

## **University of the Visual and Performing Arts – 2017**

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The audit of financial statements of the University of the Visual and Performing Arts for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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 Sub-section 107(5) 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**

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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**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University’s preparation and fair presentation of the financial statements 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 University’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Section 111 of the Universities Act, No. 16 of 1978 gives discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the University of Visual and Performing Arts as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Since useful life of the non-current assets had not been reviewed annually as required by Paragraph 65 of Sri Lanka Public Sector Accounting Standard 07, fixed assets costing Rs.148,939,054 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimation in terms of Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Interests amounting to Rs.99,708 and Rs.161,371 directly credited in the years 2016 and 2017 respectively to a fixed deposit of Rs.1,494,871 opened on 31 December 2015 had been omitted from accounts.
- (b) Although the gratuity allowances paid for 06 officers who had left the service during the year under review amounted to Rs.4,102,736, only a sum of Rs.3,825,064 paid for 04 officers had been debited to the Provision for Gratuity Account and the balance of Rs.277,672 had been brought to account as expenditure. Accordingly, provisions for gratuity and expenditure had been overstated by Rs.277,672.
- (c) A sum of Rs.782,574 recoverable from a private company in respect of electricity units used during the period from 01 March to 31 December 2017 for two communication towers erected at the premises of the Faculty of Visual Arts of the University had been brought to account under electricity expenditure of the University instead of being accounted as receivables.

### **2.3 Accounts Receivable and Payable**

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Action had not been taken even by 30 June 2018 to recover the loan balances totalling Rs.1,141,570 from 11 officers of the University who had resigned from service, vacated the post and transferred out during the period from the year 2004 to the year 2016.

## **2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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In terms of Financial Regulation 371 of the Financial Regulations of Democratic Socialist Republic of Sri Lanka and the Public Finance Circular No.3/2015 of 14 July 2015, the ad hoc sub imprest should be settled immediately after the completion of the purpose for which it is granted. Nevertheless, 11 imprests amounting to Rs.1,685,044 granted to 09 officers in the years 2011,2015 , 2016 and 2017 had not been settled even by 30 July 2018.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the University for the year ended 31 December 2017 had been a deficit of Rs.38,211,346 as against the surplus of Rs.4,536,658 for the preceding year, thus indicating a deterioration of Rs.42,748,004 in the financial result of the year under review as compared with the preceding year. Even though income had increased by Rs.55, 469,442, the increase in employees' remunerations and other expenditure by Rs.58,235,425 and Rs.37,933,466 respectively had mainly attributed to the said deterioration.

An analysis of the financial results of the year under review and the 04 preceding years revealed a deficit in the years 2013, 2014 and 2017, it had been a surplus in the years 2015 and 2016. However, after adjusting the employees' remunerations to the financial result, the contribution of the year 2013 amounting to Rs.290,282,935 had increased to Rs.514,967,837 by the year 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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In terms of Public Finance Circular No.1/2014 of 17 February 2014, the time frame implemented for each activity of the Action Plan had not been mentioned.

#### **4.1.2 Function and Review**

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The following observations are made.

##### **(a) Delays in Issuance of Examination Results**

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Even though results should be issued within 03 months of conducting examinations, it was observed during audit test checks that after conducting examinations, a period of 122 days to 261 days had been taken to issue examination results of a Faculty. It was observed that there had been a delay in issuance of overall results of written and practical examinations due to taking a long period for issuance of results of practical examinations

of the University and the delay in returning answer scripts referred for evaluation as there is a higher number of external academic staff than the permanent academic staff of the University.

#### **(b) Cost per Student**

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According to the total recurrent expenditure of the year 2017, the cost per student was Rs.425,602 while the cost per student in the preceding year was Rs.300,660. The cost per student had increased by 41 per cent in the year under review as compared with the preceding year and the increase in recurrent expenditure by Rs.66 million had mainly attributed to the said increase.

#### **(c) Conducting Postgraduate Courses**

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The number of registered students for 06 Degree Courses of the Faculty of Postgraduate Studies of the University from the year 2008 to 31 December 2017 stood at 424 and out of them, the number that had completed the Postgraduate Degree was only 78. The number of Course dropouts had been 192 and the examination of dissertations of 154 students had not been completed.

