

University of Peradeniya - 2016

The audit of financial statements of the University of Peradeniya for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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 Sections 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. A detailed Report in terms of Section 108(2) of the Universities Act, was furnished to the Vice Chancellor of the University on 12 January 2018.

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 judgements, including the assessment of the 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 the 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 gives discretionary powers to the Auditor General to determine the scope and the 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 of opinion, except for the effects of the matters described in paragraph 2.2 of the this report, the financial statements give a true and fair view of the financial position of the University of Peradeniya as at 31 December 2016 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) In terms of Paragraph 48 of the Standard, although assets should not be offset against liabilities unless required or permitted by Sri Lanka Public Sector Accounting Standards, cash credit balance totalling Rs.251,966,053 had been offset against 52 debit balances totalling Rs.482,766,698 and shown in the financial statements.
- (ii) In terms of Paragraph 99 of the Standard, all items of revenue and expenditure should be included in the statement of financial performance in the identification of deficit and surplus of an entity. Nevertheless, contrary to that, revenue amounting to Rs.1,072,485,027 received for 596 Funds established for various purposes of the University and expenditure amounting to Rs.990,977,313 had been adjusted as receipts and payments of those Funds Accounts and only the balances of those accounts had been included in the financial statements.

(b) Sri Lanka Public Sector Accounting Standard 02

- (i) A sum of Rs.31,648,391 received from the foreign students and recognized as a revenue in the statement of financial performance had been added again as amortization under the non-moving cash flows in the preparation of cash flow statement.
- (ii) Even though increase in the donations under the financial activities had been stated as Rs.8,936,554 in the cash flow statement, according to the schedule relevant thereto, that increase had been Rs.9,891,671 by the end of the year under review. Accordingly, cash inflow amounting to Rs.955, 117 had been understated.

- (iii) Although the cash inflow of the External Party Research Fund was Rs.52,602,726 during the year under review, it had been stated as a cash outflow of Rs.10,268,052 in the cash flow statement.
- (iv) Although increase in the balances of sundry debtors and receivables amounted to Rs.45,178,441, it had been indicated as Rs.33,287,127 under the working capital movements. Accordingly, a difference of Rs.11,891,314 was observed.
- (v) Fixed assets amounting to Rs.42,732,486 purchased using the income during the year under review had been considered as a non-cash flow and added to the deficit of the year under review.

(c) Sri Lanka Public Sector Accounting Standard 03

In terms of Paragraph 47 of the Standard, although an entity shall correct material prior period errors retrospectively, a sum of Rs.5,466,982 paid during the year under review to an officer served as a Senior Lecturer in the University of Peradeniya as pension benefits relating to the period from 01 November 1982 to 07 March 2007 had been stated as an expenditure of the year under review in the financial statements.

(d) Sri Lanka Public Sector Accounting Standard 07

As useful life of non-current assets had not been reviewed annually in terms of Paragraph 65 of the Standard, non-current assets costing Rs.2,108,945,094 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in estimation in terms of the Public Sector Accounting Standard 03.

(e) Sri Lanka Public Sector Accounting Standard 08

In terms of Paragraphs 100 and 105 of Sri Lanka Public Sector Accounting Standard 08, an entity should disclose a brief description of the nature of contingent liabilities and the nature of contingent assets for each class of contingent liability at the reporting date and, where practicable, an estimate of its financial effect should also be disclosed. According to the Paragraph 108 of the Standard, where any information required is not disclosed because it is not practical to do so, that fact should be stated. Nevertheless, the University had not taken action accordingly in connection with 69 court cases existed as at the reporting date.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although a sum of Rs.712,698 recovered during the year under review in respect of providing practical trainings for the students who were studying in foreign universities should be credited to the Foreign Students Revenue Account, that amount had been credited to the Revolving Fund Account.

