

University of Peradeniya - 2013

The audit of financial statements of the University of Peradeniya for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, 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), 108 and 111 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 conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Recurrent expenditure totalling Rs.4,928,578 and capital expenditure totaling Rs.1,065,332 had been incurred from capital provision and recurrent provision respectively during the year under review.
- (b) Expenditure totalling Rs.3,321,486 and Rs.2,210,359.08 pertaining to 28 Research Funds and 11 other Funds had been incurred exceeding the provisions while expenditure totalling Rs.360,508 relating to 12 Researches and 2 other Funds had been incurred despite the unavailability of provision without prior authority. Further, in the preparation of financial statements, negative balances of these Funds had been adjusted to the positive balances in the statement of financial position.
- (c) An expenditure of Rs.71,224,806 pertaining to the Distant and Continuous Education Centre during the year under review had been shown as Rs.65,538,406 in the financial statements, thus the total expenditure of the year had been understated by a sum of Rs.5,686,400 in the financial statements.
- (d) Out of the property, plant and equipment valued at Rs.4,928,561 which belonging to the Distant and Continuous Education Centre, depreciation relating to the assets of Rs.1,468,164 had been understated in the financial statements.
- (e) Value of various fixed assets belonging to the Distant and Continuous Education Centre amounting to Rs.2,038,387 which were removed through the disposal procedure had not been eliminated from books and being shown in accounts for a long period of time. Thus, the net value of assets had been overstated.
- (f) One thousand nine hundred and thirteen Handbooks on Training valued at Rs.417,034 belonging to the Information Technology Centre had not been included in the cost of closing stock in the statement of financial position of the year under review.
- (g) The value of computers purchased at a cost of Rs.4,950,000 for the Information Technology Centre during the year under review and the depreciation thereon amounting to Rs.675,370 of the year under review had not been included in the financial statements.
- (h) Course fees totalling Rs.642,271 receivable in respect of 16 workshops and courses conducted at the Information Technology Centre in the preceding year had been written off from the General Reserve without the approval.
- (i) Even though a negative balance of Rs.169,895 had been shown under Account No.1301071201 in the Research Grant Schedule of the financial statements, such balance had not been shown in the main Ledger Account.

- (j) Equipment valued at Rs.907,424 provided by the National Science Foundation during the year under review and goods valued at Rs.272,067 belonging to the Faculty of Medicine had not been disclosed by the financial statements of the year under review.
- (k) An expenditure of Rs.104,221,372 had been incurred exceeding the provision received from the Treasury for the purchase of Fixed Assets, thus resulting in negative balances. Those had been adjusted with the positive balances and only the net result had been shown under the unspent capital grants in the statement of financial position.
- (l) Income from foreign students during the year under review totalling Rs.37,225,638 had been shown as Rs.36,970,240 in the income statement, thus the income from foreign students had been understated by a sum of Rs.255,398 in the financial statements.
- (m) The balance of Rs.13,168,099 not classified and identified the unit value from the year 2005 up to 2012 had been credited to the Stock Adjustment Account and to settle the above balance, it had been credited to the Income and Expenditure Appropriation Account as an income.
- (n) Action had not been taken to capitalize the value of two contracts amounting to Rs.1,747,318 of the Faculty of Arts which were handed over after the completion during the year under review.
- (o) The Cabinet of Ministers had approved a sum of Rs.44,000,000 in respect of the contract for the construction of the Teaching Hospital of the Faculty of Veterinary Medicine while a sum of Rs.45,471,987 had been capitalized after the completion. Therefore, a sum of Rs.1,471,987 had been overcapitalized.
- (p) Action had not been taken to recover from the Employees Provident Fund a balance of Rs.153,137,696 receivable from 122 lecturers and officers who breached the agreements.
- (q) Rates totalling Rs.1,034,839 payable in respect of the property belonging to the University of Peradeniya situated in the area of authority of Gangawata Korale Pradeshiya Sabha in Kandy pertaining to the period from the year 1997 up to 2008 had not been shown in the financial statements.
- (r) Academic period of the students of the academic year 2007/2008 had been completed by the year 2012, and a sum of Rs.5,850,000 receivable from nine students relating to that year had been brought to account as an income receivable for the year under review.
- (s) Action had not been taken to assess the value of a land in extent of 1390 acres, 2 roods and 21.6 perches, 3 student hostels and 3 houses of "C" category belonging to the University of Peradeniya and to include those values in the financial statements.
- (t) Even though the accrued expenses should be specifically identified and provision should be made as at the end of the year under review, provision had been made without identifying relevant expenses, thus an overprovision of Rs.37,733,400 for accrued expenses was observed.

- (u) If the fixed assets with zero value after depreciation are being used, action should be taken to revalue those assets. Nevertheless, it had not been so done in connection with 04 items of fixed assets purchased at a cost of Rs.1,666,744,282.
- (v) Balances of research funds brought forward over several years amounted to Rs.3,863,394 while action had not been taken either to settle those balances or to utilize the funds for relevant researches.

2.2.2 Unreconciled Control Accounts

Reconciliation of the balances of 03 items of account totalling Rs.71,653,182 with the balances of the control accounts relating thereto amounting to Rs.78,049,609 revealed a non-reconciliation of Rs. 6,396,427 .

