

A STUDY ON PUBLIC SECTOR GOOD GOVERNANCE: WITH SPECIAL REFERENCE TO THE UNIVERSITY OF COLOMBO

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ABSTRACT

Public sector in Sri Lanka spreads to a wider range of sectors of the economy (Kumara & Handapangoda, 2008) and Sri Lanka is the country which has comparatively a larger public sector in Asia (Iqbal, 2002). Capital and recurrent expenses of all these public entities are funded through the public funds which are collected through different tax sources. Therefore ultimate owners of such entities are the public. As all such public participation to the management process is not practicable, members of the parliament who are elected by the public are been empowered by the constitution to control these entities on behalf of the public. So that the Minister concerned appoints Board of Management of the public entities and they are accountable to the general public through the parliament in justifying whether public funds have been utilized in order to meet the public expectations (Perera, 2010). Since public funds are been controlled by the appointed board there should be a Good Governance (GG) mechanism in order to keep proper control over the activities of the management and protect the public interest. The constitution of Sri Lanka has established strong mechanism by empowering Auditor General (AG) to conduct comprehensive audit over the public enterprises and empowering Committee on Public Enterprises (COPE) to review performance of such entities. But annual reports of AG's have pointed out many misappropriations of public funds, violations of the financial regulations by the public entities and activities that are not complying with the good governance practices for public enterprises in Sri Lanka.

With the understanding of the significance of accountability of public entities researchers have selected the University of Colombo (UOC) in order to review how governors of the UOC have designed and arranged its governance practices as the agents to the public, to explore the adequacy of governance practices of UOC and its public accountability in delivering and protecting stakeholder interests. Data for this study was collected through 40 interviews. It covers Senior Assistant Registrars (SAR), Senior Assistant Bursars (SAB), Deans of Faculties, Department Heads, Lecturers, students (Undergraduates), and staff members of University Grants Commission. Data analysis was based on Agency theory and Stakeholder theory.

The study found that the governance structure of the UOC is not adequately arranged to meet the criteria laid out by the Organization for Economic Corporation and Development (OECD), if it to be a GG. Even though it could be identified certain GG characteristics in its governance structure other than regulatory compliances, they are scattered in a non- orderly manner. Furthermore, study found that governors UOC had put an effort to construct the governance mechanism bring up to an acceptable level. Yet as it is not adequately inculcated in to the UOC's administration. Finally it can be concluded that, although an existing system of governance of the UOC has ensured stakeholders interest at its best there are certain practices which need to be further improved in order to maintain accountability and transparency of the UOC activities.

Key words: University of Colombo, public sector, good governance, accountability, transparency.

1. INTRODUCTION

Public sector in Sri Lanka spreads over wider range of sectors of the economy (Kumara & Handapangoda, 2008) and Sri Lanka is the country which has comparatively a larger public sector in Asia (Iqbal, 2002). Capital and recurrent expenses of those public sector entities in Sri Lanka are funded through the government treasury, whose funds are gathered from the general public in a way of different types of taxes. Therefore people, who funded such entities, have the controlling power over those entities. But due to practical inability of the entire individual in the country taking part in controlling activity, they appoint representatives to the Parliament which has supreme authority to govern the country on behalf the public. As the government is appointed by the general public, it has the responsibility to discharge its activities in order to fulfill the public needs and the public have the right to know how government spends public funds for the development of the country. Thus there should be a mechanism to ensure that the governors, if not public sector officers in charge of such public activities act in the best interest of the financiers. In that context it is required to report and justify, utilization of public resources to ensure whether public expectations have been fulfilled or not and if not, why? (Perera, 2010). Present system to safeguard the public interest is the concept of parliamentary control over public finance. According to the provisions of Financial Regulations (FR) to fulfill the parliamentary oversight, the Annual Reports of Public Enterprises (PE) are to be submitted to the Parliament for review by the members of the Parliament. Public Accounts Committee of Parliament (PAC) and Committee on Public Enterprises (COPE) will act as the institution for parliamentary oversight.