- (b) A sum of Rs.715,087 paid under 03 Objects in 76 instances relating to the previous years had been accounted as expenditure of the year under review.
- (c) According to the information of the Work Department of the University, a sum of Rs.64,612,289 payable to 15 contractors as at 31 December of the year under review had not been brought to account.
- (d) Annual interest income relating to 02 fixed deposit certificates had been overstated by Rs.136,548.
- (e) Out of the expenditure amounting to Rs.302,621,361 incurred for the rehabilitations and developments during the year under review, a sum of Rs.126,300,746 had been stated as recurrent expenditure in the statement of financial performance. Nevertheless, in the examination of a sample of 03 projects, amounting to Rs.23,625,883 capital expenditure of Rs.17,545,990 had been included therein.
- (f) Although it had been stated in the accounting policy of the University that the foreign exchange gain or loss identified up on fluctuation of the foreign exchange value will be adjusted to the performance statement, foreign exchange gain amounting to Rs.365,842 identified as at 31 December of the year under review had not been so adjusted to the statement of performance.
- (g) Fixed assets valued at Rs.2,092,858 purchased by the Distance and Continuous Education Centre affiliated to the University during the year 2016 and 03 buildings owned by the Faculty of Veterinary Medicine valued at Rs.314,951,861 and capitalized in the year under review had not been stated under property, plant and equipment in the statement of financial position.
- (h) Value of the land, 196 acres in extent in which the Dodangolla Research Farm is maintained and awarded to the University by a Grant had not been assessed and included in the annual financial statements.
- (i) Adjustments for the loss of Rs.5,361,835 caused due to the fire broke out in the Department of Manufacturing and Industrial Engineering on 05 July 2016 had not been made in the financial statements of the year under review.
- (j) Even though amortization of the assets purchased using the Government Capital Grants should be computed correspondingly to the useful life of such assets, contrary to that, in connection with 168 vehicles valued at Rs.235,955,000 revalued in the year under review, amortization had been made as Rs.47,191,000 or 20 per cent of the value of the revaluation irrespective of the year of purchasing the assets and the remaining useful life.

2.2.3 Unreconciled Control Accounts

 The following observations are made.

- (a) When comparing the balance of Distress Loan as at 31 December of the year under review with the schedule, a difference of Rs.761,011 was observed.

- (b) According to the schedules presented, investment income relating to the year amounted to Rs.67,874,679 and it had been stated as Rs.60,743,980 in the statement of financial performance. Accordingly, a difference of Rs.7,130,699 was observed.

2.2.4 Unexplained Differences

Although a sum of Rs.651,283 had been accounted as an income receivable by the University from the Postgraduate Institute of Agriculture, a sum of Rs.283,083 only had been brought to account in the financial statements of the Postgraduate Institute of Agriculture as the amount payable. Accordingly, a difference of Rs.368,200 was observed.

2.2.5 Lack of Evidence for Audit

In connection with balances of the following 08 item of accounts totalling Rs.6,812,102,321 during the year under review, evidence indicated against those items had not been made available to audit.