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by 31 December 2013 to recover an expenditure on electricity amounting to Rs.1,306,111 due from 36 external institutions located at the University premises and an expenditure on water amounting to Rs.512,783 due from 07 institutions for over three years .
- (b) Action had not been taken to recover House Rent totalling Rs.1,026,154 from the occupants in the Government quarters belonging to the University.
- (c) Action had not been taken even by the end of the year under review to recover rental income of Rs.231,187 due from external institutions located at the University premises and 07 institutions to which the lands belonging to the University were leased out and telephone charges totalling Rs.119,145 due from 03 institutions located at the University premises outstanding for over 02 years.
- (d) Action had not been taken to settle a sum of Rs.3,809,903 comprising the course fees receivable from students of 08 Faculties of the University pertaining to the period from 1980 to 2009 and the fines imposed thereon.
- (e) Twenty three research advances totalling Rs.351,774 not settled as at the end of the year under review comprised 11 research advances relating to 15-19 years, 08 relating to 02-12 years and 04 relating to 08-13 years.
- (f) Action had not been taken even by the end of the year under review to recover a total sum of Rs.610,338 comprising 100 festival advance balances amounting to Rs.223,827 outstanding for over 10 years, 5 loan balances of Rs.223,524 outstanding since the year 2002 pertaining to 5 officers, and 3 loan balances of Rs.162,987 outstanding since the year 2002 pertaining to the officers proceeded abroad.

(g) The land of 40.97 perches in extent in Gatambe belonging to the University of Peradeniya had been leased to the Department of Upcountry Peasantry Rehabilitation by a lease agreement for a period of 30 years from 31 December 1987 up to 31 December 2017 while an outstanding ground rent of Rs.4,720,000 relating to the period from 31 December 1992 up to 31 December 2013 had not been recovered by the University. Even though the Udarata Development Authority had been established in a two storied building newly constructed therein in the year 2008, no proper approval whatsoever had been given by the Management of the University in this connection.

(h) Even though a payment of Rs.318,892 had been made to a private company for the procurement of foreign supply services in the year 2003, providing such a service had been defaulted by that company. Nevertheless, the Administration of the University had failed to recover the relevant money.

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following 13 items of account totalling Rs.10,646,769,610 of the year under review had not been presented for audit.

Item -----	Value ----- Rs.	Evidence not made available -----
(a) Expenditure incurred on upgrading the University to international level	84,225,964	Information and supporting documents to confirm the achievement of relevant targets
(b) Sundry Creditors	1,185,993	Schedules and Confirmation of Balances to confirm the value
(c) University Research Funds granted to six Lecturers and eight officers of the Faculty of Arts	1,264,019	Research Projects and Reports
(d) Research Allowances for 61 Lecturers of seven Faculties	11,483,905	Research Reports
(e) Payment for lectures delivered by five Lecturers in respect of the Postgraduate Course of Electricity and Electronics of the Faculty of Engineering	351,000	Number of days, hours and allowances paid per day
(f) Payments made during the years 2012 and 2013 for the service of Deputy Director in the Distant and Continuous Education Centre	342,276	New Courses introduced and activities of the development of syllabuses

(g)	Receipts not identified from the year 2009 to 2014	46,220,699	Relevant Schedules to confirm the value
(h)	Grants of fixed assets of the Distant and Continuous Education Center	1,468,164	Schedules and Confirmation of Receipts
(i)	Fixed Assets and Computer Accessories	10,422,295,853	Register of Fixed Assets and Register of Computer Assets
(j)	Contract value debited to the Work- in Progress Account by the A 0043 Journal	68,968,339	Confirmations pertaining to Contract values, Reports which certified the cost
(k)	Receivables from the Postgraduate Institute of Agricultural Science and University of Jaffna and payables to the University of Jaffna	5,520,523	Confirmation of Balances and Schedules pertaining to the receivables and payables
(l)	Electricity charges receivable from the Postgraduate Institute of Science	359,336	Confirmation of Balances
(m)	Securities pertaining to the recovery of bonds in respect of 13 Lecturers and officers who breached the agreements	3,083,539	Information on the entitlement to the Employees' Provident Fund
		----- 10,646,769,610 =====	

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) Universities Establishments Code ----- Section 2.2(f) of Chapter XXV	Damage of Rs.161,470 caused by accidents to motor vehicles during the year 2013 had not been reported to the Auditor General.
Paragraph 3 of Chapter IX of Part II	A sum of Rs.8,000,000 had been transferred to the Recurrent Account from the Capital Expenditure Account for the payment of overtime allowances.
Section 99(1) of Part XIII of the Universities Act, No. 16 of 1978	A sum of Rs.22,022,236 which should be credited to the University Fund had been credited to 18

Funds operated by the Faculty of Veterinary Medicine .

Circular No.2005/01 of 03 February 2005 of the University Grants Commission and Employees' Provident Fund and Employees' Trust Fund Acts

Action had not been taken to remit the contributions of the Employees' Provident Fund and Employees' Trust Fund amounting to Rs.114,192 to respective Funds.

Circulars No.7/2012 of 16 April 2012 and No.837 of 29 December 2003 of the University Grants Commission

According to the circular instructions, payments in respect of lectures and practical training per hour should be Rs.1,500 and Rs.200 respectively. Nevertheless, payments made for lectures and practical training of nine training programmes had been Rs.1,750 and Rs.1,500 per hour totalling Rs.160,250. Thus, a sum of Rs.64,150 had been overpaid.

(b) **Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

Financial Regulation 71

Allowances totalling Rs.745,520 had been paid for the academic and non-academic staff of the Faculty of Arts in respect of the activities carried out at the Human Rights Center.

Financial Regulations 104, 104(3)

Action in terms of the Financial Regulations had not been taken in respect of the estimated value of Rs.651,452 the damage caused to the motor vehicle bearing No.CPPB-5574 which met with an accident on 08 February 2011 and the damage of Rs.27,922 caused on 31 July 2013 to the Van bearing No.CPNB-3979 belonging to the Faculty of Arts.

