

University of Peradeniya - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the University of Peradeniya for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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. My comments and observations which I consider should be report 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 financial statements give a true and fair view of the financial position of the University as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for 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 determine 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 intend to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

As per 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 misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also;

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the institution'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 as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the University, and whether such systems, procedures, books, records and other documents are in effective operation ;
- Whether the University has complied with applicable written law, or other general or special directions issued by the governing body of the University ;

- Whether the University has performed according to its powers, functions and duties ; 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) According to Paragraph 19 of the Sri Lanka Public Sector Accounting Standard 07, the roads, sewage systems, water pipelines, and communication systems constructed within the university premises had not been identified and accounted for	It is a challenging task to identify the roads, sewage systems, water pipelines, and drainage systems that were constructed during the establishment of the university. However, action will be taken to identify and account for the water pipelines and sewage systems currently under construction.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards.
(b) As of 31 December of the review year, 02 patents had been commercialized, generating an amount of Rs. 11,050,000 for the university. However, these patents had not been accounted for under intangible assets according to Sri Lanka Public Sector Accounting Standard 20.	All patents owned by the university will be accounted for according to Accounting Standard No. 20 starting from the year 2024.	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) The sales income of Rs. 70,124,305 and expenses of Rs. 100,488,287 related to the farms of the Faculty of Veterinary Medicine and the Faculty of Agriculture for the year under review had not been shown as income and expenditures of the university in the statement of financial performance.	The income and expenditure of those projects will be accounted for as university income and expenditures, and the remaining balance will be maintained in the Fund Account.	This should be stated as income and expenditures of the university in the statement of financial performance.

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| (b) | A sum of Rs. 19,352,214 that remained receivable to the University Fund from 88 self-financing activities had been retained in the respective fund accounts from the year 2016 until the end of the year under review. | Funds will be transferred to the university fund only after the completion of the self-financing activities. | The relevant funds should be credited to the University Fund. |
| (c) | According to the Circular No. 09/2022 of the University Grants Commission dated 05 May 2022, sports items and equipment worth Rs. 3,695,014 had not been shown under fixed assets, and the relevant depreciation of Rs. 923,753 and the depreciation related to electrical generators amounting to Rs. 2,378,036 had not been accounted for. | These sports goods and equipment, not being in the form of capital items, have been considered and accounted for as recurrent expenditure. | Action should be taken in accordance with circular provisions. |
| (d) | A total of Rs. 29,523,940 in bond value, which remained recoverable over a period ranging from 22 to 53 years from 64 officers who served on the academic staff and were identified as untraceable the relevant bondholders or guarantors, has continued to be shown as current assets in the financial statements without any provision for doubtful debts. | Since discussions are being held with the University Grants Commission to recover the amounts from guarantors or the provident fund, the amounts have been accounted for as current assets with the intention of recovering them within a very short period of time. | Uncertain balances of receivables should be accurately identified, and a provision for doubtful debts should be made for them accordingly. |
| (e) | The income of Rs. 48,027,480 from course fees due from 16 foreign students pertaining to the year under review had not been accounted for, and Rs. 1,289,205 received from foreign students in the Faculty of Dental Medicine during the year under review was credited to the Fund Account without being recognized as income | The value of Rs. 48,027,480 due from 16 foreign students will be accounted for in the future, and Rs. 1,289,205 is a short-term course fee received from foreign students who is following postgraduate degree in dental medicine. | Accurate values should be identified and accounted for during the preparation of financial statements. |
| (f) | The rental income of Rs. 11,550,000 that remained receivable related to the period from 01 January 1988 to 01 December 2023 for the 40-perch land located in the Galle area, which was transferred to the Divineguma Department and was leased in 1987, had not been accounted for. | Due to the absence of a formal agreement for the period from 2018 to 2023, it is not possible to account for the rental income for that period. | All income should be accounted for, and the outstanding rental amounts should be recovered promptly. |
| (g) | The medical laboratory income of Rs. 5,975,650 received during the review year had not been accounted for as university income. | Actions will be taken to correct this error. | It should be accounted for as university income. |

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| (h) | Due to the accounting of a foreign exchange loss of Rs. 4,104,684 in the Non-Resident Foreign Currency Account as a foreign exchange gain of Rs. 4,635,443, the deficit and cash and cash equivalents for the year under review were understated and overstated by Rs. 8,740,127, respectively. | Actions will be taken to correct this error in the future. | The gains or losses arising from foreign exchange transactions should be accurately identified and adjusted in the financial statements. |
| (i) | While an amount of Rs. 17,406,675 due from 7 officers who breached their bonds had been shown as receivable income in the financial statements, this amount was disclosed as contingent assets under accounting policies and disclosures. | An accounting annexure has been provided regarding the uncertain balances and these receivable balances have not been accounted for as contingent assets. | An adequate provision should be made for uncertain balances during the preparation of financial statements. |