Item -----	Value ----- Rs.	Evidence not made available -----
(a) Income of Other Funds	1,072,485,027	} Classification of income and expenditure
(b) Expenditure of Other Funds	990,977,313	
(c) Sundry Creditors	201,171,096	Balance confirmations and age analysis relating to Rs.9,556,003.
(d) Sundry Debtors	39,818,516	Balance confirmations and age analysis relating to debtors.
(e) Sundry Advance	363,930	Balance confirmations and age analysis.
(f) Fixed Assets	4,411,508,085	Register of Fixed Assets relating to 06 classes of assets and reports of Board of Surveys.
(g) Expenditure on research projects directly incurred by the University Research Fund from the year 2014 to 2016.	79,793,903	Information on the research projects carried out.
(h) Expenditure of 15 Research Funds	15,984,451	Research proposals and progress reports.
Total	----- 6,812,102,321 =====	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Due to failure to take action in compliance with the agreements entered into with the University by the lecturers of the academic staff who had preceded abroad for academic activities, a sum of Rs.116,686,399 was due from 141 lecturers as at 31 March 2017.
- (b) So far it had not been possible to recover sums totalling Rs.5,403,599 comprising Rs.2,981,936 hall charges remained receivable from the students belonging to 06 Faculties of the University over a period from 01 year to 35 years and fines of Rs.2,421,663. That amount included a balance of Rs.3,561,893 relating to the period from the year 2011 to 2015.
- (c) Action had not been taken to recover salary advance of Rs.113,778 and festival advance of Rs.146,489 remained unrecovered for more than a period of 10 years and out of which Rs. 227,489 had remained unidentified.
- (d) Even though one year had elapsed, action had not been taken to settle a sum of Rs.27,093,596 payable to 10 suppliers.
- (e) Even though a period from 01 to 25 years had elapsed from the grants of advances of Rs.225,245 to 15 various persons and institutions, action had not been taken to recover the same.
- (f) The land, 40.97 perches in extent belonging to the University situated in Gatambe area had been vested in the Upcountry Rural Rehabilitation Department for a period of 30 years from 31 December 1987 by the Management of the University through the Deed No.1972. According to the conditions of the lease agreement, the annual lease amounted to Rs.60,000 and that value should have been revised once in 05 years. As action had not been taken accordingly, the arrears of lease receivable to the University as at 31 December 2016 amounted to Rs.6,580,000. Further, it was revealed that building valued at Rs.11.6 million had been built without approval of the Management of the University.
- (g) Twenty five perches of the Rathmale land belonging to the University had been given to Kandy Gravets and Gangawata Korale Pradeshiya Sabha for the conduct of weekly fair of the Peradeniya town on tax basis from the year 1975. According to the relevant lease agreement, as action had not been taken in accordance with the new tax assessments revised in the years 1997,2001,2006,2011 and 2016, the arrears of tax recoverable to the University of Peradeniya as at 31 December 2016 amounted to Rs.9,174,000.

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

The following non-compliances were observed

Reference to Laws, Rules, Regulation etc.	Non-compliance
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(a) Employees' Provident Fund Act No.15 of 1958, Employees Trust Fund Act and Letter No. 30/අයකන/11 dated 24 August 2001 of the Commission of Labourer.	<ul style="list-style-type: none">• Action had not been taken to pay a sum of Rs.108,788 payable to the Employees' Provident Fund and a sum of Rs.21,757 payable to the Employees Trust Fund in respect of 06 Officers.• As the academic allowances paid to the academic staff in 07 Faculties had been taken into consideration in the calculation of contributions to the University Employees Provident Funds and Employees Trust Fund, the loss caused to the University Fund had been Rs.85,701,160 in the year 2016.
(b) Tax Table -07 of the Inland Revenue Act, No.10 of 2006 on the reduction of PAYEE Tax.	When remunerations paid by the employers other than the principal employer exceed Rs.50,000, PAYEE Tax at 10 per cent thereof should be deducted. Nevertheless, out of examination fees expenditure of Rs.1,184,457 of the Faculty of Medicine, tax of Rs.118,446 had not been deducted.
(c) Establishments Code of Universities and the Higher Education Institutions.	

(d) (i) Section 6.2 (ii) and (iii) of Chapter VIII of Part II	Although a charges of 10 per cent earned by an officer from a service outside his normal duty should be paid to the relevant higher educational institution, out of the visiting lecturers fees amounting to Rs.1,361,000 paid by the Dental Auxiliary Training School of the Faculty of Dental Science and the Distance Education Centre, a sum of Rs.136,100 had not been credited to the University.
(ii) Sections 3.1 and 3.2 of Chapter XX of Part II	Without being established the arrival and departure, a sum of Rs.2,146,192,760 had been paid to 702 officers of the Academic Staff, 37 members of the Academic Supporting Staff and 20 Sub-wardens as salaries and allowances during the year under review