Financial Regulation 371

- (i) Even though ad-hoc sub imprest should be granted only as required, advances amounting to Rs.192,890 exceeding the required amount had been granted in seven instances by the Faculty of Engineering and in six instances by the Faculty of Medicine.

	(ii)	Advances totalling Rs.950,000 had been granted to a Lecturer of the Faculty of Medicine in three instances.
Financial Regulation 371(1)	(i)	Advances totalling Rs.201,468 relating to the Faculty of Agricultural Science had been granted to five external institutions in six instances.
	(ii)	Out of the advances amounting to Rs.655,700 obtained by the Director of the Physical Education Department, a sum of Rs.629,760 had been granted to the Sports Instructors.
Financial Regulation 371(2)(b)		Advances of Rs.335,325 granted by the Faculty of Engineering in 8 instances, advances totalling Rs.675,000 granted to 5 officers of the Faculty of Medicine in 6 instances, and advances totalling Rs.2,403,993 granted by the Faculty of Agricultural Science in 52 instances had exceeded the limit.
Financial Regulations 754,756(1) and 758(1)		Annual Surveys had not been conducted in respect of tools and consumables of two stores belonging to the Works Unit of the Faculty of Engineering since prior to the year 1997 up to the year under review. Further, certain tools had not been used for a long period of time.
(c)	Circulars	

Public Administration Circular No.40/90 of 10 October 1990		Even though the fuel consumption of motor vehicles should be tested once in six months by a Staff Grade Officer responsible and action taken for balancing of fuel monthly, it had not been so done in respect of 10 motor vehicles belonging to the Faculty of Veterinary Medicine. Nevertheless, 21,389 liters of fuel valued at Rs.2,628,578 had been used for motor vehicles during the year under review.
Treasury Circular No. IAI/2002/02 of 28 November 2002		Even though a Register of Fixed Assets should be maintained in respect of Computers, Accessories and Software, such a Register of Fixed Assets had not been maintained in respect of Computers

valued at Rs.81,004,368 belonging to three Faculties and the Information Technology Center.

(d) Management and Internal Orders

Paragraph 4.2 of the decision of the Board of Governors No.307.10.2 dated 21 September 2002

Rent of quarters had not been revised once in 05 years and rent amounting to Rs. 11,877,000 relating to the period 01 January 2008 to 31 December 2012 and Rs. 5,344,650 up to September 2013 had been under recovered by the University.

2.2.6 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Agreements had been entered into for 03 buildings in Agunawala and Kiribathkumbura for hostels of this University for an annual rent of Rs. 2,352,000 at Rs. 196,000 per month and 06 months' rent had been paid thereon, contrary to provisions in Financial Regulation 835(2)(c).
- (b) Sums of Rs. 4,652,160 and Rs. 1,132,322 for 103 subjects in the Faculty of Arts and for 20 subjects in the Faculty of Engineering respectively had been paid as lecture fees for visiting Lecturers during the year under review due to employing visiting lecturers to teach those subjects despite the availability of permanent Lecturers.
- (c) A sum of Rs. 628,800 as course coordination allowances, a sum of Rs. 102,500 as honorariums and a sum of Rs. 84,500 for Postgraduate Courses had been paid without approval and contrary to provisions of Circular No. 422 of 06 February 1990 of the University Grants Commission, Section 02 of Circular No. 95 of 14 June 1994 of the Department of Public Enterprises and Circular No. PEI/174/1-2003 of 09 January 2003 of the Ministry of Finance.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2013 had resulted in a deficit of Rs. 655,872,586 as compared with the corresponding deficit of Rs.405,269,886 for the preceding year thus indicating an increase in the deficit by Rs.250,602,700 in the year under review.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a)
- (i) The University Grants Commission had granted provisions of Rs. 100 million during the year under review to establish a Research Centre for researches at international level and to fulfill its objectives. A sum of Rs. 84,255,964 had been spent for office equipment and salaries and allowances for Faculties without any plan whatsoever and extraneous to the objectives and targets of this purpose.
 - (ii) Even though a sum of Rs. 4 million had been allocated for the participation of staff and students in international workshops and a sum of Rs. 7,371,998 had been spent out of it, no student or Lecturer had been engaged for those objectives.
 - (iii) Even though the money received for a specific objective should not be spent outside that purpose according to Section 101(d) of the Universities Act, contrary to that, a sum of Rs. 4,033,627 had been spent for the expenses of the International Research Centre Project from the capital provisions of the University in the preceding year.
- (b) The maximum period of study leave obtainable is 39 months in terms of Section II 27(1) of Chapter X of the University Establishments Code. Even though a Lecturer who had obtained 06 months' leave with salary to earn a Doctorate in the year 2003 had been granted leave for 50 months and 09 days from year 2007 to year 2012 to study for her Doctorate at Leicester University of England again, the Doctorate had not been earned even by the end of the year under review. However, the evidence which enables to confirm that this Lecturer had been abroad, the Passport and the certificate of Doctorate obtained, had not been presented to audit and the sum of Rs.2,426,474 spent by the University Fund on her behalf was not observed as salaries beneficial to the University.
- (c) The Motor Vehicle Works Unit of the Faculty of Engineering had been commenced in March 2013 and an expenditure of Rs.1,529,610 had been incurred as salaries and allowances of employees in the year under review. However, as all the motor vehicles belonging to the University had not been referred to the Motor Vehicle Works Unit for repairs and maintenance and repairs and maintenance had been carried out by private firms incurring an expenditure of Rs.10,186,609 even in the year under review.
- (d) Even though a post of Farm Manager had been approved under the Department of Animal Products and Health of the Faculty of Veterinary Medicine, an officer recruited on contract basis, paying salaries of Rs.251,336 from the Research Funds during the year, had been assigned with the custody and responsibility of animals and property of very high value on Mawalawatte Farm even by 17 January 2014, the date of audit.
- (e) Ten employees had been recruited on temporary basis paying salaries totalling Rs.1,213,597 in the year under review from the Veterinary Hospital Maintenance Fund without taking action to create new posts and increase the number of the approved cadre for the Veterinary Hospital in terms of Financial Regulation 71.