According to the provisions of Constitution, Article 52, the Secretary to the relevant Ministry shall subject to the direction and control of the Minister, exercise supervision over government departments or other institutions in charge of the Minister. As per the FR 124 (2) the Minister of Finance is accountable to the cabinet as well as to the Parliament on the subject of Finance, and appoints all secretaries of Ministries as Chief Accounting Officers (CAO) under the Financial Management Code. They are responsible for the collection, disbursement of public funds and supervision of departmental financial transactions on behalf of the Ministry of Finance. The Heads of Department (HOD) who are not under any ministry are also designated as CAO. All HOD except where other arrangements are made, appointed as Accounting Officers (AO) and they are responsible to collection and disbursement of public funds and, accountable to the CAO.

2. RESEARCH ISSUE

Many researchers have identified the importance of the concept of CG in order to protect the stakeholders' interest and right since management misuse public funds (Bogle, 2005; Parker, 2007 and Aras and Crowther, 2008). The concept of CG did not only limit to private sector organizations. It has been extended to Quasi- public organizations (Collier, 2008; Jensen, 1993) and public enterprises too (Brennan and Solomon, 2008). The process of spreading good CG does not limit to corporations who delivered goods but also it has been adopted to service providers as well (Nze and Nkamneble, 2003). Currently, there is a growing interest among academics in throughout the world to study university governance practices (Blackman and Kendy, 2009 and O'meara and Petzal, 2007). In Sri Lankan context although there are few studies on

university system (Silva and G.H. Pieris, 1995 and Silva, 1998) they do not discuss GG practices of universities. So that this research has been designed to study GG practices of universities as public sector entities in order to fill the knowledge gap in this sector.

Although public sector entities are accountable to the public and have to maintain transparency in their transactions, when reviewing newspaper articles, Hansard reports of the parliament and COPE reports many cases of misuse of public funds and mismanagement of public sector entities can be identified. So researchers are further interested to know whether these statements are applicable to the universities which hold public accountability as they are funded through public resources. So that, the research question addressed in this study is how management of UOC established its governance practices in order to ensure the delivery of all stakeholder interests effectively and efficiently, as the agent of public resources.

3. RESEARCH SITE

This study has grounded on the University of Colombo, the oldest University in Sri Lanka which currently has seven Faculties with 41 Academic Departments, a Campus, a School, six institutes and several Centers and Units (www.cmb.ac.lk). As a public enterprise UOC is controlled by the government rules, regulations and guidelines in order to maintain the expected performance effectively and efficiently. This institution is governed by the Universities Act No. 16 of 1978 apart from FR, Establishment Code (E-Code) and the Financial Act No. 38 of 1971. Further the UOC is also controlled by University Grants Commission (UGC) which comes under the Ministry of Higher Education (MOHE), and it is the apex body of the Universities in Sri Lanka.

4. OBJECTIVES OF THE STUDY

The identified objective of this study is to:

- Understand as the agents to the public how the UOC's governors design and arrange the governance activity.
- Explore the adequacy of governance practices of UOC and public accountability in delivering stakeholder interest
- Discover whether its governance functions are significant to overall stakeholders.

5. METHODOLOGY

For the purpose of data collection it was used interviews, basically semi structured interview and observations. Further it was done an archive search where ever necessary to verify information obtained and when ever could not obtain information at interviews. The population of the study ranged from Vice Chancellor, Registrars Bursars, Deans of faculties, Department Heads, Lecturers, Students, and Staff of UGC. For this study 40 interviews were conducted. Even though it was requested to participate in the Audit Committee Meeting could not be obtained the permission to participate. Documents and archive search are the secondary source of data collection of this study. Universities Act no.17 of 1978, E-Code for universities, FR, Final Accounts of UOC, Audit Reports of UOC, Annual Report of UOC, Hand book on PEGGG, Manual of Financial Procedure of UOC, circulars, memos, Budgets, Cash Forecasts, Students' hand book (2009), and Annual Report of Auditor General (2008), were used in pursuing the work.

6. GOOD GOVERNANCE OF PUBLIC SECTOR

Historical Perspective

Unlike CG, the history of the concept of GG relevant to the public sector can be identified with

the inception of the human. In other words this is as old as civilization of human being. But it was mainly covered one aspect of governance that is Accountability. For example the King of Babylonia showed a concern over the accountability of the persons controlling the assets of third party, by enforcing a Legal Code which is an Established Order or Custom to govern behavior around 2000 BC (Bird, 1973). As Dybnick mentions the concept can be traced over the decades after 1066 A.D (year in which Norman suppression occurred in England) which is the tenure of King William I i.e. in 1085 (as cited by Bovens, 2005). Later with the commencement of 12th century this practices have been developed to system of centralized auditing and semi-annual accounts giving under the patronage of the King (Bovens, 2005).