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

- (i) Section 371 (2) (a) of the Public Finance Circular No.03/2015 dated 14 July 2015.
- Even though a maximum petty cash imprest of Rs.25,000 can be granted for daily arising small expenses on the approval of the Accounting Officer, Faculty of Arts and Faculty of Medicine had granted imprest of Rs.625,000 in 03 instances exceeding the relevant limit.
 - Even though the petty cash imprest should be used only for daily arising small expenses, the Faculty of Medicine had incurred an expenditure of Rs.6,216,742 by petty cash by 15 October of the year under review.
- (ii) Financial Regulation 396
- Cheques valued at Rs.1,136,587 cancelled by the University had not been credited to the prescribed accounts and those had been credited to the Cancelled Cheques Account.
- (iii) Financial Regulation 757 (2) and (4)
- The Board of Survey Reports relating to the year 2016 of 07 Departments and other 02 divisions of 05 Faculties had not been furnished to the Auditor General even by 31 July 2017.
 - According to the Report of the Board of Survey carried out at the Dodamgolla Farm of the University as at 31 December 2015, a shortage of 66 units of goods of 27 items was observed. Nevertheless, action in terms of the Financial Regulations had not been taken on the above shortage up to 31 October 2016.
- (iv) Financial Regulation 770
- Action in terms of the Financial Regulations had not been taken in respect of 96 expired and disused items valued at Rs.920,744 and 51 slow moving items valued at Rs.1,365,267 included in the closing stock of the year under review.
- (v) Financial Regulation 880
- Although security should be obtained from the officers who are responsible for the assets and those who sign cheques, action had not been taken accordingly in respect of 08 officers of the Distance and Continuous Education Centre and 04 officers of the Faculty of Arts.

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| (f) | Section 03 of the Circular No.26/2010 dated 31 December 2010 of the Secretary to the Ministry of Public Administration and Home Affairs. | In terms of the Circular, the authorities concerned had been instructed to prevent from making recruitments to the posts of the Government service on temporary, casual, substitute, contract or relief basis without obtaining the prior approval of the Department of Management Services. Nevertheless, contrary to that, 06 officers had been recruited to the Faculty of Medicine and the Faculty of Dental Science on contract basis and sums totalling Rs.722,768 had been paid during the year under review. |
| (g) | Department of Public Enterprises Circular No.95 (02) dated 14 June 1994 and Ministry of Finance Circular No. PE 1/174/1-2003 dated 29 January 2003. | Sums totalling Rs.344,941 comprising Director Allowances of Rs.189,165 for the Director of the Dental Auxiliary Training School and centre administrative charges of Rs.155,776 for other officers of the Faculty of Dental Science had been paid in the years 2015 and 2016 without obtaining approval of the Treasury. |
| (h) | Finance Circular No.02/2015 dated 10 July 2015. | Action had not been taken in terms of the Circular to dispose of 15 motor vehicles reported to be condemned by the end of the year under review. |

2.5 Transactions not Supported by an Adequate Authority

The following observations are made

- (a) In terms of Sri Lanka Public Sector Accounting Standard 03, approval of the Council of the University had not been obtained to correct a sum of Rs.239,948,181 relevant to 04 items adjusted to the financial statements of the year under review in respect of retrospectively correcting the errors occurred relating to the year 2015. Even the approval of the Finance Committee had been sought on 10 August 2017.
- (b) In terms of Paragraph 8.2.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 and Section 11 of the Finance Act No.38 of 1971, prior approval of the Minister of Finance should be obtained for the use of funds in excess in fixed deposits, Treasury Bills, short term deposits or other effective investment. Nevertheless, relevant approval had not been obtained in respect of Rs.307,515,000 invested in Fixed Deposits by the University during the year under review.
- (c) Without being obtained the approval of the Treasury, a sum of Rs.716,535,063 remained as at 31 December of the year under review relating to 14 capital projects and a sum of Rs.981,434,553 out of the Government Capital Grants received during the year under review had been internally transferred for construction contracts, equipment, purchase of library books and periodicals and rehabilitation activities. For the above transfer carried out in the year under review, approval of the Council had been obtained in the year 2017.