- (f) According to the Letter No. A/05 of 14 January 2013 of the Senior Assistant Registrar (Administration), whenever the motor vehicles of the Faculty are not adequate for the urgent official travel in the year 2013, a motor vehicle should be obtained from another Faculty. A private motor vehicle may be used only if it is not possible to do so. Despite the availability of 08 motor vehicles in the Faculty of Veterinary Medicine and Animal Science, the Faculty had obtained the services of a private supplier of motor vehicles in the year 2013 and paid a sum of Rs. 531,019 out of the Research Funds to the private supplier of motor vehicles.
- (g) Instead of conducting study researches through the 05 laboratories of the Civil Engineering Department of the Faculty of Engineering of the University of Peradeniya meant for study researches of students of the Department, tests undertaken from outside parties had been conducted during normal office hours utilizing human and physical resources of the University of Peradeniya and reports issued out of the income of Rs.6,137,738 and Rs.13,362,371 earned from such tests in the years 2012 and 2013 respectively. Sums of Rs.3,521,704 and Rs.4,136,194 respectively had been paid contrary to Section 107(6)(a) of the Universities Act, No.16 of 1978 to the lecturers in charge of the laboratories and its officers in charge of laboratory work.
- (h) Wooden chairs and tables to the value of Rs.5,366,770 had been purchased under capital payments on 05 March 2013 to be distributed to the hostels. They were not in accordance with prescribed specifications and out of them, 36 tables to the value of Rs.417,600 had not been made use of for any purpose whatsoever even by 31 January 2014.
- (i) Even though 10 per cent of the fee obtained for unofficial work carried out outside office hours or during office hours with approval, using the training and knowledge obtained from state service should be credited to the University Fund in terms of Section 6.2 of Chapter 08 of Part II of the Universities Establishments Code, a sum of Rs. 43,000 equivalent to 10 per cent of the coordination fees paid to 07 Lecturers employed in the University of Peradeniya for Postgraduate Courses had not been credited to the University Fund even by 20 January 2014, the date of audit.
- (j) As the amount incurred for lectures of visiting lecturers is costly, it had been instructed to discourage the habit of obtaining the service of visiting lecturers in terms of paragraph 26 of Chapter III of Part I of the Universities Establishments Code. Nevertheless, a total of Rs.14,282,952 had been paid to visiting lecturers, employing them for that purpose in the year under review, without taking action to recruit approved lecturers for the vacancies.
- (k) Even though 03 creditors balances amounting to Rs.5,902,577 shown under Sundry Creditors had elapsed over periods from 02 to 08 years, no action had been taken by the responsible officers to settle it.
- (l) The value of security bonds of 214 Lecturers and officers who had breached agreements as at the end of the year under review had been Rs. 203,720,109 and out of it, the period of non-recovery of security bonds amounting to Rs. 200,062,201 had exceeded 40 years from the year 1970 to the year 2013.
- (m) The balances of 12 Funds at the beginning of the year under review totalled Rs. 9,024,433 and a sum of Rs. 1,651,725 had been received for those Funds during the year and the balance had increased up to Rs. 10,676,158 as at the end of the year. It was observed that the Management of the University had not taken action to fulfill the objectives of the relevant funds.

- (n) Even though conducting short term courses and earning income had been one of the objectives of the Information Technology Centre, no income whatsoever had been earned during the year 2012 and an income of Rs. 240,000 had been earned by conducting only one course in the year 2013. As such, it was observed that the number of short term courses which existed at the commencement of this Centre had decreased and no future plans or introduction of new courses had been made for increasing the income.
- (o) Goods of the Information Technology Centre which should be disposed of, had been piled up in 02 rooms without being removed and it was observed that unusable computer accessories of all computer laboratories had been stored. Even though goods valued at Rs. 528,257 had been removed in the year 2010 according to Inventory Register ITC-SB 2, no action had been taken in terms of Financial Regulations 770, 772 and 747.
- (p) Researches carried out in Universities are considered as one of the main criteria in grading Universities and the sum of Rs. 12,400,000 granted from the Treasury for that purpose had been invested in fixed deposits without utilizing for relevant purposes.
- (q) Even though the Board of Governors had decided to utilize 80 per cent of the interest received from investing donations granted to the University by external parties to award scholarships to students with financial difficulties, only a sum of Rs. 3,577,098 which is 28 per cent of Rs. 12,801,890 which should be utilized to award scholarships in the year under review had been utilized due to non - implementation of proper arrangements, continuously.
- (r) Even though the academic period of foreign medical students registered in the year 2004 ends in 05 years, a sum of Rs. 1,640,310 had been brought to account as receipts of three students by the end of the year 2011.
- (s) Loan balances totalling Rs. 1,821,032 existing for a long period had not been recovered.
- (t) Even though a house rent of Rs. 15,000 per month should be charged from a Professor according to the Decision No. 306.3.1.15 of 22 May 2010 of the Board of Governors, a loss of Rs. 434,000 had been sustained by the University Fund due to charging only a sum of Rs. 31,000 for 31 months at Rs. 1000 per month.
- (u) Even though the money of the Provident Fund of an officer retired by 15 September 2013 had been released, action had not been taken to recover the outstanding house rent of Rs. 45,989 from him.
- (v) A portion of land of 25 perches of the Rathmale Land belonging to the University of Peradeniya had been vested in Kadawath Satara Gangawata Korale Pradeshiya Sabha in Kandy on lease from the year 1975. Even though Lease Agreements should be entered into according to new valuations, no action had been taken to recover lease rent amounting to Rs.6,724,000 recoverable from the Pradeshiya Sabha relating to this land even by 31 December 2013 due to taking action to enjoy the tenure of the property without signing lease agreements from the year 1997 up to the year under review.