In the Sri Lankan contexts, there are many evidences to which have explained the public accountability and transparency during the King's period where Monarchy system existed, in ancient inscriptions. According Rajapakse and Amarasinghe, (2009) the Epigraphia Zeylonica (vol- I, p.75), an inscription of King Mahinda IV in 10th century A.D. in Mihinthale, explains the accounting and accountability practices in ancient Sri Lanka. Also another inscription of King Nissanka Malla (found near Van Ela in Pollonnaruva) states that the person responsible for the book keeping was not allowed to hold any relationship or friendship when he is engaged in such works as this may cause in improper book keeping and, another inscription called Badulla Piller (in 9th century) says that the tax collectors and accountants were prohibited from obtaining bribes (Rajapakse and Amarasinghe, 2009). Thus the authors concluded that there have been well functioning transparency and accountability mechanism in ancient Sri Lanka.

Characteristics of Good Governance

Main characteristics of GG can be summarized as shown in figure 1, accountability, transparency, participatory, responsive, equitable and inclusive, effective and efficient, rule of law and consensus oriented.

Framework for Good Governance

According to the OECD (2001) definition framework for good governance can be discussed under four categories which includes *standards of Behavior, Organization Structure and Process, Control and External Reporting*. Also this framework can be constructed in to a house of governance as basic building blocks for reviewing governance arrangement (APSC, 2007). The AGSL identified some sub components under those four cornerstones as follows. Under standards of behavior it is concerned the *leadership, code of conduct for behaviors ensuring the objectivity, integrity, and honesty*; the organization structure and process include *the statutory accountability, accountability for public fund and resources, communication with stake holders, and follow of rules and responsibilities*; control, the fact which is more important in ensuring the governance includes *risk management and control, internal audit, audit committee, budgetary and financial management, and staff training*; and the external reporting that confirms the information disbursement to the external party to the agency includes the *submission of annual accounts to AG, Minister in charge and to the parliament, and publication of such audited annual reports*. When these blocks satisfy the characteristics of GG it will ensure the reliability in the organization on its performance. The above discussed components are diagrammed in the Figure 2.2 as follows House of

Good Governance: framework for public sector governance.

7. STATUTORY GUIDELINES FOR GOVERNANCE OF UOC

Following Acts, Standards, Circulars and Best Practicing Guidelines can be identified with relevant to governance. University Act No.16 of 1978, Finance Act No. 38 of 1971, Sri Lanka Accounting and Auditing Act No. 15 of 1995, Financial Regulation of Sri Lanka, UGC Circulars, Treasury Circulars, and Public Administration Circulars Public Finance Circular No. PF/PE/7 of March 2010, Public Enterprises Circulars No. PED 12 of 02 June 2003, UGC E-Code (prepared by UGC to suit the University system in 1984), Government E-Code (Common for all the government organization), Government Procurement Guidelines. In addition to that Internal Audit Department of the UOC, Auditor Generals Department, UGC, COPE, National Review Committee and Parliament also issued guidelines and circulars.

Governance structure of the University of Colombo

According to the University Act No.16 of 1978, that can be identified following individual as officers. The Vice Chancellor, the Rector of the Campus (if any), the Dean of each faculty, the Registrar, the librarian, the Bursar, and the holder of any other post declared by Ordinance to be a post, the holder of which is an Officer for the purpose of this section. According to the provisions of section 40 of the University Act, the university consists of authorities namely, the Council, the Senate, the Faculty Board, Management Boards of Institutes and Campus. In addition to that Finance committee, audit and

Management committee, Procurement committee and Leave and award have been established.

Stakeholders of the University Of Colombo

Stakeholders of the UOC can be identified as Government- State government; Ministry of higher education, UGC; Treasury, Administration- President (VC); senior administrators, Employees- Faculty; administrative staff; support staff, Clientes- Students; parents/spouses; tuition reimbursement providers; service partners, Suppliers- utilities suppliers; contracted service, Competitors- Direct: private and public providers of post-secondary education, Donors- parents, alumni, employees, industry, research councils, foundations, Communities- members of the society.

