research Reports and Progress Reports
(b) Allowances paid to 99 officers for assistance provided for the supply of Consultancy Services	1,334,750	Information on the functions performed by the officers who received the allowances
(c) Sundry Creditors Balance	385,319	Letters confirming the creditors balances.
(d) Balances Receivable	12,686,402	Schedules and the confirmation of balances
(e) Expenditure and Income of 160 other Funds	506,962,065 639,322,256	Classification of Income and Expenditure
(f) Utilisation of money relating to 201 Sundry Funds	99,220,898	Confirmation of balances
Total	----- 1,410,024,855 =====	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken for the recovery of 19 loan balances older than 02 years totalling Rs.1,112,996 and 02 loan balances older than one year totalling Rs.180,787.
- (b) Even though the Central Engineering Consultancy Bureau had completed the construction work of the Information Technology Centre of the University in the year 2002, action had not been taken even up to the end of the year under review for the settlement of a sum of Rs.2,401,745 payable to the Bureau.
- (c) Action had not been taken for the recovery of the rent, water and electricity bills totalling Rs.4,438,308 receivable from the year 2014 from the quarters of the University and for the renting of the University ground to external parties.
- (d) Action had not been taken for the recovery of sundry advances totalling Rs.1,300,526 and Festival Advances amounting to Rs.170,102 remaining without being recovered over a long period.
- (e) The rent income of Rs.392,400 receivable from 07 trade stalls given on rent for the Medical Exhibition of the year 2015 had not been recovered even by the end of the year under review.
- (f) Action had not been taken even by the end of the year under review for the recovery of a sum of Rs.2,899,000 being 69 per cent of the registration fee receivable from 2,945 students enrolled for the academic year 2014/2015.
- (g) Instead of taking action for the settlement of the sum of Rs.2,898,522 over recovered from the Lecturers who had breached the agreements, a sum of Rs.1,622,289 out of that amount had been brought to account as income during the year under review.
- (h) Action had not been taken for the recovery of the mobilization advances amounting to Rs.1,079,967 paid to contractors and remaining without being recovered over a number of years.
- (i) Action had not been taken the arrears receivable from the year 1997 to 31 December 2015 for a land 25 perches in extent given on lease to the Kandy Four Gravets and Gangawata Korale Pradeshiya Sabha amounted to Rs.8,174,000.
- (j) Formal courses of action had not been taken for the recovery of hall charges and penalty totalling Rs.2,090,524 receivable from the students of 07 Faculties who had abandoned the Courses during the years 1980 to 2005.

- (k) Action had not been taken for the recovery of the value of Security Bonds amounting to Rs.36,007,739 receivable from 84 Teachers and officers who had breached the agreements during the periods ranging from the year 1970 to the year 1999. Bond value of Rs.27,038,176 included therein and recoverable from 50 persons had not been recovered since the date of breach of agreements.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc., -----	Non-compliance -----
<p>(a) Universities Act No. 16 of 1978 (i) Section 99(1) of Part XIII</p>	<p>Even though all income received for the University and the expenditure therefrom should be dealt with from the University Fund, the balances of 201 Funds maintained contrary to that, amounted to Rs.883,553,591 as at the end of the year under review.</p>
<p>(b) Employees' Provident Fund Act, No. 15 of 1958 and the Letters of the Commissioner General of Labour No. ඉ/ආයතන/11 of 24 August 2001 and No. කම්බෙ/රව්/15/2015 of 12 September 2015</p>	<p>Even though the Academic Allowance should not be included for the computation of contributions to the Employees' Provident Fund, the Pension Fund and the Employees' Trust Fund, the contributions to the respective Funds of the Academic Staff of 14 Faculties and Units for the year under review had been computed by including the Academic Allowance. As such, an overpayment of Rs.90,647,530 had been made.</p>
<p>(c) Value Added Tax Act, No. 14 of 2002</p>	<p>If any person is engaged in a taxable activity has carried out taxable supply of goods and services exceeding Rs.15,000,000 in a year, such person should pay the Value Added Tax. Even though the Engineering Design Centre functioning under the University had supplied Consultancy Services valued at Rs.48,958,408 from the year 2013 to the year 2015, a tax revenue of Rs.5,385,424 had been deprived of to the Government due to the failure to register for the Payment of Value Added Tax.</p>

(d) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Chapter XXIV Section 3.7

Action had not been taken for the recovery of loan installments totalling Rs.7,335,131 in respect of April and December of the year under review of the Distant and Continuing Education Centre of the University.