4.2 **Operating Inefficiencies**

A total of Rs. 96,482,435 including a sum of Rs. 40,596,609 and a sum of Rs. 55,885,826 had been paid for permanent and temporary security officers respectively of the University in the year under review as salaries and allowances and despite 111 excess security officers being employed among those employees, an overtime expense amounting to Rs. 10,672,211 had been spent.

4.3 **Transactions of Contentious Nature**

The following observations are made.

- (a) (i) The University Administration should obtain the concurrence of the Board of Governors to establish a certain centre in terms of paragraph 02 of the Universities Act, No. 01 of 1995 and should enter into an agreement with respective parties in terms of Section 45 of the Universities Act, No. 16 of 1978. Nevertheless, the Lanka Education and Research Network (LEARN) Institute established in Colombo in terms of the Letter No. UCC/C/PS/7/2 of 27 September 2012 of the University Grants Commission had been established in the Information Technology Centre of the University of Peradeniya from January 2013. The Administrative Authority had not taken action to recover any amount whatsoever for facilities provided to this Institute even by December 2013. However, total of Rs. 1,985,489 had been paid to the LEARN Institute in the year 2013 for providing internet facilities to the Information Technology Centre.
- (ii) Internet services of the University of Peradeniya and its maintenance are carried out by the Internet and Communication Services Unit (ICSU) of the Faculty of Engineering and the service for providing internet facilities had been obtained from a private firm called Lanka Education and Research Network (LEARN). Nevertheless, the University Administration had not entered into an agreement with this Institute in terms of Section 45 of the Universities Act, No. 16 of 1978 and a sum of Rs. 22,189,833 had been paid for that service in the year under review.
- (b) Out of the provisions received for providing consultancy services to the Research and Development Centres and the staff, 05 per cent is allocated as University Administrative Fees in terms of the Public Finance Circular No. 380 of 19 January 2000. Out of this Administrative Fees, 30 per cent is allocated as Administrative Fees of the University at the discretion of the Management of the University and 25 per cent of this amount is credited to the Fund by the Bursar. Out of the amount allocated for this Fund, payments of Rs. 2,513,645 had been made as allowances from the year 2007 to 2013 for officers in the Accounts Division of the University of Peradeniya according to various percentages which are decided by the Bursar at his discretion without approval of the Treasury and contrary to Chapter VII of Part II of the Universities Establishments Code.
- (c) A monthly rental of Rs. 1,273,500 and fuel allowances of Rs. 348,813.60 had been paid for the duration from March to December 2013 for the bus obtained under the monthly payment scheme to engage in daily routine activities in the University of Peradeniya and the total number of kilometers run during this period had been 9374. As such, a cost ranging from Rs.113.13 to Rs. 206.90 had been incurred per one kilometer. The average expenditure incurred per one kilometer during the period from 17 March to 31 December 2013 amounted to Rs. 173.06. It was observed in audit that a high cost had been incurred for this vehicle obtained on monthly rental basis without paying attention on maximum utilization of the buses owned by the University and thus indicating a loss caused to the University Fund.

- (d) A sum of Rs. 1,474,042 had been paid to 89 officers as allowances of 40 per cent to 85 per cent of their salaries for sock verification in the year 2013 without an approval in terms of paragraph 4.1 of Chapter VII of Part I and paragraph 2.2 of Chapter IX of Part II of the Universities Establishments Code.
- (e) Despite having a difference on output and quality between the samples submitted and computers provided without objectives or plans to purchase computers, 50 computers had been purchased from a private firm spending Rs. 4,950,000 on 05 April 2013 and the guarantee period of those computers had expired on 27 March 2014 and certain computers had not been made use of by then.
- (f) Expenses had been incurred for accommodation, food and transport facilities for field trips made by the Faculty of Medicine for projects on survey of use on domestic drugs in four districts namely Ampara, Moneragala, Ratnapura and Colombo between the period of 13 February and 07 March 2013 and payments totalling Rs. 2,068,265 had been made, on the basis of prices obtained from a private institution in Kandy for that expenditure, without obtaining prices from the suppliers of the relevant districts. Even though the provisions for this project of the Faculty of Medicine had been received on 14 May 2013 from the University of New Castle of Australia, before receiving provisions that is, in the year 2011, advances of Rs. 807,500 had been obtained as project consultancy services and data processing and analyzing fees from the University Fund and that amount had not been credited in return to the University Fund.

4.4 Apparent Irregularities

The following observations are made.

- (a) The ad-hoc sub imprest of Rs. 230,000 granted to a retired officer of the Faculty of Engineering on 18 March 2012 had not been settled even up to the date of audit and a sum of Rs. 188,415 was recoverable as rent for quarters and arrears in electricity charges from this officer as at 31 December 2013. As purchases amounting to Rs. 554,520 belonging to the Faculty of Engineering during the service period of the officer had not been entered in the stock records, no action had been taken to recover the sum of Rs. 554,520 recoverable from him. As such, gratuities valued at Rs. 900,700 had been released on 22 March 2012 without recovering the loss of Rs. 972,935 caused to the institution, from the gratuities. As action had not been taken to recover this amount from the University Provident Fund, action should have been taken in terms of Section 94 of the Universities Act.
- (b) Even though overtime should be authorized only in exceptional circumstances where no other means of getting the work done are available and for work which has been specifically ordered, falls quite outside the normal work, is urgent and cannot possibly be performed within the normal hours, in terms of Sections 2.1 and 2.2 of Chapter IX of the Universities Establishments Code, a total of Rs. 1,590,435 had been paid contrary to that for overtime of the Works Department for overtime done in October, November and December in the year 2013.

