

## **University of the Visual and Performing Arts - 2015**

---

The audit of Financial statements of the University of the Visual and Performing Arts for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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**

---

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

---

My responsibility is to express an opinion on these financial statements based on my audit. 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.

### **1.4 Basis for Qualified Opinion**

---

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

-----

### **2.1 Qualified Opinion**

-----

In my opinion, the financial statements give a true and fair view of the financial position of the University of the Visual and Performing Arts as at 31 December 2015 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**

-----

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

-----

##### **Sri Lanka Public Sector Accounting Standard 07**

-----

The following observations are made.

- (a) Even though the assets costing Rs.27,833,407 had been fully depreciated due to not reviewing annually the effective life for the non-current assets, they had been further in use. Accordingly, action had not been taken to revise the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.
- (b) Even though the annual revaluation is required if the fair values of property, plant and equipment were of considerable changes, lands of the University totalling Rs.2,117,041,000 as at 31 December 2015 had not been assessed and the fair value had not been brought to accounts after the year 2010.

#### **2.2.2. Transactions with related parties**

-----

A lecturer of the Information and Technology Division of the University served as a member of the Board of Directors of Lanka Education And Research Network (LEARN) Company established under Companies Act, No.07 of 2007 and the University had obtained internet facilities from that Company. The financial statements had not disclosed this related party.

#### **2.2.3. Accounting Deficiencies**

-----

The following observations are made.

- (a) Even though the constructions of 02 hostels at Dehiwala and Rajagiriya and the administration building of the University had been finished and used since the year 2014 and January in the year under review respectively, cost thereof totalling Rs.443,683,413 had been shown under work in progress instead of being capitalized. Further, action had not been taken to bring the depreciations related to these buildings in to account.
- (b) Action had not been taken to bring into account the Fixed Deposit interest income of Rs.63,269 receivable as at 31 December in the year under review.
- (c) It was observed that the income and expenses had not been included in the statement of financial performance due to credit the income received as property rent to the

University into various funds and debit expenses incurred by Funds in to the same Fund.

### **2.3 Transactions not supported by adequate authority**

-----

A sum of Rs.169,521 out of the University Fund had been paid for August, September and October in the year 2014 on the approval of the Council in the year under review, to a private Security Firm from the Universities Fund for the provision of security services to the private residence of the Former Vice Chancellor retired in September 2014.

### **2.4 Accounts Receivable and Payable**

-----

The following observations are made.

- (a) A sum of Rs.259,400 payable out of the balance amounting to Rs.485,666 at the end of the year under review had not been settled over a period of one year.
- (b) Hostel fees amounting to Rs.87,750 recoverable from 125 students of the Hostel had not been recovered as at 31 December in the year under review.
- (c) Action had not been taken to recover a sum of Rs.422,961 receivable for Overhead expenses and stationery to the University of the Visual and Performing Arts from the Centre for continuous and Distance Learning.

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

-----

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non-compliances</b>
-----	-----

- |     |   |  |  |
|-----|---|--|--|
| (a) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka   |  |  |
|     | Financial Regulation 371 (2)(b)   |  | Sundry advances totalling Rs.922,490 for the period from 03 months to 06 months stated in the statement of financial position as at 31 December 2015 had not been settled even by 31 May 2016. |
| (b) | Section 3(1) of Chapter xx and Section 1.6.1 of Chapter X of the Establishments Code of University Grants Commission and Higher Educational Institutions. |  | Salaries and allowances amounting to Rs.203,688,003 had been paid in the year under review without establishing the arrival and departure of the academic staff.                               |

- (c) Public Enterprises Circular No. 95 dated 14 June 1994 and Public Administration Circular No. 14/2008 dated 26 June 2008 A transport allowance amounting to Rs.30,000 had been paid on the recommendation of finance committee and the approval of the Council contrary to the circular provisions for providing transport facilities from office to residence for 03 officers bearing key positions of the University of the Visual and Performing Arts. The amount paid from 01 January 2015 to 31 August 2015 amounted to Rs.1,060,058.
- (d) Public Enterprises Circular No. 95 dated 14 June 1994 Entertainment expenses amounting to Rs.1,209,675 from 08 per cent to 20 per cent of the basic salaries of the staff officers had been paid based on Circular letters of the University Grants Commission contrary to the referred Circular.
- (e) University Grants Commission Circular No. 861 dated 26 April 2005
- (i) In paying for coordinating activities of the external examinations, even though it had mentioned that 25 per cent of the basic salary of the coordinating officer should be paid for duties performed in addition to his normal duties, allowance at the rate of Rs.4,000 per day, travelling expenses of Rs.1,500 per day supervised, telephone charges of Rs.3,000 per month had been paid for a coordinator contrary to that circular. Accordingly, three lecturers had been overpaid a sum of Rs.292,485.
- (ii) Even though an allowance of Rs.7,500 for a Dean of a Faculty and Rs.5,000 for a Head of the Department can be paid annually by the External Examinations Division for taking necessary action for marking and returning papers within 03 months after the end of the examination, these allowances had been paid monthly with the approval of the Council.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the financial result for the year ended 31 December 2015 had been a surplus of Rs.64,131,233 against the corresponding deficit of Rs.6,414,730 for the preceding year, thus indicating an improvement of Rs.70,545,963 in the financial result for the year under review as compared with the preceding year. The increase of expenses by Rs.120,903,698 over the increase of Government grants for recurrent expenses by Rs.193,650,556 had mainly attributed to the improvement of this financial result.