1.6 Accounts Payable and Receivables

Receivables

Audit Observation	Comment of the Management	Recommendation
(a) Out of the remaining balance of Rs. 1,175,380 to be recovered from the students, a sum of Rs. 594,953, comprising fines and hostel fees, remained outstanding for a period ranging from 2 to 5 years, while a balance of Rs. 580,427 remained outstanding for a period exceeding 5 years by the end of the year under review. However, these amounts had not been recovered.	The fine amount of Rs. 594,953, which was outstanding for a period of 2 to 5 years, is in the process of being collected. However, since the registrations of the students related to the balance of Rs. 580,427, which has been outstanding for more than 5 years, have not yet been canceled, it is not possible to write them off from the books.	All fees must be collected promptly.
(b) Although a loan balance of Rs. 1,362,330 to be collected from 14 officers who have retired, vacated the service, or transferred has remained unrecovered for a period ranging from 1 to 10 years as of 31 December 2023, no action had been taken to recover this amount.	Action will be taken to recover the loan balance when releasing the relevant officers' provident funds.	All advance loan balances 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)	Parliamentary Acts -----			
i.	Section 6(1)(b) of the National Audit Act, No. 19 of 2018	A sum of Rs. 327,471,914 had been paid as salaries and allowances to 92 lecturers of the Faculty of Science during the year under review; however, no information required to verify the duties performed by them was submitted to the audit.	Steps will be taken to provide accurate responses in the future.	Information required to verify the duties performed should be submitted to the audit.
ii.	Section 04 of the Prevention of Frauds Ordinance, No. 07 of 1840	Despite the observation that the declaration made by the nominee of a deceased professor lacked the signatures of two witnesses and that the professor's signature was identified as forged, a sum of Rs. 3,273,535, which was her due gratuity, had been paid to her husband.	Further actions will be taken in accordance with the report of the appointed investigation committee and the verdict of the Kandy Magistrate's Court.	Actions should be taken in accordance with the provisions of the Ordinance.
iii.	Section 09 of the Payment of Gratuity Act, No. 12 of 1983	The gratuity payment of Rs. 2,579,064, which was due to the deceased professor, had been paid solely to her husband, disregarding the rights of the other heirs.	Further actions will be taken in accordance with the report of the appointed investigation committee and the verdict of the Kandy Magistrate's Court.	Actions should be taken in accordance with the provisions of the Act.
iv.	Section 11 of the Finance Act, No. 38 of 1971	A sum of Rs. 449,981,632 had been invested during the year under review without the prior approval of the relevant Minister and the Minister of Finance.	That the necessary documentation to obtain prior approval for fixed deposit investments has been submitted to the Treasury.	Actions should be taken in accordance with provisions of the Finance Act.
(b)	University Establishments Code -----			
	Section 11.1 of	Although only the salary for the	Steps will be taken to	Actions

Chapter VI in Part I	month of death can be paid to the next of kin of a deceased employee, a sum of Rs. 862,131, including arrears of salary and allowances, had been paid in cash to the husband of the deceased professor in addition to the salary applicable to the month of the professor's death.	settle excess salaries and allowances from pension fund.	should be taken in accordance with provisions of the University Establishments Code
(c) Circulars			

i. The University Grants Commission Circular No. 15/2018 dated 26 November 2018	A sum of Rs. 49,827,000 had been paid from the University Fund to the National Insurance Trust Fund as contributions for the Employee Aghara Insurance during the period from 2019 to 2023 without the approval of the Department of Public Enterprises and the Treasury.	The payments have been made in accordance with the University Grants Commission Circular No. 15/2018 dated November 26, 2018, and included in the annual budget statement.	Actions should be taken in accordance with circular provisions.
ii . Circular No. 04/2016 dated 01 March 2016, regarding Self-Financing Activities	-----		
a. Paragraph 5.1.2	No contributions had been paid to the university for the use of lecture halls, laboratories, and other facilities in connection with 98 self-financing activities implemented during the period from 01 January 2020, to 31 July 2023 generating a total income of Rs. 297,501,367.	Although no allocations were made for this purpose in the budgets, provisions have been allocated under the development Objects 5.1.4 and 5.2.1.	Actions should be taken in accordance with circular provisions.
b. Paragraph 5.2.1 and 5.2.2	No contributions had been allocated to the university's development vote from 10 self-financing activities implemented during the period from 01 January 2017, to 31 July 2023 generating an actual income of Rs. 9,948,695.	Although these projects did not directly contribute to the University Development Fund, they have provided other forms of contributions to the university, such as staff training.	Actions should be taken in accordance with circular provisions.