### **4.2 Management Activities**

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The following observations are made.

- (a) A sum of Rs.6,694,442 had not been recovered as at 31 December 2017 from three Lecturers who had breached the agreements and bonds remaining from 01 year to 09 years.
- (b) Action had not been taken to vest the legal ownership of 03 lands valued at Rs.1,022,650,000 indicated in financial statements.

### **4.3 Underutilization of Funds**

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Out of the savings of Treasury research grants of Rs.8,024,948 remained at the beginning of the year 2017, a sum of Rs.2,310,734 had been utilized in the year under review and there was a balance of Rs.5,714,214 as at the end of the year. As the academic staff had paid less attention on matters such as implementation of researches, failure in submitting international research symposium, researches and publications to the international and local conferences, the utilization of capital grants provided annually therefor by the Treasury, had been at a low level such as 30 per cent, 15 per cent and 29 per cent in the years 2015, 2016 and 2017 respectively.

### **4.4 Idle and underutilized Assets**

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Balances of Rs.6,243,954 and Rs.26,638,718 had remained in 02 bank current accounts as at 31 December 2017 and monthly average balances of Rs.6,363,084 and Rs.26,318,724 had remained in these accounts throughout the year, thus indicating large amounts of cash balances in current accounts.

#### **4.5 Staff Administration**

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Even though a new staff had been approved for the University on 01 February 2017, out of 60 vacancies existed as at 31 December 2017 in the academic staff, the number of unfilled vacancies as at 30 July 2018 stood at 41.

### **5. Sustainable Development**

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#### **5.1 Achievement of Sustainable Development Goals**

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In terms of Letter, No. NP/SP/SDG/17 dated 14 August 2017 of the Secretary to the Ministry of National Policies and Economic Affairs relating to sustainable development, every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. The University had identified the sustainable development goals and targets relating to the activities under their scope, but the milestones for the achievement of those targets had not been identified.

### **6. Accountability and Good Governance**

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#### **6.1 Procurement**

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The following observations are made.

- (a) In terms of Guideline 8.9.1 (b) of the Procurement Guidelines, a formal contract agreement should be entered into in respect of goods or services exceeding Rs. 500,000. However, it had not been so done in regard to 03 purchases valued at Rs. 12,045,685.
- (b) A sum of Rs. 6,063,327 had been paid for the supply and installation of 32 LED Smart TVs and 32 Blue-Ray Players under the project for the improvement of classrooms and lecture halls which had not been included in the Action Plan and Procurement Plan for the year 2017. However, those items had been inspected and inventoried after a period of 03 months from the date of receipt.

According to the quotations relating to the said procurement, the supplier should have supplied, distributed, and installed the items. However, although the installations had not been completed even by 30 July 2018, the period of validity of the performance bond had not been extended. Furthermore, due to non-availability of racks, the 32 Blue-Ray Players purchased had remained idle in the stores.

- (c) Five computers worth Rs. 689,900 ordered on 01 June 2017 for the computer laboratory of Faculty of Dance & Drama had not been received even up to 30 June 2018. However, 05 Uninterrupted Power Supplies ordered therewith had been received on 30 June 2017, but could not be made use of due to non-availability of computers.

## 6.2 Budgetary Control

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Variances ranging from 22 per cent to 100 per cent were observed in 27 instances between the budgeted and the actual expenditure in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 7. Systems and Controls

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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.

Areas of Systems and Controls -----	Observations -----
(a) Fixed Assets Control	Failure in taking action to vest the legal ownership of lands and failure in disclosing details on fully depreciated assets.
(b) Cash and Banks	Retaining large cash balances in bank current accounts.
(c) Implementation of researches	Underutilization of money received for conducting researches and sluggishness in implementing researches.
(d) Staff Administration	Failure to register the leave of the assistant academic staff properly, record the arrival and departure properly, deduction of the leave outside the Island from the casual leave of the officers instead of deducting from the vacation leave, payment of salary increment despite not having served during the entire period of salary increment.