

University of Peradeniya - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the University of Peradeniya for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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, 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-sections 107(5) and 108 (1) of the Universities Act, No.16 of 1978 and provisions of the National Audit Act, No.19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be 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 accompanying the financial statements give a true and fair view of the financial position of the University 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 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 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 Council 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 Section 16(1) of the National Audit Act, No. 19 of 2018, the University is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the University.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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;

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
 - An understanding of internal control relevant to the audit was obtained in order to design 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the 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 whenever 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 ;
and

- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant standard	Comment of the Management	Recommendation
a) As the useful life of non-current assets had not been reviewed annually in accordance with Paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, fixed assets costing Rs. 1,871,888,168 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.	After revaluation of fully depreciated assets in the year 2023, action will be taken to include them in the financial statements.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.
b) The road net work, sewage system, plumbing system and communication systems constructed in the University premises had not been identified and brought to account in terms of Paragraph 19 of Sri Lanka Public Sector Accounting Standard 07.	It has been a difficult task to identify the plumbing system and the sewage system constructed in the establishments of the University and action will be taken to identify the water pipe system and the sewage system currently being constructed and account for them in the future.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
a) In terms of Section 99 (d) of the Universities Act No.16 of 1978, sales income of Rs. 48,465,125 received from the farms of Faculty of Veterinary Medicine and the Faculty of Agriculture relating to the year under review and expenditure of Rs. 58,617,005 had not been identified and brought to account as income and expenditure of the University.	Action will be taken to account for the income received from and expenditure incurred relating to the farms in the preparation of financial statements from the ensuing year.	Action should be taken in accordance with the provisions of the Universities Act.

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| b) | The contracted value of Rs.1,793,659,427 for 14 capital and rehabilitation projects which had been completed by the end of the year under review had not been capitalized under property, plant and equipment. | Records have not been received by the Finance Division to the effect that the works of these 14 capital and rehabilitation projects were totally completed. | The projects of which works have been totally completed should be capitalized under the property, plant and equipment. |
| c) | The income of Rs.61,825,532 (USD 169,500) as course fee, recoverable for the year under review from 22 foreign students who were pursuing studies in the Medical Faculty had not been brought to account. | Action will be taken to correct and account for as an income in the financial statements for the year 2023. | All the receivables should be identified and brought to account. |
| d) | According to Paragraphs 5.2.1 and 5.2.2 of the University Grants Commission Circular No. 04/2016 dated 01 March 2016, a sum of Rs. 66,579,267 receivable by the University from the self-financing activities implemented during the year under review had not been identified and brought to account. as income. | Funds to be credited to the development Vote related to the self-financing activities had not been identified as income and action will be taken to adjust them as receivable in the accounts from the year 2023. | Action should be taken to identify the receivables and adjust in the financial statements. |
| e) | A land of about 40 perches located at Gatambe and owned by the University had been provided to the Divineguma Department on lease basis for a period of 30 years from 31 December 1987 to 30 December 2017. The outstanding lease of Rs. 7,200,000 receivable as at 31 December 2017 and the lease amount receivable for a period of 05 years from 2018 to 2022 had not been computed and brought to account. | Action will be taken to promptly recover the receivable lease after obtain of an assessment report. | Income should be brought to account. and outstanding lease should be recovered. |
| f) | The students' Mahapola scholarships amounting to Rs. 98,104,100 paid relating to the year under review had not been brought to account. | Action will be taken to account for these students' Mahapola scholarships under the receipts and payments in the ensuing year. | Income and expenditure related to the year should be correctly identified and brought to account. |
| g) | According to the No.09/2022 of University Grants Commission Circular dated 05 May 2022, computer software should be amortized at a depreciation rate of 20 percent from 10 May 2022. Nevertheless, due to carrying out amortizations under a depreciation rate of 10 percent, intangible assets relating to the year under review had been depreciated less in value of Rs.2,081,956. Accordingly, the deficit | Action will be taken to adjust the correct depreciation amount in the financial statements in the year 2023. | Action should be taken in accordance with the circular instructions. |