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| iii. | Section 05 (d) of the University Grants Commission Circular No. 408 dated 20 October 1989. | A total of Rs. 9,081,981 in salaries and allowances paid to three officers who took paid sabbatical leave followed by unpaid sabbatical leave had not been recovered till the end of the year under review. | Actions are currently being taken to recover the excess salaries and allowances paid to these officers from the Employee Provident Fund and the Gratuity Fund. | Actions should be taken in accordance with circular provisions. |
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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. 342,546,289 as compared with the deficit of Rs. 77,582,289 for the preceding year. Accordingly, a deterioration of Rs. 264,964,000 was observed in the financial results. This deterioration was mainly due to the increase in the expenditure on personal emoluments, maintenance expenses, contractual services and financial assistance expenditure on academic activities.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) A professor served in the Faculty of Agriculture at the university who took study and sabbatical leave from 30 December 2019 to 30 April 2023, had received a total of Rs. 24,129,082 in salaries, allowances, and acting pay from three state institutions. During this period, he also had received Rs. 9,639,043 from two institutions as study, research, and living allowances. The sum of Rs. 6,110,066 so paid as salaries and allowances by the University of Vocational Technology during the study leave period had not been reimbursed even as of March 2024.	It is informed that a response with correct evidence and attachments will be provided in due course.	The allowances that have been paid twice should be recovered, and the outstanding amount must be reimbursed promptly.
(b) Four lecturers who received scholarships under the AHEAD project during the period from 2018 to 2023 had breached their agreements and the sum of Rs. 61,569,383, which was due to be recovered for the above reason, had	That the amount to be recovered will be collected from the Provident Fund and the Gratuity Fund.	Action should be taken to recover the relevant funds promptly.

not been recovered even by the end of the year under review.

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| (c) | Six research projects amounting to Rs. 3,455,500, scheduled between 2017 and October 2023, had been canceled due to incomplete execution as planned. Consequently, the opportunity to reuse these research grants for other projects had been lost. | All of these research grants have been canceled, and steps will be taken in the future to recover the relevant amounts. | Action should be taken to recover the relevant funds promptly. |
| (d) | Two temporary lecturers appointed for academic activities in the Faculty of Arts had been employed for operational tasks in various projects at the Dean's Office without being engaged in their academic duties and Rs.1,913,090 had been paid in salaries and allowances for these tasks during the year under review. | That a response with correct evidence and attachments will be provided in due course. | Appointed temporary lecturers should be utilized for academic activities. |
| (e) | Due to the inability to verify the allegations against the Work Engineer who was interdicted from April 2019 to February 2022, the engineer had been restated into service. During this period, despite not providing any active service to the university, an amount of Rs. 4,623,485 had been paid as arrears of salary and allowances. | Due to the lack of evidence of financial fraud revealed through a formal disciplinary inquiry, the University Council decided to pay the salary for the period of suspension, and made the payment for arrears of salary and allowances. | Before suspending an officer, actions should be taken with careful consideration and prudence. Any salaries and allowances paid during the suspension period should be recovered from the responsible parties. |
| (f) | Fifty-nine lecturers, who had resigned between 01 January 2020 and 31 December 2023 without prior notice of three months, had been allowed to so resign without recovering the three months' salary totaling Rs. 12,232,161 that should have been recovered from them. | Action will be taken to provide a response with correct evidence and attachments in due course. | Necessary steps should be taken promptly to recover the salaries and allowances that need to be collected. |
| (g) | Due to a 1% to 16% decrease in the number of students enrolled in four academic programmes across nine departments of the Faculty of | Action will be taken to provide a response with correct evidence and attachments in due course. | The expected number of students should be enrolled in maximum capacity. |

Science, compared to the expected intake, 152 graduates who studied science subjects lost their opportunity for university admission over the past three academic years.

