

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the University of Peradeniya for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

The accompanying financial statements give a true and fair view of the financial position of the University as at 31 December 2024 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 Opinion

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 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.

1.4 Audit Scope

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 skepticism 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 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 the University on 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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the 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 it has performed according to its powers, functions and duties .
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with Laws, Rules, Regulations and Management Decisions, etc.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Section 11 of the Finance Act No. 38 of 1971	The excess money of Rs. 3,184,708,986 had been invested by 31 December of the year under review without obtaining the prior approval of the Minister of Finance and the Minister in charge of the subject	The Secretary to the Ministry of Education has forwarded the essential documents of the previous year, except for the year under review, to the Director General of Budget of the Treasury to obtain the approval of the Minister of Finance.	Actions should be taken as per the Act.
(b)	Section 45(2) XV of Part VII of the Universities Act, No. 16 of 1978	Without entering into an agreement by the Vice-Chancellor, with the approval of the Governing Council for the research grant of Rs. 15,169,843 received for a project from the National Research Council in the year 2015 had been credited to a personal account of a professor signing an agreement. Actions had not been taken to recover the contribution of Rs. 351,316 receivable to the University from the sale	Actions should be taken to recover the value of the royalty to be received from the sales revenue to the University from the provident fund of the Professor.	Actions should be taken to recover promptly.

of the anti-cancer capsule produced through that research between 01 January 2020 and 02 June 2023 .

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| <p>(c) Paragraph 4.1 and 4.1.1 of Chapter V of Part I of the University Establishments Code</p> | <p>Although it was stated that a lecturer should inform the Governing Council in writing of his resignation from service 03 months in advance under the prescribed procedure, and if he does not notify 03 months in advance, 03 months' salary should be paid to the University, 40 lecturers had not reported to work from the date of submitting their resignation, and the 03 months salary of Rs. 9,212,748 receivable from them had not been recovered even by 31 December of the year under review.</p> | <p>Answers have not been given.</p> | <p>Actions should be taken according to the provisions of the Establishments Code.</p> |
| <p>(d) Section 5 of Chapter XIX of the Constitution of the Democratic Socialist Republic of Sri Lanka</p> | <p>Due to the charging of rent decided by the Governing Council of the University in contrary to the provisions of the Establishments Code, a number of 324 academic and non-academic staff was undercharged with rent amounting to Rs. 19,680,784 from January to September 2024 .</p> | <p>The Bursar has been informed to charge revised official housing rent from 01 October 2024 .</p> | <p>Actions should be taken according to the provisions of the Establishments Code.</p> |
| <p>(e) Financial Regulations 571(2),(3) of the</p> | <p>Actions had not been taken even by the end of the year under review to</p> | <p>An amount of Rs. 3,498,874 has been released for 02 projects</p> | <p>Actions should be taken to release the relevant funds.</p> |

	Monetary Regulations Code of the Democratic Socialist Republic of Sri Lanka	settle the retention fee of Rs. 33,429,836 and refundable deposits of Rs. 3,531,810 payable to contractors for 09 projects that have been completed and handed over to the University.	and the money is being released based on the engineer's recommendation and the contractor's request, and since no deposit requests have been made, it has been taken to revenue with the approval of the Finance Committee.	
(f)	Section 10 of Public Finance Circular No. 02/2015 dated 10 July 2015	The income received from the vehicle disposal process Rs. 3,304,899 had been credited to the university account without taking steps to credit it to the Consolidated Fund.	The amount has been credited to the University Fund in accordance with Section 99(1) (d) of Part XIII of the Universities Act, No. 16 of 1978.	Actions should be taken according to the circular instructions.
(g)	Paragraph 5.1.2 of the University Grants Commission Circular No. 04/2016 dated 01 March 2016 on Self-financing Activities	From 40 self-financing generating activities which were operational from 2016 to July 2024 with a total income of Rs. 456,251,500, the University had retained the funds for the acquisition of lecture halls, laboratories and other facilities without making any contribution to the University.	This situation has arisen due to the recommendations of Circular No. 04/2016 and actions are being taken to amend this circular.	-do-
(h)	University Grants Commission Institutional Circular No. 10/2017 dated 10 July 2017	A sum of Rs. 3,385,317,098 and Rs. 3,711,517,359 had been paid as salaries and allowances respectively in the years 2023 and 2024, without confirming the arrival and departure of permanent and part-time lecturers of the academic staff of the University.	Finger scanner machines are not used to verify the arrival and departure of academic staff, and temporary lecturers record their arrival and departure in a book and are paid only after certification by the Head of the Department.	Actions to be taken in accordance with the provisions of the circular.