Figure 1

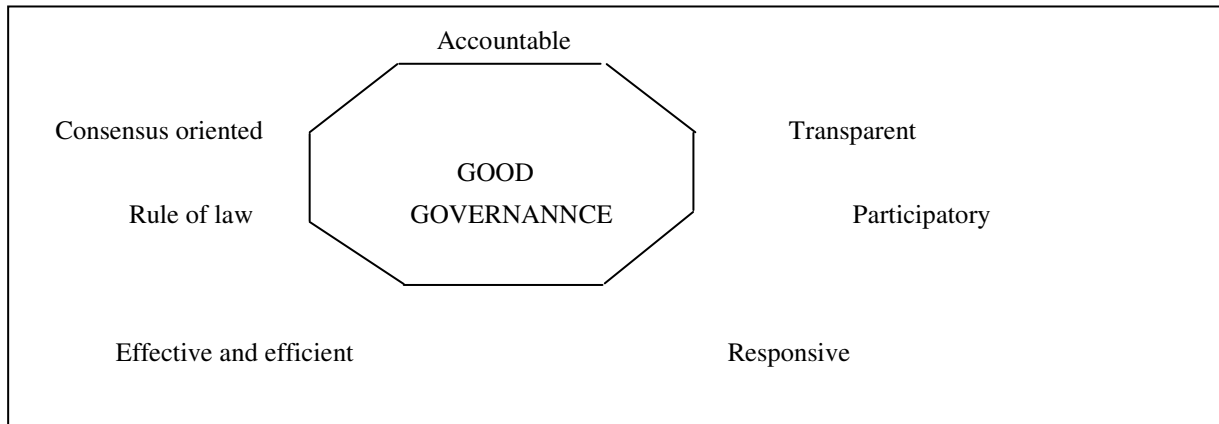


Figure 2