3.2 Underutilization of Funds

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 1,932,972 related to five research funds and Rs. 1,951,178 related to two other funds remained underutilized for more than a year, while Rs. 15,270,168 related to 14 funds remained underutilized for a period of one year.	No payment requests were made under these funds during the year under review.	The funds should be utilized effectively to achieve their intended objectives.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comment of the Management	Recommendation
(a) Out of the four electric elevators installed in the Faculty of Arts at a cost of Rs. 35,526,904 by 12 July 2021, three electric elevators remained unutilized and idle for over two years.	Since these electric elevators were installed for students with special needs and are not used by general students or staff, it is not a fruitless expenditure.	Immediate action should be taken to address technical deficiencies and ensure their utilization.
(b) Under the AHEAD project, 80 laptops, which did not meet the required standards and were worth Rs. 12,577,600, had been purchased for the Faculty of Arts. Out of these laptops, 35 remained unused and idle for a period of 5 to 9 months.	Action will be taken to service these laptops by the company within the warranty period, and a decision will be made regarding future transactions with the company.	Computers that meet the required standards should be purchased and utilized properly.
(c) Eighteen tablets and three computers, purchased at a cost of Rs. 1,748,500 to enhance the education of students with special needs and ensure equity, remained idle for over two years by the end of the year under review.	The 18 tablets were intended for the students who enter in the new academic term, while out of the 3 computers, one was issued to the Dean's Office and two were issued to the Department of Fine Arts.	Computer equipment should be used to achieve the objective for which it was purchased.

3.4 Delays in Projects or Capital Works

Audit Observation	Comment of the Management	Recommendation
Out of the 31 research projects worth Rs. 17,261,711, that were to be completed between 2017 and October 2023, no action had been taken to either conclude the research activities or extend the project deadlines. A sum of Rs. 1,535,000 had already been spent on these projects by the end of the year under review.	Actions have been taken to recover the cancelled research grants from the respective research beneficiaries and to extend the deadlines for other projects.	The cancelled research grants should be recovered from the respective research beneficiaries and other research activities should be completed within the prescribed timeline.

3.5 Deficiencies in the Contract Administration

Audit Observation	Comment of the Management	Recommendation
(a) Although it had been more than 17 months since the completion of the seven-storied building for the Arts Faculty, which cost Rs. 439,602,148, the building had not been utilized to its full capacity due to the inability to secure a stable electricity supply.	Necessary actions are currently underway with the Ceylon Electricity Board to provide electricity to this building through an internal electrical supply network using a transformer.	Steps should be taken to obtain a stable electricity supply and utilize the building.
(b) Without assigning the consultancy work for the construction of the Faculty of Allied Health Sciences building to the University's Engineering Design Centre (EDC), it had been given to an external organization, and a fee of Rs. 2,876,116 was paid.	Since it is a university institution, payments could not be made to it. Therefore, arrangements have been made to obtain engineering consultancy services from other government institutions.	Actions should be taken in a manner that provides the maximum economic benefit to the government.
(c) Having entered into an agreement for the construction of a water supply project at a cost of Rs. 714,535,924, the contract was awarded to the National Water Supply and Drainage Board on 11 July 2018, with the condition to complete the work by 10 July 2020. By 31 December 2021, a sum of Rs. 420,895,652 had been paid, but only about 52 per cent of the physical progress had been achieved, and construction work had been abandoned. The project had not been completed within the contractual period and an additional estimate of Rs. 785 million	Actions will be taken to provide a correct reply in the future.	Efforts should be made to complete the contracted work within the agreed timeframe in a manner that provides maximum economic benefit to the government.

exceeding the original estimate had been provided by the Board on 20 July 2023, to complete the remaining work and constructions of the project had been started accordingly.

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| (d) | Due to the failure to prepare detailed estimates, labor reports, and completed work reports for 3,621 maintenance tasks, totaling Rs. 85,928,622, executed on a direct labor basis during the year under review, it was not possible to examine them during the audit. | Actions will be taken to provide a correct reply in the future. | Relevant documents and reports should be maintained in a way that facilitates satisfactory inspection of the maintenance work. |
| (e) | Although a total of Rs. 308,330,445 had been spent on restoration and improvement projects from 2009 to 2018, these projects were abandoned without completion. Nevertheless, without being taken action to identify responsible officials, and recover the funds or write them off from books, it had been continuously stated under the work-in-progress in the financial statements. | Actions will be taken to provide a correct reply in the future. | Funds spent on abandoned projects should be recovered or written off from the books. |
| (f) | Although the total engineering estimate for the 04 water infrastructure improvement projects of the university was Rs. 100,136,000, the contract had been awarded to the bidder who presented a minimum price of Rs. 55,982,587. Despite variations in the bid price ranging from 42% to 52% than the engineering estimate, and variations in the main work items of the BOQs ranging from 23% to 97%, the contract had been awarded without evaluating whether the project could be completed with the prescribed specifications and quality. | Actions will be taken to provide a correct reply in the future. | The procurement process related to contract awarding should be conducted with transparency and in accordance with the relevant regulations. |