(e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 756 and 757 and 770(3)

The Annual Boards of Survey for the year 2015 of the Departments of the Faculties of Medicine, Engineering, Veterinary Medicine, Agriculture and Allied Health Services and 05 Departments of the Faculty of Science and the Information Technology Centre had not been conducted up to the date of this report.

Appropriate action had not been taken on 207 out of date and slow moving items totalling Rs.2,572,603 of the Water Works Store, the Faculty of Engineering, the General Stores, the Civil Maintenance Stores and the Mawalawatta Farm.

(ii) Financial Regulation 772

Action in terms of the Financial Regulation had not been taken on the Chemicals valued at Rs.658,937 outdated as at 16 August 2016 of the Department of Zoology and the Department of Biology pointed out in the Reports of the Boards of Survey of preceding years.

(f) Establishments Code for the University Grants Commission and the Institutions of Higher Education

(i) Section 26 of Chapter III of Part I

Even though instructions had been given to discourage obtaining Visiting Lecturers as the cost incurred per lecture for the Visiting Lecturers is very high, contrary to that 3 Faculties had deployed 87 Visiting Lecturers and had paid a sum of Rs.2,121,304 during the year under review.

- (ii) Section 6.2 (ii) and (iii) of Chapter VIII of Part II
- Even though 10 per cent of the fees earned from services rendered in addition to one's duty should be paid to the Institution of Higher Education to which one belongs, action had not been taken to credit a sum of Rs.1,931,534 out of the payments for different services made to the Academic Staff of the University.
- (iii) Sections 2.1 and 2.2 of Chapter IX of Part II
- Even though overtime work can be approved only for work definitely outside the normal duties and urgent work that cannot be done during the normal office hours, a sum of Rs.2,819,348 had been paid as overtime during the year under review for the work of the Faculty of Arts.
- (iv) Sections 3.1 and 3.2 of Chapter XX of Part II
- A sum of Rs.1,959,408,417 had been paid as salaries and wages in the year under review to the Academic Staff without confirmation of the times of arrival and departure.
- (v) Section 2.2 (f) of Chapter XXV of Part II
- Action had not been taken even by 31 December 2015 for the recovery of the losses amounting to Rs.103,980 caused due to accidents to motor vehicles during the year 2013.
- (vi) Section 2.1 of Chapter XXVI of Part II
- Even though the fixed assets belonging to the Commission and the Institutions of Higher Education as at the last date of the financial year should be verified by a Board of Survey appointed for that purpose, such verification of the books of the Library of the Faculty of Engineering had not been conducted over a period of 15 years.

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| <p>(g) University Grants Commission Circular No. 422 of 06 February 1990 and the Ministry of Finance Circular No. PE1/174/1-2003 of 09 January 2003</p> | <p>Even though fees / incentives and special allowances cannot be paid without the Treasury approval, sums totalling Rs.2,792,050 had been paid during the year under review as honorariums and Co-ordination allowance to 260 officers and employees of the University and the Faculties whilst a sum of Rs.1,050,522 had been paid as Course Co-ordination Fees of the Information Technology Centre and the Distant and Continuing Study Centre and Rs.40,000 had been paid as Bursar Allowance and honorariums to the Assistant Bursar of the Faculty of Engineering.</p> |
| <p>(h) Public Enterprises Circular No. PED/25 of 29 July 2004</p> | <p>Sums totalling Rs.66,995,652 had been invested in fixed deposits in State Banks without the concurrence of the Minister of Finance and the approval of the relevant Minister and without the approval of the Board of Governors.</p> |
| <p>(i) Public Finance Circular No. 380 of 19 January 2000 and Chapter VII of Part II of the Establishments Code of the University Grants Commission and the Institutions of Higher Education</p> | <p>Allowances amounting to Rs.357,750 had been paid from the other Funds of the Faculty of Arts.</p> |

2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though an income of Rs.234,000 had been earned up to 30 September of the year under review by supplying services to the Postgraduate Candidates and institutions outside the Faculty through the computers and accessories of the Computer Centre established in the Faculty of Engineering, the formal approval for the supply of such services and charging fees had not been furnished to Audit.
- (b) Even though payments totalling Rs.1,121,044 had been made to the Non-academic staff of the Faculty of Arts during the year under review for attending to the administrative work of the Postgraduate Courses Fund maintained by the Faculty of Arts, the formal approval thereto had not been furnished to audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had been a surplus of Rs.139,547,815 as against the deficit of Rs.37,090,295 for the preceding year, thus indicating an improvement of Rs.176,638,110 in the financial result for the year under review as compared with the preceding year. Even though the expenditure on employees remuneration had increased by Rs.740,676,210 , the increase of the Treasury provision for recurrent expenditure by a sum of Rs.809,878,422 and the increase of the Mahapola Scholarship grants by a sum of Rs.71,425,200 had been the main reason for the above improvement.