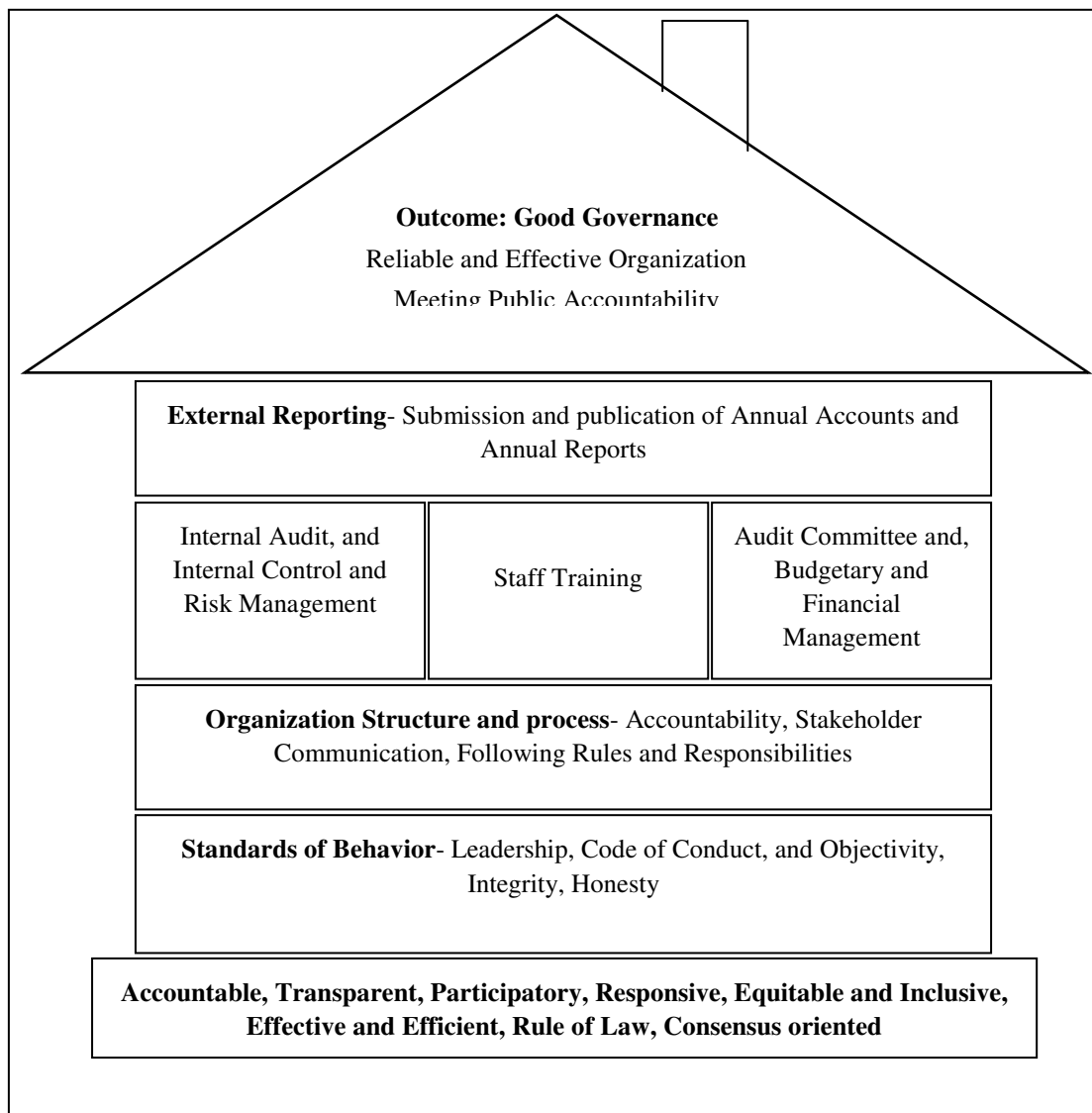
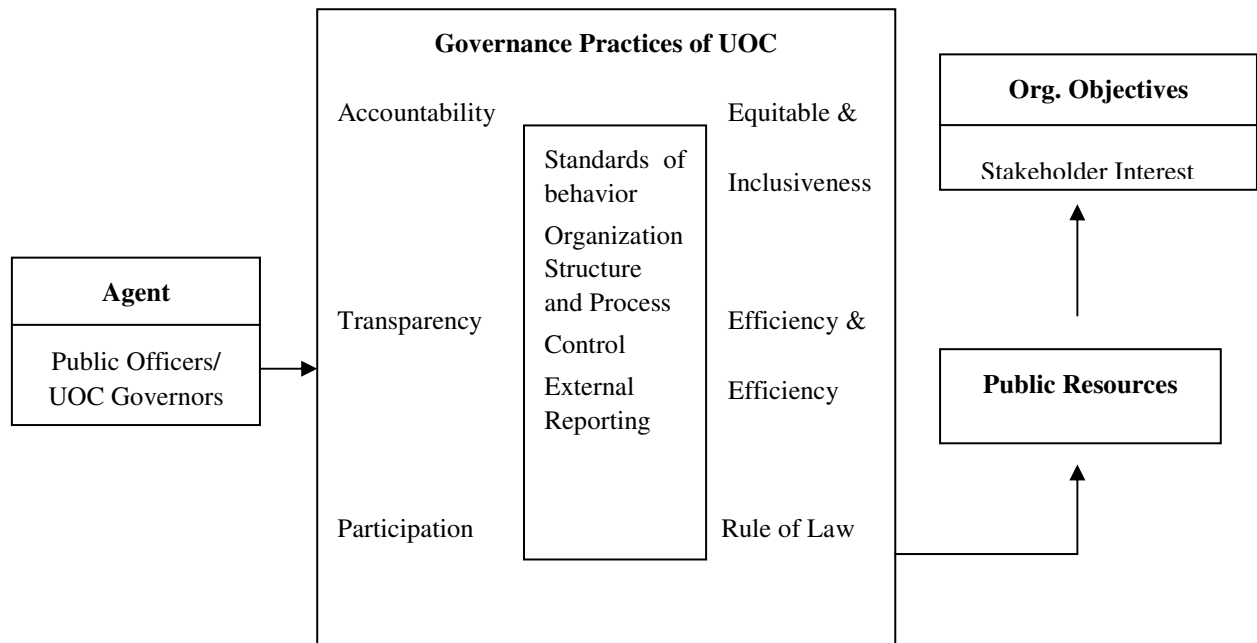