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| (i) | University Grants Commission Circular No. 15/2018 dated 26 November 2018. | An amount of Rs. 71,061,240 had been paid from the University Fund to the National Insurance Trust Fund as Employee Aghara Insurance Contribution from the year 2019 to 2024 without obtaining the approval of the Department of Public Enterprises and the General Treasury. | Actions have been taken in accordance with the University Grants Commission Circular No. 15/2018 . | Actions should be taken to obtain approval from the Department of Public Enterprises and the Treasury. |
| (j) | University Grants Commission Ethics and Academic Accountability Guidelines for Academic Staff No. UGC/AC/QA/Gen dated 07 May 2015 | Although a University Lecturer should allocate a minimum of 300 hours per year for student contact hours, the remaining 1100 hours for research, university and national development-related activities, and 12 weeks for examination work and examination of question papers, a professor had delivered lectures for only 10 hours during the academic period from 01 January 2023 to 30 June 2024 . | Answers have not been given. | Actions to be taken in accordance with the provisions of the circular. |

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operating result for the year under review was a deficit of Rs. 587,618,865 and the corresponding deficit of the preceding year was Rs. 177,927,611. Accordingly, a deterioration of Rs. 409,691,254 in the financial result was observed. The increase in salaries and allowances, maintenance expenses, financial assistance expenses for academic activities and other recurrent expenses had mainly caused to this deterioration.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Due to breach of contracts with 07 lecturers who received scholarship grants from the Accelerating Higher Education Expansion and Development (AHEAD) Project and went abroad during the period 2022 to 2024, a sum of Rs.53,414,966 should have been collected. Due to breach of bond for a period of 11 to 42 years from the 68 academic staff members, and also failure to attempt to recover an uncollected balance of Rs. 33,708,966 within the stipulated time, the bonds were still remained to be received and it had been impossible to find the bondholders or their guarantors.	It had been informed to immediately pay the bond amount due to the University in accordance with the agreement. Legal actions have been taken to recover the outstanding amount.	Actions should be taken to collect outstanding amounts promptly.
(b) An expenditure of Rs. 86,049,868 had been incurred for 46 research projects by the end of the year under review with a total value of Rs. 97,760,741 implemented in 07 faculties of the University which were to be completed between 2018 and 2024 and actions had not been taken to complete that research or extend the duration of those projects.	The funds spent on researches will be fully recovered from the relevant lecturers in installments by 31 August 2025 .	Actions should be taken to complete the research works quickly.
(c) Salary advances of Rs. 3,436,320 paid to 09 permanent staff members	Actions will be taken to recover this loan balance when releasing the	Actions should be taken to recover promptly.

	and 21 temporary academic staff members during the non-academic staff strike period from 02 May to 15 July 2024 had not been recovered by the end of the year under review.	provident funds of the relevant officers.	
(d)	A sum of Rs. 3,222,972 had been paid as allowances from the year 2014 to 2024, for 04 unapproved director positions as per as per the approved staff of the Department of Management Services, effective from 01 February 2017 .	Payments have been made in relation to the percentages of allowances approved by the University Grants Commission or the University Governing Council.	Actions should be taken to recover director allowances paid for unapproved positions.
(e)	Without entering into a Memorandum of Understanding between the University of Peradeniya, the National Water Supply and Drainage Board and the Kandy Municipal Council to connect the University's wastewater system to the Kandy Municipal Wastewater Project, a sum of Rs. 16,850,000 had been paid to the National Water Supply and Drainage Board, which initiated the Project in 2019, in 2 instances in the year 2020 . The physical progress was as low as 7.8 per cent and work on the project had been stopped by 31 December 2021 as at the date of audit 28 October 2024 .	Since payment should be made on the basis of paying after survey, payments have been made for geological surveys and experiments.	Actions should be taken to complete the works.
(f)	Due to the University had not paid the electricity and water bills on time a total of Rs. 2,418,820 in fines had to be paid from the year 2022	Actions have been taken to expedite payments so that late fees are not charged for bills in the future.	Actions should be taken in terms of Financial Regulations.