- (d) Even though certification limit of a Senior Assistant Bursar is Rs.1,000,000, the Senior Assistant Bursar of the Distance and Continuous Education Centre had certified expenses of Rs.2,751,323 in 02 instances exceeding the above limit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the the financial results of the University during the year under review had resulted in a deficit of Rs.76,929,780 as against the surplus of Rs.59,032,023 for the preceding year, thus showing a deterioration of Rs.135,961,803 in the financial results. The above deterioration was mainly attributed to the decrease of income generated from foreign students, undergraduates registration fees and the examination fees etc. by Rs.78,460,551 and increase in the expenditure on supply services, financial assistance for the students and other expenditure by Rs.287,236,910.

In analyzing the financial results of the year under review and 04 preceding years, deficits were observed from the years 2012 up to the year 2014 while a surplus was observed in the year 2015 and again a deficit was shown in the year 2016. However, when readjusting the employees' remuneration and the depreciation for the non-current assets to the financial result, the contribution of the University amounting to Rs.2,007,666,786 in the year 2012 had continuously increased and it had become Rs.4,420,447,807 in the year 2016.

4. Operating Review

4.1 Performance

According to the Universities Act No.16 of 1978, the objectives of the University are as follows.

- Be fully equipped University offering qualitative undergraduate and postgraduate programmes.
- Be a centre of excellence in the field of research and development.
- Be a higher education institution with higher administrative and financial efficiency paving the way towards the good governance.
- To become a University offering trainings through open and distance systems for the purpose of providing knowledge and skills based service to the society while ensuring wide access for the tertiary education and catering the higher demand existing thereon.
- Be an excellent higher education institution with a conducive and aesthetic environment helpful for pursuing studies with physical and mental satisfactory.

The following observations are made on the achievement of those objectives.

- (a) In terms of Section 4(i) of the Management Services Circular titled of Payment of Research Grants issued in accordance with the Budget Proposal, 2014 No.02/2014 dated 11 February 2014 of the Secretary to the Treasury, the officers who had obtained research grants should submit Research Projects inclusive of the details such as the nature of the research, Action Plan, time frame of the research and methods

used for the research to the Research Management Committee. Nevertheless, any officer who is required to submit Research Projects had not submit the Research Projects inclusive of the said details to the Senate Research Committee and the University had paid a sum of Rs. 555,184,343 as research allowances from the year 2014 up to 16 October 2017, the date of audit. The officers who had obtained research allowances from the year 2014 up to August 2017 had not submitted progress reports on the researches to the Research Committee.

- (b) In the examination of progress of 321 research projects submitted by 09 Faculties from the year 2012 to 2016, it was revealed that only 79 projects had been completed although provisions amounting to Rs.196,650,289 had been made. Eleven projects had been cancelled and the number of uncompleted projects was 133. For the examination of progress of 179 research projects valued at Rs.130,143,183 up to the year under review, progress reports had not been furnished to the Senate Research Committee.
- (c) When comparing the balance of Rs.169,765,714 in 252 Funds established for awarding scholarships and assistance to the University students with the annually awarded scholarships and assistance, award of scholarships had remained less than 9 per cent during the period of 6 years and it had been 3.1 per cent in the year 2016.
- (d) For the implementation of the Development of Students Skills Project, although a sum of Rs.36,000,000 had been granted to the University during the period from 2014 to 2016, no expenditure whatsoever had been incurred for the achievement of the objectives of the said project. According to the account of the year 2016, a sum of Rs. 11,000,000 out of the funds received for the project had been spent for the purchase of furniture and equipment.
- (e) The value of the fixed deposits of the University had continuously increased from Rs.731,237,632 to Rs.1,295,096,630 from the year 2013 to the year 2016. Failure in drawing attention on the effective investment of funds for the achievement of relevant objectives had been the reason for the continuous increase in the value of fixed deposits in this manner. This included mainly the funds received for the research and the investments belonged to another Funds and it was observed in audit that the management should pay strict attention on the investment of those funds.
- (f) Research activities of 03 research projects totalling Rs.2,149,350, the scheduled period for the completion of which had expired had not been completed even by 12 October 2016, the date of audit.
- (g) Two workshops of drivers training which was extraneous to the objectives of the University had been implemented with the use of resources, time and labour allocated for the higher education activities and income of Rs.124,660 had been earned therefrom.