Figure 3: Conceptual Framework



Justifying for the Selected Theories in the Study

Two theories, Agency Theory and Stakeholder Theory that are most widely used to discuss CG practices (Eisenhardt, 1989) are used in this study. Researchers believe that the governance practices of the UOC have influence of the governors' behavioral aspects. Also when it setting the contextual of the UOC it can be identified a principal agent relationship where the officers of UOC act as agent to the general public of the country. Thus the Agency theory is more applicable to study problems having a cooperative structure. So that in this study it is used Agency theory as basis to identify the agency functions of officers of UOC in managing the public resources.

Stakeholder theory is useful in the modern context with the expansion of the views from shareholder to the wide range of stakeholders. This is more applicable to this study as it discusses GG practices of UOC which is a public sector entity. Since public universities as recipients of public funding, must account for their activities and achievements to government and wider society. Activities of the public entities need to be organized in order to maximize Value for Money (Swarnajothi, 2009) since they use public funds.

8. GOVERNANCE OF UNIVERSITY OF COLOMBO

In studying the governance practice of UOC it was used case study as method and accordingly data were collected. In collecting data it was given more emphasis on Accounts branch under the Finance division of UOC as this study is on the governance under the discipline of Accounting. When analyzing it was used the codes developed (the attributes of GG according to OECD classification).

8.1 STANDARDS OF BEHAVIOR

Leadership structure

As the highest authority in the UOC is the Council. It consists of 11 internal executives and 12 outside intellectuals as members. In terms of academic matters highest authority is the Senate. A decision taken at Senate regarding academic matters are required final approval of the Council in order to be implemented. According the section 33 of the University Act following positions are in practice at the UOC. Vice Chancellor (is the principal Executive Officer and principal Academic Officer, Chairperson of Council and Senate, Head of Finance Committee), Rector, Deans of faculties, Registrar, Bursar, and Librarian. Other than this there are line managers for each academic and administrative departments of UOC.

Although there is a well-established leadership structured VC dominates as this position is playing dual role being the principal Executive Officer and the Chairperson of the Finance committee, Senate and the Council. So that, the availability of accountability, transparency, following rules, and the effectiveness of system of the checks and balance with the integrity, objectivity and honesty in decision making is questioned. In that context the underpinning values of the leadership is crucial

before making a conclusion. Even though there is a well structured regulatory framework that can be overridden by the officers unless they have passion for GG .Wells (2006) says that frauds are not due to lack of internal controls, because the executive can break it.

8.2 ORGANIZATION STRUCTURE AND PROCESS

Accountability - accounting structure and process

UOC follows FR 135 to 140 in delegation of function of the financial control by the AO. There the main task of the Bursar is to maintain the books of accounts of the University. Mainly accounting activities are done by the Accounts branch. The section 101 (d) of the Universities Act requires for preparation of triennial estimates, section 106 indicates about the preparation of Annual Accounts, and further section 109 specifies that those accounts to be published in gazettes.

Supplies / procurement - All procurements are handled by the Supplies branch. The Action plan will be the basis for procurement plan and this is prepared quarterly according to the requisitions and estimates made by different departments. All the procurement of UOC is conducted as per Government Guidelines. The purchases of Medical Faculty are being done separately by the Medical Faculty under a separate SAB following the Procurement Manual. In that the tender is called by the Medical Faculty, but the approval for tender is obtained through the central Supplies branch. In terms of Library purchases similar way the tender is called by the Library but the approval is done through the Supplies Branch.

Rules and responsibilities - The main rules that determine the UOC's governance structure is the Universities Act No 16 of 1978. Apart from that E-

Code of UGC, FR, Finance Act No 38 of 1971, Treasury circulars, UGC circulars and Public Finance circulars, PE circulars, etc. It is understood that there is a range of applicable statutory framework for the UOC governance.

Internal Audit - Internal Audit (IA) department is a branch under the finance administration of UOC. As an internal branch attached to the UOC this deals mainly with Internal Control System and assist the senior management and, Audit and Management Committee, to ensure the smooth functioning of the UOC. IA department is directly reportable to VC, on all the faculties and to the Directors of the Institutions.