and the intangible assets of the year had been overstated by that amount in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) The Loan balances amounting Rs.1,372,636 due from 14 officers who had been retired, transferred and had vacated the service as at 31 December 2022 had not been recovered even by the end of the year under review despite the laps of 01 to 10 years.	Action will be taken to recover these loan balances when releasing the provident funds of those officers.	Outstanding loan balances should be recovered.
(b) A sum of Rs. 6,879,318 due from external parties as at 31 December of the year under review in respect of using properties of the University had not been recovered despite the lapse of more than a period of three years.	Action has been taken to recover this money due from external parties.	All the receivables charges should be recovered.
(c) Lecture hall charges and fines of Rs. 1,419,396 receivable relating to the period from 1980 to 2018 from 09 faculties of the University had not been recovered despite the lapse of a period from 04 to 42 years.	Action will be taken to recover the receivable lecture hall charges and fines in the ensuing years.	Receivable charges and fines should be recovered.

1.7 Non-compliance with laws, rules , regulations and management decisions

Reference to laws, rules , regulations etc, -----	Non-compliance -----	Comment of the Management -----	Recommendation -----
(a) Universities Act No.16 of 1978			
i. Sections 45(XV) and 34(3)	Although the Vice chancellor of the University has been entrusted with the powers to entered into agreements on behalf of the University on the approval of the Council, 02 projects worth of Rs.7,525,000 had been implemented without entering into any agreement during the year under review.	This situation has arisen as it has been communicated to the cliental institution that the cliental agreements should be signed by the Environmental Study Centre, and action will be taken to correct this matter.	Action should taken in accordance with the provisions of the Universities Act
ii. Section 99(d)	The sum of Rs. 286,679,787, including Rs. 184,707,847 received for	Although the receipts and payments related to these funds have been accounted	Action should taken in accordance with the provisions

		56 various funds during the year under review and Rs. 55,573,606 and Rs. 46,398,334, respectively received from animal science and agricultural farms during the period from 2019-2021 had been retained in various funds accounts without being credited to the University Fund.	as income and expenditure of the fund the allocation granted by the General Treasury have been accounted according to the proper methodology.	the Universities Act
(b)	Establishments Code of the Universities			
	i. Paragraph 3.1 of Chapter XX and the University Grants Commission Circular No. 10/2017 dated 10 July 2017.	Without being confirmed the arrival and departure of 963 members of the academic and non-academic staff through the finger scanners, Sum of Rs.6,362,499,051 had been paid as salaries and allowances during the years 2021/2022.	Action will be taken to implement a specific methodology in the future by referring recommendations made by the Committee on Public Enterprises to the University Grants Commission.	Action should taken in accordance with various circular provisions and recommendations the Committee Public Enterprises.
	ii. Paragraph 1.2.1 of Chapter XXVII	Without being obtained approval from the Senior Assistant Registrar of the Faculty of Engineering, the officer incharged with the vehicles had deployed a vehicle with the driver and a driver assistant for duties on a day during the weekend and caused damages to 04 another vehicles including the aforementioned vehicle, resulting in a loss of Rs. 5,443,615.	After completing the preliminary inquiry into those vehicle accidents, arrangements are being made to conduct a formal investigation.	Internal control of the vehicles should strengthened action should be taken against the responsible officers by completing investigations expeditiously.
(c)	Government Procurement Guidelines			
	i. Guidelines 2.8.1 (b), 7.2.1 and 7.6.1(a)	Without being complied with the guidelines in the procurement process related to photographing the convocation 2022 and without appointing an individual with expert knowledge to the Technical Evaluation Committee, the tender had been awarded to	With the objective of providing the university students with proper service in time, the procurement has been awarded taking into consideration all the matters arose due to the economic crisis prevailing in the country.	Action should taken in accordance with the Government Procurement Guidelines.

two selected tenderers and paid Rs.3,458,980 without transparency and confidentiality by removing the most qualified tenderer from the procurement process indicating that he exerted impact on the Technical Evaluation Committee.