4.2 Management Activities

The following observations are made.

- (a) In addition to the permanent employees of the University, three officers had been employed in the Department of Education for a period of 06 months on temporary basis and subsequently they had been continuously employed by granting extensions. They had been paid a sum of Rs.676,800 as allowances by the Postgraduate Education Diploma Fund from the year 2009 up to the year under review.
- (b) Following the recovery of all moneys recoverable from the University Employees Fund, the amount further remained receivable from the lecturers for breaching the agreements stood at Rs.15, 934,927 by the end of the year under review. Even though a period from 05 to 20 years had elapsed by 30 September 2017 from the breach of agreements, the management of the University had not taken action to recover that money by initiating legal actions against the officers who had signed as the guarantors of those agreements or the lecturers who had breached the agreements.
- (c) In case of breaching the agreements reached at the time of proceeding abroad for academic activities, consent had been given to settle the money receivable to the University from the funds exist in the Provident Fund of the respective lecturers. Nevertheless, the management of University had not taken action to recover a sum of Rs.32,816,182 due from 24 lecturers although a period from 05 to 20 years had elapsed by 30 September 2017 from the breach of agreements.
- (d) Even though 07 motor vehicles costing Rs.2,845,000 presented for the valuation in the year 2010 had gone missing, no future action had been taken thereon.
- (e) A land, 16 acres and 03 perches in extent belonging to the University and situated at Bowalawatta area had been vested in an organization named Kandy International Buddhist Organization on 99 years lease basis by the Leasehold No.1356 dated 16 October 1985 and the Leasehold No.1520 dated 22 September 1986 and buildings had been constructed therein without permission of the University.
- (f) A sum of Rs.95,659,812 had been spent during the year under review for 78 research programmes implemented by providing funds for the University through the National Science Foundation, CARP, National Institute of Fundamental Studies (NIFS), IAEA, various Government Institutions and at personal level and a balance of Rs.100,444,228 existed in those research funds as at 31 December 2016. The research proposals implemented by those research projects and the progress of those projects had not been monitored or regulated by the University of Peradeniya.
- (g) For the project of upgrading selected six Universities up to international standard, a sum of Rs.174,378,670 had been spent during the year under review. The following observations are made in this connection.
 - (i) Although around Rs.100 million of the amount spent had been incurred for the recruitment and maintenance of employees for the establishment of International Research Centre, approval of the Salaries and Cadre

Commission had not been obtained for the recruitment of employees for the Research Centre and the determination of salaries of those employees.

- (ii) Out of Rs.263 million received for the project within 04 years, a sum of Rs.69,098,520 had been transferred for the purchase of furniture and equipment for the University during the years 2013 and 2016.
- (h) Provisions amounting to Rs.380,200,000 had been received during the period of 05 years from the year 2012 to 2016 for 04 special projects relating to the institutional and human resources development and a sum of Rs.220,487,945 had been spent for the achievement of the relevant objectives. Nevertheless, an Action Plan had not been prepared for those projects.
- (i) Action had not been taken to properly vest the lands, 73 acres and 53.4 perches in extent in which the University is maintained, in the University and include the value thereof in the financial statements.