4.5 Underutilization of Funds

Five Research Funds of the Faculty of Arts totalling Rs. 392,000 had been settled in the year 2013 without utilizing for targeted research.

4.6 Idle and Underutilized Assets

The following observations are made.

- (a) Even though conducting computer courses and providing training for the internal students of the University and earning income by providing short term computer training to outside institutions had been shown as the main objectives of establishing the Computer Information Center commenced in the year 2004, computers and laboratories of the Institute had remained idle for a long time. Thus it was revealed that the said objectives had not been fulfilled efficiently and effectively.
- (b) It was observed that 40 balances of other Funds valued at Rs. 33,249,967 had remained idle for a long time without utilizing for fulfilling the objectives of those Funds and action had not been taken to settle or make use of those balances effectively.
- (c) Six items of Surge Protectors belonging to the Internet and Communication Services Unit of the Faculty of Engineering remained idle and 560 compact discs valued at Rs. 43,400 out of 2400 compact discs purchased on 21 November 2012, had not been made use of even by November 2013.
- (d) Funds totalling Rs. 1, 928,200 received for research activities in the year under review had not been spent even by the end of the year.

4.7 Identified Losses

The following observations are made.

- (a) The entire loss sustained by the University of Peradeniya due to motor vehicle accidents from the year 2011 to the year 2013 had been Rs. 207,030.
- (b) Even though a sum of Rs. 127,542 had been received from the Sri Lanka Insurance Corporation relating to estimated damages of Rs. 161,396 from the accident to the motor vehicle No. CPKC 4977 on 08 February 2013 of the Faculty of Engineering, action had not been taken to recover the damages of Rs. 33,854 from the responsible officers.
- (c) Computers and Central Processing Units at all places in the Information Technology Centre were physically verified on 06 January 2014 and a deficit of computers and accessories valued at Rs. 1,880,358 and a surplus of Rs. 539,460, were observed.
- (d) The Academic Allowance had been included for the computation of Contributions to the Provident Fund, Pensions Fund, the Employees' Trust Fund and Gratuity contrary to the Employees' Provident Fund Act, No. 15 of 1958 and the Letter of the Commissioner of Labour No. ජ/ආයතන/11 of 24 August 2001. As such, the University had sustained a loss Fund due to the payment of a total of Rs. 48,812,616 for the academic staff relating to 08 Faculties of the University of Peradeniya during the year under review.

4.8 Deficiencies in the Contract Administration

The following observations are made.

- (a) Even though the estimated value of the contract of providing access facilities for people with various difficulties of the Faculty of Arts, according to the Bill of Quantities presented by the Project Manager had been Rs. 2,548,806, the value approved by the Finance Committee under decision No. 269.4 had been Rs. 2,980,006. As such, a difference of Rs. 431,200 was observed between the Bill of Quantities presented to the Finance Committee and the Bill of Quantities used for inviting bids. A sum of Rs. 374,047 had been spent exceeding the estimated cost of 11 items of work, without approval.
- (b) Even though the opened procurement documents should be re-sealed and forwarded to the Evaluation Committees by the Committee which opens the procurement documents to evaluate them in terms of 6.3.3 of the Procurement Manual, the University of Peradeniya had not taken such action in any instance. All functions that should be performed by the Evaluation Committee had been performed by the Capital Divisions and the relevant documents had been presented to the Evaluation Committee only for signing.
- (c) Granting a long period to complete the work contrary to Section 4.2.2 of the Government Procurement Guidelines, non-completion of work as scheduled in terms of the agreements, non-approval of designs and plans by the Board of Governors and non-approval in terms of Sections 4.7 and 4.8 of the Procurement Guidelines had taken place relating to work No. HE/IDD/PFN/2010/05 for supply of water to the Marcus Fernando Hall and an advance of Rs. 4,200,000 equal to 60 per cent of the estimated amount as well had been released after the signing of agreements, in terms of 5.1(a) (i) in the Agreement signed in respect of the work.
- (d) The contract of Rs.1,952,242 had been awarded on 10 May 2013 to a private contractor to complete and handover the work of renovation of the drainage system of the Faculty of Medicine in 90 days. According to the final bill paid to the contractor for the aforesaid work, the value of work amounted to Rs. 1,714,072 and the Value Added Tax amounted to Rs. 205,688. However, the quality of the work performed in this contract was not visible and the constructions had not been carried out in accordance with the standards.
- (e) The work on repairs to the side wall of the swimming pool of the University of Peradeniya had been awarded to a private firm and deficiencies such as non-execution of works valued at Rs. 825,211, non-completion of work in terms of specifications, cost of construction of the drain exceeding the estimated value by Rs. 369,803 or 148 per cent, preparation of over estimates of Rs. 608,550 and overpayment of Rs. 155,129 for 42.96 cubes of earth were observed.
- (f) The total value of the contract of the recruitment of labourers of Mawalawatta Farm in the year 2013 amounted to Rs. 2,789,435 and it was observed in audit that this contract had been awarded by the Procurement Committee of the University in two instances in order to comply with the procurement limit of Rs. 2,000,000 of the Procurement Committee of the University were observed.