Internal Control - As the main function of the IA department is development, implementation and overseeing the implementation of internal controls. They established internal control procedures, authorities of different levels of officers and follow up to ensure implementation of introduced procedures.

Risk Management - UOC has its own risk management system including voluntary and regulatory requirements. According to the information by an interviewee, one of the objectives of internal control system is to mitigate risk. For example, internal control for computerized data, written documentation of procedure to be followed by the system operators, password security system to prevent unauthorized access and insurance for capital work agreements.

Audit and Management Committee - Public Enterprises Circular No 31 of 01st July 2005 required the PEs to establish Audit Committees and hold meetings drawing the attention to the clause 7.4.1 and 7.4.2 of PEGGG. Composition of the audit committee is a member of the Council

(Chair), two other members of the Council, preferably those in the Finance Committee, Registrar, and Internal auditor. The main function of the committee is to strengthen the IC system, and to discuss about policy issues and to make recommendations. When holding meetings VC may participate but cannot chair the meeting. The Audit Committee does not have the authorities to approve; only it can make recommendations. During the year 2010 it has conducted four meetings.

Financial Management - Section 99 of the university Act specifies that each Higher Educational Institution shall have a fund to be called the University Fund, into which shall be paid all moneys belong to the HE institute what so ever source derived.

The powers of the council- The section 45(xv) of the university Act specifies the financial powers of the Council. *The powers of the Auditor General-* The AGSL has been granted authority to audit the accounts by sections from 107 to 110 and section 111 indicated the application of the Finance Act No38 of 1971 to the financial administration of the university. *Financial procedure of the university fund management-* Steering committees of Council on financial administration are Finance committee, Audit and Management committee, Planning and Development committee. *Responsibility over Financial Management-* According to the Financial Regulation 125 the secretary to the MOHE is responsible to the Parliament for the affairs of the University, is the CAO and HOD. The VC is the AO. The officers are responsible to public through COPE. The finance administration is done according to the Section 34 (5) of the Universities Act.

Controls are essential to ensure the achievement of objectives specified. It is identified that the internal

controls in some branches of UOC is effective and in some branches it is not effective as per the AGSL report and also as per an interviewee's comment only about 80%. The available and well-practiced internal controls have the requires features of segregation of duties in Authorization, Approval, Certification, and Payment with regard to expenses and Assessment, Collection, Acceptance with regard to income.

Poorly practiced internal controls have created to engage in some uneconomical expenses in 2008, but such was not reported in 2009. Also as per the audit report, the UOC have not recovered the liquidity damages in full from the contractor due to the delay in constructing the Medical Faculty building.

Functioning of Audit Committee of the UOC shows an improving trend than in the past. Even though there is a segregation of top management from the composition of the Audit Committee, the reporting is done to the top management and the finance committee makes the approval. But in this case there will be no transparency as VC is the head of the finance committee and there by the accountability is questionable. But if an internal controls that is not in the interest of the finance committee that may not be implemented even though it is for the betterment of the organization. In providing the training it is nominated the staff required to be trained by the particular HOD. Having no selection guidelines and procedures will hamper the equity and transparency for training. Unlike in the past UOC is having a corporate plan based on that the budgets are prepared. Even though it was taken the input from the HODs in budget preparation this is not adequately practiced as controlling device or motivational factor. According to information given by an interviewee,

vote ledgers are not used in certain branches of the UOC to control the expenses.

8.3 EXTERNAL REPORTING

Submission of Annual Accounts and Annual Report

As the Agent of public resources the UOC's governors are liable to report and answer the principle on the manner it utilizes the resources in the best interest of the principle. Accordingly the UOC has many forms of reporting such as, its official web site, and Annual reports, other publications such as UOC News Letter, and conferences. In preparation of accounts UOC follows Finance Act No 38 of 1971, SLAS, Universities Act No 16 of 1978, Public Finance Circular PE/PF 21 of 2002 and PE /PF 17 of 2001 (specifies the format of the Financial Statement), and other applicable circulars of UGC. Financial statements need to be submitted to AGSL before 28th February of the following year. Once Accounts and Audit reports are finalized it is submitted to the Parliament to discuss at the COPE. Soft copy of the Annual report is available in the UOC web site, www.cmb.ac.lk. Apart from that this is published in the government Gazzets in three Languages (Sinhalese, English and Tamil).