4.3 Transactions of Contentious Nature

Permanent officers in the academic and non-academic staff attached to the Faculty of Arts had performed duties relevant to the other Funds maintained under the Faculty of Arts during their normal duty hours and sums totalling Rs.1,719,229 had been paid for 63 officers in the year 2015 and sums totalling Rs.1,115,893 had been paid for 44 officers as allowances in the year 2016 for that purpose. Further, allowances of Rs.6,662,829 had been paid to the officers served in the Faculty of Arts on temporary basis in the years 2015 and 2016.

4.4 Apparent Irregularities

Contrary to the Circular dated 29 September 2012 of the Vice Chancellor and without obtaining prior approval of the Council or the Vice Chancellor, a professor of the Faculty of Engineering had, on behalf of the University, entered into an agreement on 02 February 2017 for the project of Capacity Building and Asia for Resilience Education (CABAREK) handled by the University of Huddersfield. The said professor had credited a sum of Rs.5,582,878 relevant to the project to a personal bank account and that amount had been credited the Research Account of the Faculty of Engineering on 14 July 2017. The Vice Chancellor had again entered into an agreement regarding this project on 15 August 2017.

4.5 Underutilization of Funds

The following observations are made

- (a) Even though works of 07 projects for which provisions amounting to Rs.25,000,000 had been made were completed during the year under review, saving of provisions amounting to Rs.8,725,499 had remained idle. Nevertheless, action had not been taken to use that money by transferring them to another projects.

- (b) Provisions made to the Faculties by the University Research Fund had not been totally utilized during the year and without carrying out a proper evaluation thereon, the estimated total research cost annually requested by the Faculties had been granted. As such, it was observed that balances of the Faculty Research Funds were annually increasing. Accordingly, the balance of Faculty Research Funds amounting to Rs.34,428,515 in the year 2014 had increased up to Rs.92,806,102 by 270 per cent by the end of the year under review.
- (c) Due to failure in utilizing in an effective manner, the opening balance of 596 Funds established under 04 categories amounted to Rs.1,232,459,775 during the year under review and that balance had increased up to Rs.1,305,209,788 by the end of the year. Out of that, a sum of Rs.32,721,565 of 62 accounts had remained idle for a period from 01 year to 05 years without being utilized for the achievement of their objectives.
- (d) Any amount had not been spent for 14 research projects valued at Rs.628,537,264 for which funds are provided by the external institutions.
- (e) Out of provisions amounting to Rs.818,000,000 received for 16 construction projects during the year under review, only a sum of Rs.531,233,261 or 65 per cent had been utilized for the relevant purpose.

4.6 Idle and Underutilized Assets

 The following observations are made

- (a) Even though the Postgraduate Institute of Medical Science had not been established, laboratory equipment valued at Rs.21,000,000 had been purchased and awarded to the Department of Anesthesiology and the Department of Radiology. It was observed in audit that the above equipment had remained idle for more than a period of year without being used although guaranty period of those equipment had expired. Further, the University had not taken action to receive the training given by the supply institution on the use of these equipment.
- (b) Inventory items valued at Rs.3,427,621 given by the project called Inventory Development of Arts Student in October 2014 had been stored for nearly a period of 02 years without being used for any purpose.
- (c) Although the a room of the Faculty of Arts had been partitioned for computers studies by the Improving Relevance and Quality of Undergraduate Education (IRQUE) Project by spending Rs.1,191,381 in the year 2010 and vested in another Department, this room and the relevant partitions had remained idle for more than a period of 05 years without being used for any purpose.
- (d) Although the Director of Hostel Facilities had informed the requirement of bulbs as 4590 LED bulbs in 9W to the management of the University, without considering that, 7000 Glob LED bulbs in 12W valued at Rs.9,350,000 and 2000 Tube bulbs of 4 feet, the requirement of which had not been identified had been purchased. Even

though a period of one year and 03 months had elapsed from the purchase of LED bulbs by the date of audit, 3220 LED bulbs or 46 per cent of the total quantity purchased totalling Rs.3,181,800 had been stored without being used. The purchasing and unnecessarily storing of these types of equipment of which prices are declining, technology is changing and giving only a limited warranty period was observed as an uneconomic expenditure.