An analysis of the financial results for the year under review and 04 preceding years indicated that there were financial deficits from the year 2011 to the year 2014 and that a financial surplus had resulted in the year 2015. Nevertheless, when the employees remuneration and the depreciation on non- current assets are considered, the contribution of Rs.1,861,686,183 in the year 2011 had increased continually to Rs.4,249,095,639 in the year 2015.

4. Operating Review

4.1 Performance

The following observation is made.

A sum of Rs.10,500,000 given by the Treasury for the Human Capital Development Project in respect of the year under review had been utilized for other expenditure of capital nature contrary to the objective of the Project.

4.2 Management Activities

The following observations are made.

- (a) The confirmation with regard to the establishment of all new Departments of the Faculty, conduct of future work and the formulation of the new syllabuses in accordance with the Gazette Extraordinary on the establishment of the Faculty of Management had not been furnished to audit.
- (b) Even though the Engineering Design Centre had made 68 consultancy service supplies totalling Rs.22,291,960 during the year under review, the Management of the Centre had not entered into agreements with the parties concerned in undertaking the supply of such services.

- (c) The management had not taken action to identify 35 items of receipts totalling Rs.786,714 shown under the other income as direct remittances.
- (d) Even though hostel rooms had been allocated for 95 Academic Staff, it was observed that 212 officers were in occupation.
- (e) Out of 850,000 tickets printed at a cost of Rs.391,000 in the year under review for the Medical Exhibition without preparing proper estimates, 646,776 tickets or 76 per cent valued at Rs.297,517 had remained without being used.
- (f) A private company had constructed a transmission tower in the University premises in the year 2012 without entering into a written agreement with the Management. Action had not been taken for the recovery of lease rental in that connection.
- (g) The Dental Assistant Training School had been established in the year 2002 in accordance with the decision No. 309 of the Board of Governors dated 25 November 2002, without obtaining the approval of University Grants Commission in terms of Section 55 (b) of the Universities Act. The Training School had functioned from such date up to December of the year under review, courses had been conducted and certificates had also been awarded.
- (h) Even though 356 beds had been placed in 97 rooms of a male Hostel of the University, the Board of Governors had taken action to attach 278 students. As such it was observed that the opportunity for providing hostel accommodation to 78 students had been lost.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) The Secretary to the Ministry of Social Service, Welfare and Livestock had, by his Letter No. MLRCD/05/07/703-11 dated 20 February 2015 approved leave of 04 months and 11 days to a Professor who had been appointed to the National Livestock Resources Development Board as a Director and the Chairman thereof even beyond 20 July 2015, the date on which he completes the age of 64 years. He had not reported for service in the University even by 24 November 2015, the date of audit.
- (b) A Professor of the University who had been appointed on secondment basis to the post of Commissioner General (Livestock) for one year with effect from 21 November 2002 by the letter dated 22 January 2003 of the Secretary to the Ministry of Agriculture and Livestock Resources had been granted sabbatical leave with salary from 21 November 2002 to 20 November 2003 by the Letter No. AE/05 dated 25 November 2002 of the Vice Chancellor of the University. Contrary to Section 2.3.2 of Chapter V of Part I of Establishments Code of the University, he had been paid a sum of Rs.596,307 from the University Fund as salary and allowances and a sum of Rs.263,250 from the Ministry of Agriculture and Livestock Resources.