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| ii. | Guideline 2.14.1 | In order to install a CCTV camera system in and around the canteen of the Arts Faculty due to a dispute that occurred between students regarding ragging, a sum of Rs. 1,122,400 paid for that purpose, deviating from the procurement process. | As it has been stipulated according to the Guideline 2.14.1 of the Government Procurement Guidelines that a specific tender procedure can be deviated from in a extreme urgent matter, this installation of CCTV was undertaken with the objective of safeguarding the students from the risk of their lives. | Action should taken in accordance with guidance of Government Procurement Guidelines. |
| iii | Guideline 7.9 | Without being carried out an extensive bid evaluation on the nutritional content of the animal foods in the purchase of animal foods for the year under review, a sum of Rs.15,568,000 had been paid to two suppliers to purchase animal foods on the recommendations of the Technical Evaluation Committee. | Purchases are only made from the supplier who possess a permits for the supply of animal foods. This aspect is specifically assessed by the Technical Evaluation Committee during the bid evaluation process, and it is practically difficult to conduct sample testing of foods. | Action should taken in accordance with Government Procurement Guidelines. |
| (d) | Sections 13.5 and 13.7 of Chapter II of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, Paragraph 23.3.7 of Chapter III of the Establishment Code of the Universities and Circulars Nos. 09/2015 and 06/2014 of the University Grant Commission. | The Deputy Registrar had been appointed on the basis of covering of duty of the post of Registrar of the University was paid Rs. 1,364,670 as fuel and transport allowance from January 2021 to February 2023 and Rs.270,400 as the Entertainment Allowances contrary to the provisions of the Establishment Code and the circulars. | As it is necessary to provide transport facilities to a officer in covering the duties of the post of Registrar, it is more beneficial to pay the transport allowance considering the cost incurred in providing an official vehicle by the University. That the entertainment allowances are have been paid taking into account the necessity of the duty. | Action should taken in accordance with the provisions of the Establishment Code and the circular guidelines. |

- (e) Section 11 of the Finance Act No. 38 of 1971 Without the prior approval of the appropriate Minister given with the concurrence of the Minister of Finance, a sum of Rs.14,097,000 received from the farm project of the Faculty of Veterinary Medicine had been invested as fixed deposits by the end of the year under review. Approval of the Minister of Finance have been sought for the fixed deposits opened and renewed in the year 2021. Action should be taken in accordance with the provisions of the Finance Act.
- (f) Paragraph 3.7 of Public Administration Circular No. 24/89 dated 31 March 1989 as approved by the Institutional Circular of the University Grants Commission No. 09/1989 dated 24 July 1989. Where it is necessary to confirm the educational or other certificates for the confirmation of any officer in the service, it has been stated that the relevant activities should be completed as immediately as possible without waiting for the completion of his probationary period. Nevertheless, without being confirmed the qualifications of two employees in the non-academic staff, who had submitted fake certificates, within a period of 06 months, salaries and allowances of Rs.4,904,233 had been paid to them up to 04 years in excess of the above 06 months. Matter had been referred to the Council concerning the recovery of salary paid to one employee and the results of the other employee have not been confirmed as yet. Action should be taken in accordance with the circular provisions.
- (g) Circular No. 02/2014 of Management Services dated 11 February 2014. Without the approval of the research management committee and without obtaining any interim research report or final research report, research allowances of Rs.83,739,907 had been paid to 59 officers of the non-academic staff during the period from 01 November 2014 to 31 August 2022. Currently, research allowances are paid upon the approval of the research management committee. Action should be taken in accordance with the circular provisions.