- (g) It was observed that works of 06 contracts for repairs and constructions valued at Rs. 26,315,427 entered into with parties in the year 2012 had not been completed during the year under review in terms of agreements entered into.
- (h) Even though payments totalling Rs. 69,144,925 had been made for 43 works for which bids had been called and agreements had been signed, from the year 2002 to 2010, those works had not been completed in terms of agreements even by the date of audit. However, no action whatsoever had been taken by the Management of the University in respect of relevant contractors.
- (i) Quotations had been submitted by 06 Bidders for the Project of Painting of the Ramanathan Hall and the contract had been awarded to a private firm which submitted the second minimum bid without giving reasons of not accepting the quotations of the contractor who submitted the minimum quotation. As such, a loss of Rs. 1,779,657 had been sustained.
- (j) The Procurement Committee had, without obtaining the approval of the Committee on Lands and Buildings and the Board of Governors for the commencement of work on the Project for the preparation of Architectural and Structural Designs for the Agricultural Engineering Building costing Rs. 98,564,200 awarded the contract to the second minimum bid of Rs. 828,000 by rejecting the contractor who quoted the lowest bid of Rs. 747,500 without giving acceptable reasons. A sum of Rs. 1,142,640 had been paid in the year 2005 for architectural and consultancy services without obtaining the prior approval of the Line Ministry for the engagement of consultants. The other works of the Project in terms of the agreements had not been executed even by 31 December 2013.
- (k) An agreement for Rs. 324,279 had been entered into with a private firm on 31 January 2005 for the Project for Reconstruction of the Library of the Mahailuppallama Sub-Campus. Even though the contract was scheduled to be completed before 30 April 2005, part payments of Rs. 294,082 had been paid to the contractor in the year under review despite the non-completion of works of the contract.
- (l) According to the agreement entered into on 14 November 2011 with a private firm for the project for the renovation of the male latrine system on the first floor of the Mars Hall, that work had been awarded on a contract for Rs. 1,115,940 and scheduled for completion on 13 February 2012. Even though the project had not been completed even by 31 December 2013 and handed over to the Management of the University, a part payment of Rs. 330,305 had been made for this purpose.
- (m) Even though 05 contract projects valued at Rs. 7,629,409 had been awarded to a private firm by the Management of the University, the contractor had breached the agreements entered into with the Management of the University of Peradeniya. Nevertheless, action had not been taken by the responsible officers to recover the losses in this connection.
- (n) According to the estimate for making windows from Aluminium Frame in the Department of Zoology of the Faculty of Agricultural Sciences, the value of the contract amounted to Rs. 1,752,750 and the value of the bidder awarded with the contract amounted to Rs. 959,400. As such, a difference of Rs. 793,350 was observed between the estimate of the Department and the minimum bid of the bidder to whom the contract had been awarded.

- (o) Even though the contractor had submitted minimum quotations of Rs. 971,040 at the opening of bids on 04 March 2013 for the contract for renovation of the Gal Bangala estimated by the Works Engineer for Rs. 1,444,643, according to the contract agreement entered into on 11 June 2013, the value of the contract amounted to Rs. 1,273,440 and the agreement had been signed for an amount which exceeded the bid submitted by the contractor by a sum of Rs. 302,400.
- (p) The lowest quotation received at the opening of the quotations invited in the first instance on 12 August 2012 for the supply and installation of air conditioners for the work site of the Civil Engineering Division amounted to Rs. 784,500 submitted by a private contractor and another private institution had submitted the second lowest quotation of Rs. 882,680. Quotations had been invited again on 13 February 2013 without considering those quotations. The second bidder of the first instance only had submitted a quotation for Rs. 1,050,270. A loss of Rs. 265,770 had been sustained by the University of Peradeniya due to granting the relevant contracts to that institution.
- (q) The contract of modernization of the electricity system of the Indoor Stadium of the University of Peradeniya had been awarded to a private firm and payments amounting to Rs. 6,351,248 had been made. Deficiencies such as non-operation of this system properly, electric lamps installed not being of equal capacity and lack of uniformity of lighting throughout the stadium existed. Twenty burnt bulbs valued at Rs. 339,000 had been removed by the date of audit. It was revealed that bulbs of this type are not available for purchase in this country for replacement and that the officers in the University do not possess technical knowledge on this matter while the bulbs had not been covered by a guarantee.
- (r) Even though a mobilization advance of Rs. 1,500,000 had been paid on 20 January 2009 to the State Engineering Corporation for drawing of plans for the Project for Construction of Conference Center. Action had not been taken to commence the project or to recover the advance despite the elapse of 05 years.

4.9 Delayed Projects

Even though the advance guarantee period of 20 per cent of Mobilization Advances of Rs. 3,450,238 granted on 04 contracts valued at Rs. 18,715,197 of the University of Peradeniya had expired, relevant projects had not been completed.

4.10 Staff Administration

The following observations are made.

- (a) Even though an appointment or promotion can be made only to a post in the approved cadre in terms of Sub-section 02 of Chapter 03 of the Establishments Code of the Universities, 03 officers had been appointed to 02 posts which are not in the approved cadre of the Internet and Communication Services Unit of the Faculty of Engineering and sums totalling Rs. 2,348,289 had been paid to them as salaries.
- (b) An officer had been recruited to an unapproved post of the International Research Centre and a sum of Rs. 2,625,000 had been paid as salaries and allowances for 21 months at Rs. 125,000 per month from 02 April 2012 without the approval of the Treasury.