- (c) The Departments of the Faculty of Engineering had established separate Funds and conducts Postgraduate courses using the physical and human resources of the Faculty without formal approval. Sums totalling Rs.44,208,476 received from such courses by 30 November 2015 had been retained in those Funds without being credited to the University Fund.
- (d) Bids had been invited for obtaining 02 buses on the payment of hire on monthly basis for the daily transport of students for a period of one year and a supplier who had furnished higher quotations had been selected disregarding the lowest quotations received and a sum of Rs.3,181,046 had been paid as bus hire and fuel for the period from April 2014 to September 2015 without entering into an agreement.
- (e) Notwithstanding the establishment of the Engineering Design Centre under the Faculty of Engineering for the supply of consultancy services, a separate Fund extraneous thereto called the “Consultancy Services Project” had been established by the Academic Staff of the Faculty of Engineering for the supply of consultancy services to external institutions. Out of the sum of Rs.1,220,172 earned by that Fund during the year under review, a sum of Rs.566,932 had been paid to the officers as allowances and a balance of Rs.4,609,234 as at the end of the year under review had been shown under the other Funds in the statement of financial position.
- (f) A request made for resignation from service made by a Lecturer in the University service, who had not completed the bonded period of service according to the Security Bond Agreement of Rs.3,563,966 entered into with the University to study for the Doctorate Degree, had been accepted by the Management without taking action for the recovery of the Security Bond money.
- (g) An interest free loan of Rs.1,000,000 had been granted from the Bond Violation Fund operated by the Faculty of Arts to a Lecturer in the service of the Department of Classical Languages of the Faculty of Arts for study Postgraduate courses contrary to the Establishments Code for the University Grants Commission and Institutions of Higher Education and the Circular No. 737 dated 18 August 1998 issued by the University Grants Commission. The loan could not be recovered as the Lecturer concerned had been granted no-pay leave from 20 December 2014 to 19 March 2016.

4.4 Utilisation of Funds

The following observations are made.

- (a) A sum of Rs.8,701,011 allocated with effect from 08 December 2014 for the development work of the Department of Law of the Faculty of Arts had not been utilized for the intended activities even by the last date of the year under review. Funds totalling Rs.3,672,000 given for 6 researches of that Faculty in the years 2014 and 2015 had also not been made use of even by the last date of the year under review.

- (b) A sum of Rs.1,500,000 given by several private institutions up to 31 July 2015 for the scholarships for students and the activities of the Students Associations of the Faculty of Agricultural Science had been invested in fixed deposits on 12 July 2015 and 11 December 2015 without being made use of for the intended activities.
- (c) The balances of 63 other Funds totalling Rs.35,832,417 remained idle without being effectively utilized for the achievement of their objectives. It was observed that 95 Donation Funds totalling Rs.68,322,503 remained idle without granting any scholarships or rewards.
- (d) Out of the money received under the Capital Heads from the General Treasury for the International Research Centre a sum of Rs.2,534,893 had been utilized for incurring recurrent expenditure.
- (e) Out of the money given by the Treasury in the preceding years a sum of Rs.534,201,585 had not been utilized for the objectives of the respective projects even by the last date of the year under review and sums totalling Rs.442,726,800 had been spent during the year under review for the purchase of office furniture, motor vehicles and books and magazines.

4.5 Idle and Underutilised Assets

The following observations are made.

- (a) The computers and equipment valued at Rs.4,651,643 given to the Faculty of Arts by the Inventions Development of Arts Students Project had been stored in Room No. 07 without being made use of for any purpose whatsoever. Four projectors valued at Rs.249,972 purchased in August 2015 for the Geography Academic Unit had not been made use of even by the last date of the year under review.
- (b) Even though 50 computers had been purchased for Rs.5,294,100 on 23 December 2014 for the new Computer Centre of the Faculty of Engineering, those remained idle as the relevant Centre had not been established even by the last date of the year under review.
- (c) Fifty six items of sundry equipment of 04 stores of the University totalling Rs.468,778 remained idling.

4.6 Identified Losses

The following observations are made.

- (a) A loss of Rs.3,010,500 had been incurred due to the purchase of electric bulbs in the year 2013 for the modernization of the electrical system of the Indoor Stadium without carrying out a proper study, without identifying the requirements and without adhering to a specified standard.

- (b) A sum of Rs.202,398 comprising Rs.192,398 being the contribution and surcharge payable to the Commissioner of Labour, Kandy on 02 December 2015 on a Court Order made on a plaint filed in the Courts against the University by a Professor who had served in the Department of Anatomy of the Faculty of Medicine due to the failure of the Management of the University to take appropriate action and the sum of Rs.10,000 as the fee for the rejection of the Revision Application filed in the High Court had been paid to the Professor concerned from the University Fund.

4.7 Procurement and Contract Administration

The following observations are made.