- (e) As necessary infrastructure facilities had not been provided, 03 hostels valued at Rs.676,283,400 vested in the University on completion of the construction activities had remained idle for a period from 10 months to 03 years even by 31 October 2017 without being used for the benefits of the students.

4.7 Identified Losses

The following observations are made.

- (a) According to the register prepared by the University relating to the former lecturers who had breached the agreements, necessary steps had not been taken to recover the agreed amount of Rs.34,028,333 as at 31 December 2016 from 78 retired lecturers.
- (b) A professor served in the Faculty of Agriculture, had been released to the post of Director of the Postgraduate Institute of Agriculture on no pay leave for a period of 03 years from 04 August 2014. During the aforesaid period, the University had granted full pay sabbatical leave for a period of 11 months and 03 days to this professor without obtaining the approval of the Council and salaries including all the allowances as well had been paid by the University. Accordingly, a sum of Rs.1,523,935 had been erroneously paid to the above professor as salaries and allowances for a period of 06 months by 03 March 2017.

4.8 Procurement and Contract Process

The following observations are made

- (a) Without being used the funds allocated for 03 projects of which the period of delay had been from 760 days to 1063 and works had not been completed even by the end of the year under review, such funds had been utilized for another project
- (b) Out of provisions amounting to Rs.365,652,114 made for 06 projects of which works had not been completed at the beginning of the year under review, a sum of Rs.356,400,000 had been used for another projects.
- (c) Instead of allocating the capital grants obtained from the University for each project by identifying their priorities, those had been transferred to various projects without planning and action had not been taken according to the agreements in respect of each project. As such, implementation of the projects had been delayed for a number of years.
- (d) Thirty two projects, the physical progress of which had been stated as 100 per cent as at 31 December 2016 according to the register of the Capital Work Department had been stated as works-in-progress even by 30 September 2017 in the yearend financial

statements. Even though a period from 288 days to 1661 days had elapsed from the expiry of the scheduled date for the completion of work, action had not been taken to correct it by identifying the reasons thereon and settle a sum of Rs.93,242,303 payable as at 31 December 2016.

- (e) Thirty six projects, the works of which should have been completed by 31 December of the year under review had not been completed even by 30 September 2017.
- (f) About 150 students had engaged in the academic activities in the Mahailuppallama Sub Faculty of Agriculture maintained for the practical training activities of the Faculty of Agriculture within a period of 06 months in a year. Nevertheless, without carrying out an evaluation thereon, a student hostel valued at Rs.225,427,400 had been constructed for 400 students and furniture and equipment had been supplied only for 200 students at the time of audit.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Although financial statements should be furnished to the Auditor General within 60 days from the close of the year of accounts in terms of Public Enterprises Circular No.PED/12 dated 02 June 2003, the University had furnished the financial statements relating to the year ended 31 December 2016 on 08 August 2017.

5.4 Budgetary Control

When comparing budgeted and actual income, income ranging from 69 per cent to 3250 per cent exceeding the estimated income of 07 items of income had been collected and when comparing budgeted and actual expenditure, expenditure ranging from 20 per cent to 100 per cent had been incurred exceeding the estimated expenditure of 23 objects. Further, out of the estimated expenditure of 24 objects, there were savings ranging from 18 per cent to 100 per cent, thus indicating that the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies 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.

Area of Systems and Control	Observations
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(a) Accounting	(i) Failure in properly classifying the income and expenditure.
(b) Financial Control	(i) Failure in taking action to settle the accounts receivable and payable. (ii) Not properly using the funds for the achievement of relevant objectives.
(c) Procurement and Contract Administration	(i) Carrying out procurement activities without evaluating the financial provisions.
(d) Assets Management	(i) Failure to take action on idle assets. (ii) Failure to implement construction activities according to the agreements.