- (c) The staff had been recruited without a proper approval of the authorities concerned in terms of Section 18(2) (3) (f) of the Universities Act, No. 16 of 1978 to establish the International Research Centre and a sum of Rs. 4,234,062 had been paid as salaries and allowances. The required guidelines had not been formulated to fulfill the role of the Center.
- (d) Duties had not been assigned to officers/employees serving in the Motor Vehicles Maintenance Unit and in the Works Unit of the Faculty of Engineering in terms of Section 8.8 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, salaries amounting to Rs. 18,020,276 had been paid to the officers / employees attached to those Units for the year 2013.
- (e) Whatever the source of provisions or Funds from which the staff involved is paid, the prior authority of the Deputy Secretary to the Treasury should be obtained to pay salaries to the staff in terms of the Financial Regulation 71. Salaries totalling Rs. 1,474,347 had been paid in the year 2013 to 06 officers in 04 posts without obtaining the approval for the staff for the Information Technology Centre.
- (f) Even though the approved and permanent cadre of the security personnel of the University had been 69, on hundred and eighty Security Guards and Inspectors comprising 63 actual cadre of the security staff and 117 security officers of the private sector had been deployed. As such, 111 security staff of the private sector had been deployed in the service exceeding the approved cadre.
- (g) Even though the steps should be taken to fill the vacancies in the management of the staff in terms of the Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises, such steps had not been taken relating to 45 and 26 vacancies of the academic and non-academic staff respectively of the Faculty of Medicine.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

- (a) Even though the Corporate Plan should be a reflection, prepared for the future vision of the University by the officers of the Board of Governors and Senior Managers in terms of Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises, such objectives of the Corporate Plan had not been fulfilled due to the following weaknesses.
 - (i) Even though the updated Corporate Plan should be presented to the Auditor General along with the Annual Budget at least 15 days before the commencement of each financial year, the updated Corporate Plan for the year 2013 had been presented only on 02 July 2013.
 - (ii) Even though the budgeted capital expenditure in the Corporate Plan should be included in the annual budget, 04 capital expenditure amounting to Rs.396,025,000 included in the budget had not been included in the Corporate Plan.

- (b) A Corporate Plan had not been prepared for the Information Technology Center in terms of Section 5.2 of Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises. Even though an Action Plan should be prepared and implemented so as to fulfill the objectives of the Corporate Plan, an Action Plan too had not been prepared during the year under review.

5.2 Action Plan

The following observations are made.

- (a) Even though 32 items totalling Rs. 83,550,000 had been included in the Action Plan of the year under review, it was not observed in audit that those objectives had been fulfilled according to the financial statements.
- (b) Differences totalling Rs. 211,850,000 relating to 31 items was observed between the Corporate Plan and the Action Plan for the year under review.

5.3 Meetings of the Board of Governors

Even though 11 meetings of the Board of Governors had been held in the year under review, the relevant reports and information in terms of Section 4.2.2 of Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises had not been submitted to the Board of Governors for the evaluation of efficiency and guidance.

5.4 Internal Audit

Even though a separate internal audit should be carried out for each Division of the University for the year under review in terms of the Financial Regulation 133, no internal audit whatsoever had been carried out from the year 2004 in which the Information Technology Center was commenced up to 08 January 2014, the date of audit.

5.5 Procurement Plan

The following observations are made.

- (a) Even though values for works, supplies and services had been included in the Master Procurement Plan for the year under review, differences totalling Rs. 4,344,861,500 with the annual budget were observed.
- (b) Three structured services valued at Rs.18,317,000 estimated through the budget but not included in the Procurement Plan were observed in the year under review.

5.6 Budgetary Control

The following observations are made.

- (a) The estimated income and expenditure of the Distant and Continuous Education Center for the year under review amounted to Rs. 57,955,000 and Rs.26,527,000 respectively and

according to the financial statements of the year under review, the actual income and expenditure amounted to Rs. 66,341,099 and Rs.65,538,406 respectively. As such, the actual income and expenditure had exceeded the estimated income and expenditure by Rs. 8,386,356 and Rs. 39,011,406 respectively or 14 per cent and 147 per cent respectively.

- (b) Even though the annual budget should be made use of as an instrument for fulfilling the objectives of the Corporate Plan in terms of 5.2 of the Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises, it was observed that the budget had not been made use of as an effective instrument of financial control due to the following differences.
- (i) The excesses on estimated provisions of 37 Objects totalled Rs. 354,137,482 and overestimate of 29 Objects totalled Rs. 348,673,163.
 - (ii) Expenditure totalling Rs.155,504,977 had been incurred in the year under review on 06 Objects not included in the budget.
 - (iii) Even though the provisions are made under Objects, provisions amounting to Rs.702,000 or 100 per cent had been saved in the year under review for 05 Objects.
 - (iv) A comparison of the budgeted income with the actual income revealed a decrease of Rs.54,503,907 in the income relating to 04 Objects.
 - (v) An increase of Rs. 133,334,989 in the income relating to 11 sources of income was revealed at the comparison of the budgeted income with the actual income.
 - (vi) Income of Rs. 91, 439,412 had been received in the year under review under 03 sources of income that were unidentified as budgeted income.
 - (vii) Even though the total income of Rs. 58,955,000 had been estimated under 04 items of income according to the budgeted information, income had not been received for those items of income during the year under review.
- (c) Even though a sum of Rs. 10 million had been allocated for supply of required funds to study in Degree Courses in foreign institutions to undergraduates of M. Phil and PhD, financial aid had not been provided for those purposes to anyone.
- (d) Even though a budgeted balance sheet should be presented in terms of Section 5.2.1 of Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises, a budgeted balance sheet had not been presented for the year 2013.

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.

- (a) Accounting
- (b) Settlement of Advance Balances
- (c) Stock Control
- (d) Motor Vehicles Control
- (e) Utilization of Research Grants and Funds
- (f) Staff Administration
- (g) Procurement Process
- (h) Administration of Staff Loans
- (i) Contract Administration