Submission of Annual Account to the relevant parties (to AGSL, MOHE and Parliament) is done to identify the level of meeting the public accountability by the officers as agent is reported through this. By this it is identified the level of compliance of the rules and regulations; financial position, performance changes, and financial position of the UOC; level of maintenance of transparency, responsibility and accountability.

In that as independent organization the AGSL will raise audit queries and issue an opinion on the

performance of the UOC. The Secretary to the MOHE will be responsible to parliament as the CAO. Finally the Parliament as the public representative will question on the public accountability, and transparency, based on the matters arising out of it. As per AGSL comment UOC is maintaining the public accountability at a satisfactory level. Thus there is an involvement of three different parties that ensures the checks and balance and thus the transparency. Publication of Annual Reports and Accounts in three languages ensured the responsiveness, equity and equality, and consensus orientation. Publishing in gazettes also ensures this. From the UOC's point of view that is published in three languages but whether the Annual reports are available to everyone is questionable. Further even though it is said that these are published in the UOC's official website currently it is not accessible and updated.

9. SUMMARY AND CONCLUSION

The UOC is a state owned university and treated as a statutory board. Therefore the funds of the UOC mainly come through the government treasury funds, and apart from that from some other non treasury funding sources. The responsibility of the fund management in the best interest of the public to ensure the social wellbeing is laid in the hands of officers of the UOC who act as the agents of public. It indicates that UOC has responsibility to the society as agent of public funds and as institution in the wider social system it has responsibility to its all stake holders.

According to APSC (2007), the responsibility with regard to GG has two branches, namely the *must do* and *should do*. There all the regulatory requirements are under the *must do*, where voluntary aspects are deemed as *should do*. Though the analysis it could be identified a greater extend of regulatory compliances other than few

exception. Further the employees' perception toward the GG is too regulatory compliance. Of course it is a good indication but to be GG it is not adequate.

In concluding based on the discussions of the data analysis, the UOC's governance arrangements are not adequately arranged to meet the criteria laid out by the OECD, if it to be a GG. It is said so, even though it could be identified certain GG characteristics in its governance structure other than regulatory compliances, they are scattered in a non- orderly manner. Further it is understandable that the UOC's governors had put an effort to construct the governance mechanism bring up to an acceptable level. Yet as it is not adequately inculcated in to the UOC's administration.

In searching reasons for this some of the unavoidable external environmental influences could be identified. Excluding those it could be identified some of the possible areas that can be improved to bring up a sound GG. With the existing system of Governance that is clearly visible that the UOC's officers have kept their governing activities in ensuring all the stakeholders interest at its best.

When taking together accountability and transparency are out comes of strong internal control systems with a check and balance from the top to the bottom of the organization. That means the effective governance will be there by integrating values at top level with the overall structure and process. This is underpinned by effective communication. But in the UOC context that is visible that there is no dedicated communication structure for governance. Thus if it could be developed a communication system that is dedicated for GG in order to make all employees dedicated to it, if possible establishing a separate unit for GG.

Further it could be understood that the top management is more committed and are with values driven for it. But it should spread throughout the organization and requires the employees' commitment. This employee commitment is an outcome of employee motivation and a culture for it. Because whatever the level of strong accountable mechanism is implemented the commitment of the leadership with the support of the employees along with dedicated culture for that is necessary. As quoted by Shuster (2010), Doug Black stated that, "In the end, it's not the job of the human resource or legal departments to hold people accountable. It has to be embedded in the culture and led by the management, who take a direct role in teaching, modeling, and facilitating." Thus the values established at the top should be practiced at all the level of employees by creating a passion for it.

Also in terms of motivation that can be established a well structured system of performance evaluation with an encouraging reward system. Not only that the identification of training needs should be formalized. It would be effective to quote a statement of APSC, which says, "Review corporate governance to highlight things you could do better (rather than highlighting things you are not doing well). By doing things better, you will be doing things differently and this may well take adjustment on the part of staff and on the part of those who deal with staff". Because GG is all about the behavioral aspects of the people involved.

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