(h) Circular No. 04/2016 of University Grants Commission dated 01 March 2016.

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| i. | Paragraph 4.5 | Even though the prescribed minimum period had expired to complete 225 self-financing activities with budgeted value of Rs.354,379,267 implemented in the University during the period from 01 January 2018 to 31 December 2021 and 142 self-finance generating activities not presented to the audit, the annual financial statements to be prepared thereon had not been prepared. | Annual financial statements are to be prepared on completion of the self-financing activities. | Action should taken in accordance with the University Grants Commission Circulars. |
| ii. | Paragraph 5.1.4 | Without crediting Rs. 21,794,855 related to the self-financing activities implemented during the period from 01 January 2018 to 31 December 2022 to the development Vote of the University, it had been used to various requirements of the faculties and the departments without obtaining approval. | That the amount stated under 5.1.4 of the approved budget has been spent for the requirements of the faculty in accordance with the decisions of the 383rd and 387th University Finance Comitty and the provisions specified in paragraph 5.1.6 of the circular. | Action should taken in accordance with University Grants Commission Circular |
| iii. | Paragraphs 5.1.4, 5.2.1 and 5.2.2 | Although it has been stated that the contributions allocated for the development Vote should be credited to the university fund, contributions of Rs.196,103,699 related to 213 self-financing activities implemented during the period from 01 January 2018 to 31 December 2022 had not been credited to the university fund even as at the end of the year under review. | The contributions for the development Vote specified in the Circular 04/2016 will be credited to the respective funds after the completion of the activity and their financial statements are submitted to the Finance Committee. | Action should taken in accordance with the circular provisions. |
| (i) | Treasury Circular No. BD/HRD/126/214/19/2023 dated 18 January 2023 | Sums totalling Rs. 747,751,824 recovered from the bonds and agreements violators as at the end of the year under review had not | That the circular specified in the audit inquiry has not been absorbed and issued by the University Grants Commission as yet. | Action should be taken in accordance with Treasury Circular. |

been transferred to the Treasury.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the financial results for the year under review was a deficit of Rs. 77,582,289 as against the surplus of Rs. 620,220,964 in the preceding year. Accordingly, a deterioration of Rs.697,803,253 was observed. This deterioration was mainly due to the increase in the expenditure on personal emoluments, supply services, contractual services and other recurrent expenditure.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) Although a period from 02 to 10 years has elapsed from the payment of mobilization advances of Rs. 33,827,177 for 08 rehabilitation projects and Rs. 11,982,808 for 04 capital projects to commence works, action has not been taken to recover those advances even as at the end of the year under review.	Action will be taken to recover the total advance amount.	Advances should be recovered according to the procurement guidelines.
(b) According to the preliminary investigation report, although there was a possibility to interdict the former Registrar due to an apparent offence committed under the University Establishments Code, without so doing, he had been placed on compulsory leave. Subsequently, after seeking opinion of the Attorney General, a careless and wrong management decision had been taken to terminate his service without conducting a formal investigation. Accordingly, despite not making any active contribution to the University, a total of Rs.6,393,354 had been paid out as his salary and allowances.	Although a decision has been made to recover the overpayment of salary, that recovery process of overpayment has been temporarily suspended according to the concurrence reached at the Appeal Court on 30 March 2023.	After recognizing the responsible parties, necessary action should be taken on the payment of salary.
(c) No formal methodology had been followed to recover a sum of Rs. 240,944,708 that remained recoverable as at the end of the year under review from 122 lecturers and other officers who had breached bonds and agreements in relation to a period from 02 years to 52 years.	A request is due to be made to the University Grants Commission regarding the recovery of relevant dues after calculating the balances of the provident funds of these officers and the balance of the bonds value.	A formal methodology should be followed to make the recovery.