to 2024 and actions had not been taken to identify the responsible officers and recover the loss incurred to the University Fund.

3.2 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
(a) Despite 8 years had passed as at 31 December of the year under review, the amount of Rs. 1,466,529 received for the completion of the project (APP) between 01 July 2015 and 30 July 2016 had remained unutilized for the relevant purpose.	The necessary actions are being taken will be done to send the relevant amount to the APN Institute in Japan, which granted the research.	Actions should be taken to utilize funds properly.
(b) Five research funds, 06 miscellaneous funds and 08 other funds amounting to Rs. 7,309,383, Rs. 4,357,557 and Rs. 7,699,757 respectively had remained underutilized for a year.	It is stipulated to spend funds on development activities and to be transferred to the University Fund and the Faculty Development Fund.	Actions should be taken to utilize funds properly.

3.3 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
Although a Memorandum of Understanding (MoU) was prepared between the University of Peradeniya, the National Water Supply and Drainage Board and the Kandy Municipal Council regarding the connection of the wastewater system of the University' to the Kandy Urban Wastewater Project and its draft was provided to the University on 08 July 2019, and also 05 years had passed as at 28 October 2024, a sum of	Since payment should be made on the basis of paying after survey, payments have been made for geological surveys and experiments.	Works should be completed.

Rs. 16,850,000 had been paid to the National Water Supply and Drainage Board on 2 occasions without entering into the MoU. Further, the work on this project, which was started in 2019, had been stopped by 31 December 2021 and its physical progress was still at a very low level of 7.8 per cent by October 2024.

3.4 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
(a) The contract for the construction of the proposed extension to the manufacturing and industrial Engineering building of the Faculty of Engineering under the Acceleration of Higher Education Expansion and Development (AHEAD) project was awarded to a private entity on 16 February 2021 for a contract value of Rs. 127.87 million excluding VAT and although the project is scheduled to be completed by 15 August 2022, according to the agreement, the contract period had been extended until 31 December 2023. Only 49 per cent of the work as at 31 December of the year under review had been completed and Rs. 91,051,620 had been paid. The University was unable to take over the performance bond due to legal action taken by the contractor when it attempted to cash the performance bond.	Although it has been decided to terminate the contract of the contractor' and steps have been taken to take over the performance bond to the University, the contractor has obtained injunctions against this and has initiated arbitration proceedings against the University. The approval of Cabinet of Ministers has now been received to complete the remaining work of this Project.	Necessary steps should be taken to transfer the performance bond to the University and actions should be taken to complete within the stipulated time.
(b) An agreement of Rs. 36,815,177 was entered	It has been agreed to complete this contract by	Procurement activities should be

into with a private institution on 01 October 2021 for the construction of a cafeteria in the Meewattura Hostel premises and although the project was to be completed and handed over by 30 September 2022, only the foundation work of the building had been completed by the date of audit 10 September 2024. Further, the contractor had informed the University on 04 August 2022, in writing that he would temporarily stop the works on the project and had left the work site. The University Procurement Committee held on 25 August 2024 had approved the termination of the agreement by mutual consent so that this project would be implemented from 15 June 2023. Actions had not been taken to cash the performance guarantee of Rs. 1,840,800 related to this project before its expiry on 13 July 2024. The relevant procurement activities for the remaining works of this project were being re-conducted.

mutual consent of both parties and funds have been allocated for the remaining works of the project for the year 2025 and procurement activities are currently being done.

completed expeditiously and the project should be completed within the stipulated time.