- (a) Bid opening and deciding on the lowest price relating to 69 projects of the year under review totalling Rs.371,606,922 had been done without transparency contrary to the Guideline 6.3.3 of the Government Procurement Guidelines and referred to the Technical Evaluation Committee.
- (b) Contrary to the provisions in the Guidelines 8.9.1 of the Government Procurement Guidelines, the project for the construction of 04 tube wells in the University premises and the Mahailuppalama University Sub-unit valued at Rs.1.200.000 had been awarded to two contractors without entering into agreements and payments totalling Rs.1,172,000 had been made as at the end of the year under review.
- (c) It was observed that the University had awarded 3 contracts valued at Rs.5,338,089 in the year 2015 to an institution blacklisted by the University in the year 2012.
- (d) The approval for the plan and a Development Permit relating to the construction of a three storey Surgical Ward for the Faculty of Medicine of the University had not been obtained. The Fitness Certificates of the Land had also not been obtained from the National Building Research Organisation and the Geological Survey and Mines Bureau.
- (e) According to the Fitness Certificate on Landslides obtained for the Construction of the building of the Department of Statistics and Computer Science of the Faculty of Science, it was informed that there is a severe risk of landslides in the land and if the construction work has to be done, it should be done on the basis of the conditions stated in the report and as the Director (Procurement) of the Ministry of Higher Education and Highways had, by his letter, informed that another suitable land for the construction of the building should be selected and that the land already prepared is not suitable for the construction of the said building. As such the expenditure totalling Rs.12,498,457 incurred on the contract before obtaining those reports had become a loss to the University Fund.

- (f) The lowest price received for the purchase of equipment sets for 03 Hostels of the University had been rejected and the supply had been awarded to another supplier and as such the University Fund had suffered a loss of Rs.5,366,780. The number of equipment sets had been reduced from 1,400 to 1,220 as quotations had been invited without properly identifying the requirements. The confirmations that the Works Engineer had examined whether the timber was the specified variety was not made available to audit.

4.8 Commencement of Projects of Lands not Vested Formally

Constructions valued at Rs.1,738,367 had been done on the land on which the Mahalluppallama University Sub-unit of the University was established, without obtaining the title to the land in favour of the University.

4.9 Staff Administration

The following observations are made.

- (a) Even though a period of 21 years had elapsed by the year under review after commencing the Engineering Design Centre, action had not been taken for obtaining the approval for the required staff and 07 officers had been deployed in service on assignment basis for 06 posts.
- (b) It was observed that there were 16 vacancies in 05 posts as at the last date of the year under review in the Mawalawatta Farm of the Faculty of Agricultural Science and that there were various difficulties in carrying out the work of the Farm due to the existence of these vacancies.
- (c) Salaries and allowances totalling Rs.1,891,522 had been paid from the Veterinary Hospital Maintenance Fund to the staff recruited without approval during the year under review.
- (d) Instead of obtaining approval for the staff required for the daily cleaning of the Water Purification Unit of the Dental Hospital and for the registration of the patients of the Outpatient Department and recruiting permanent officers, a sum of Rs.1,880,496 had been paid for carrying out those duties by deploying 2 persons on assignment basis from the year 2013.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though a decrease of Rs.377,855,548 in the deficits, a decrease of Rs.7,664,304 in the total assets, a decrease of Rs.12,836,560 in the total liabilities and a decrease of Rs.5,172,258 in the equity in the values for the year 2014 as a result of the rectification of errors relating to the year 2014 with retrospective effect in accordance with the Sri Lanka Public Sector Accounting Standard 03 had been shown with the financial statements for the year under review, the approval of the Board of Governors for such rectifications had not been obtained.

5.2 Internal Audit

According to the Financial Regulation 134(1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, the Internal Audit should be independent of those who are responsible for or are actually carrying out the work or services of the institution. Contrary to that, the Deputy Internal Auditor had performed duties as the Deputy Director (Finance) of the Twenty First Century Project and certified payment vouchers valued at Rs.81,991,423 from 05 May 2015 to 09 February 2016 and obtained allowances amounting to Rs.97,333 as well for that period.

5.3 Budgetary Control

According to Section 5.2 of the Circular No. PED/12 dated 02 June 2003 of the Director General of Public Enterprises, the annual budget should be made use of as the working document to achieve the targets set for the year. Nevertheless, a comparison of the estimated income with the actual income revealed that the income collected under 08 items of income had exceeded the estimated income by a sum of Rs.150,427,996 whilst the estimated income of Rs.4,950,000 of 05 items of income had not been collected.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a) Accounting	Failure to follow the provisions in the Sri Lanka Public Sector Accounting Standards Nos. 01, 07 and 09.
(b) Accounts Receivable and Payable	Failure to settle the Accounts Receivable and Payable as specified.
(c) Funds Control	Failure to take action on Funds according to the provisions in the Universities Act, No. 16 of 1978.
(d) Procurement and Contract Administration	Failure to follow the Procurement Guidelines.