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| (d) | A total of Rs. 2,125,975 had been disbursed as salary and allowances to 04 probationary lecturers who were on no-pay leave, and had vacated the service, and had breached their bonds. | Necessary arrangements are being made to recover the dues from their provident funds. | Action should be taken to recover the dues. |
| (e) | Without being carried out consultancy services from the Engineering Design Centre of the University, consultancy services of 03 contracts had been outsourced to external institutions during the period from 2017 to 2021 and payment of Rs. 4,539,029 had been made for that purpose. | The Dean of the Faculty of Engineering has been instructed to submit bids. | Action should be taken to obtain the consultancy services from the Engineering Design Centre of the University. |
| (f) | Although duly and properly summoned to the Audit and Management Committee responsible for overseeing the accountability of the supreme power of financial control in terms of Article 48 of the Constitution of the Democratic Socialist Republic of Sri Lanka, 17, 11 and 13 executive officers of the non-academic staff had not participated in the 98 th , 99 th and 100 th Audit and Management Committee meetings conducted by the University in the year 2022 and 2023, respectively. | A letter seeking explanations has been issued to those officers and after considering the matters contained therein, it will be referred to the University Grants Commission to determine the possible disciplinary measures to be taken against those officers. | The recommendations of the Committee on Public Enterprises should be implemented regarding the negligence of the financial accountability. |
| (g) | Although the works related to rehabilitation and capital projects implemented at a cost of Rs. 411,628,504 from 2003 to 2017 had been abandoned without completion, they had been continuously stated in the financial statements under the work-in-progress without being taken action to recover the amount after identifying responsible officers or writing off it from the books. | Due to the not settling of bills and terminate of projects, those projects could not be capitalized. | Action should be taken to recover the dues from the responsible officers or to write off from the books. |

3.2 Underutilization of Funds

Audit Observation -----	Comment of the Management -----	Recommendation -----
Out of 35 research funds totaling Rs. 40,467,077 as at the end of the year under review, a sum of Rs. 14,963,744 relating to 01 research fund remained underutilized for more than 05 years, and Rs. 14,004,909 relating to 19 research funds remained underutilized for a period from 01 to 05 years, while Rs. 11,498,424 relating to 15 research funds was underutilized since a period of one year.	No request has been made for making payments under this fund in the year 2022.	Funds should be utilized effectively.

3.3 Deficiencies in the Contract Administration

	Audit Observation	Comment of the Management	Recommendation
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(a)	Although the improvement works of the Farm Animal Production and Health Department Building of the Faculty of Veterinary Medicine with an estimated value of Rs. 85,105,000 should have been completed by 01 November 2019 in terms of agreements, extensions had been obtained on 06 occasions up to 31 March 2022. Nevertheless, constructions had not been completed even by the end of the year under review.	The works have been delayed due to the adverse economic situation and the contract period has been extended up to 30 November 2022 by obtaining approval according to the Procurement Guidelines.	Construction work should be completed expeditiously.
(b)	For the purpose of constructing a canteen on the Meewathura hostel premises of the University, an agreement for contracted value of Rs. 36,815,177 had been entered into with a contractual company on 01 October 2022. This work should have been completed and handed over by 30 September 2022. Nevertheless, only 19 per cent of the constructions had been done even by the end of the year under review and despite the payment of Rs. 4,874,908 to the contractor, he had temporarily suspended the contract work unilaterally.	The relevant contractor has been instructed to complete the project.	The works of the project should be resumed and completed expeditiously.
(c)	A sum of Rs. 15,995,157 had been spent in the year 2018 to construct the foundation of the faculty center building of the Faculty of Engineering without the recommendation of the National Building Research Organization and without giving due consideration on the economy, efficiency, regularity and integrity. Since the constructions had been abandoned since a period of 05 years, related cost had become an uneconomic expense.	Recommendations of the National Building Research Organization has been given and only the first phase of this work consisting of two phases has been completed on 02 August 2021.	Public funds should be spent ensuing economy, efficiency, regularity and the integrity.