In analyzing the financial result of the year under review and the preceding four years, a surplus had prevailed in the years 2011 and 2012. Nevertheless, it had been a deficit in the years 2013 and 2014 and it had again become a surplus in the year 2015. Nevertheless, in considering the employees' remunerations, depreciations and taxes paid to the Government, the contribution of the University had gradually increased and increase of Government grants by Rs.193,650,556 for the recurrent expenses had mainly attributed for the increase of contribution by Rs.193,122,213 in the year 2015 compared to the year 2014.

#### **4. Operating Review**

##### **4.1 Academic Performance**

The main objectives of the University are to admit students and to provide for instruction in any approved branch of learning, to hold examinations for the purpose of ascertaining the persons who have acquired proficiency in different branches of learning, to co-operate with other Universities in Sri Lanka or abroad, to confer degrees, diplomas and other academic distinctions, to conduct external examinations. The following observations are made in that respect.

- (a) In examining the registration and passing the final examination for three academic years in three faculties of the University, it was observed that percentage of passing the examination out of the number of students sat for the examination had exceed 90 per cent.
- (b) Research allowances
  - (i) Research allowances amounting to Rs.21,469,953 had been granted for 110 officers of academic and non academic staff out of the amount of Rs.21,885,000 provided for research allowances. Out of the 06 lecturers who obtained research allowances had not presented progress reports related to their researches.
  - (ii) The research symposium of the year 2015 had been held on 26 and 27 November 2015 and expenses amounting to Rs.182,579 had been incurred therefor. Even though there were 110 lecturers and officers who had obtained research allowances in the years 2014 and 2015, only 26 research papers had been presented for the symposium. Research management committee had informed the audit that action would be taken in the future to prepare a formal methodology to obtain research progress reports and final results.
- (c) Even though a sum of Rs. 2,250,000 for research work from the National Centre for Advanced Studies in Humanities and Social Sciences and a sum of Rs.10,000,000 for the Postgraduate and Master of Philosophy Degrees under Human Capital Development Project had been received to the University, a sum of Rs.500,000 and Rs.1,770,468 respectively had been incurred therefor. Accordingly, the percentage of Fund utility had been 22 and 18 per cent respectively.
- (d) According to the criteria of the world University rankings, the research criteria are important. As the direction and dedication for research were at a low level by May 2016, it was observed that the University of the Visual and Performing Arts had been ranked at 14,402<sup>nd</sup> place according to the World rankings.

##### **4.2 Management Activities**

The following observations are made.

- (a) Action to legally transfer the lands of the University had not been finalized even up to 31 December 2015.
- (b) A Senior Assistant Bursar of the University of Colombo who was on sabbatical leave had been appointed on temporary basis in the year under review for the post of Senior Assistant Bursar which had been fallen vacant in the University of the Visual and Performing Arts. Accordingly, a monthly allowance amounting to Rs.71,792 including the cost of living allowance, interim allowance, 15 per cent special allowance of, 20 per cent allowances had been paid for a period of 04 months from 01 June 2015 to 30 October 2015. As the salary inclusive of all allowances had been obtained from the University of Colombo during the period of Sabbatical leave, all these allowances approximately amounting to Rs.152,188 for that period had been paid without making any inquiry from the University of the Visual and Performing Arts, as well.
- (c) A sum of Rs.31,708 over remitted to the Employees' Trust Fund for Former Vice Chancellor of the University, had not been recovered even in the year under review even though he had given his consent to recover it from his Employees' Gratuity.

#### **4.3 Uneconomic Transactions**

-----

Four hundred and twenty copies of "Saundarya Wansa Kathawa" and 365 copies of "Saundarya Kala Vimarshana" printed in the preceding year by the University were remained unsold. High sale price of "Saundarya Wansa Kathawa", non-preparation of a marketing strategy for sale of KalaVimarshana books and printing without prediction of sale had attributed to remain such a stock.

#### **4.4 Contract Administration**

-----

The following observations are made.

- (a) Designs and estimates amounting to Rs. 8,761,695 had been prepared by the contractor as per the instructions of the Ministry of Higher Education for the construction of abutment wall of the hostel at Dehiwala constructed under the construction of 60 Hostels project of the Ministry of Higher Education. The Technical Evaluation Committee had decided to entrust the construction works of abutment wall to the construction Institution itself deviating from the procurement procedure.
- (b) It was observed on 15 January 2016, the date of audit the lapses such as collection of water and inactivation of electric fans etc. in Dehiwala Keerthi Herath Hostel building handed over to the Institution on 10 February 2015 due to stripping the parts of upper floor ceiling, fractures of cement and non-preparation of proper floor levels in certain bathrooms in the hostel building. Action had not been taken to get them repaired by the contract Institution.

#### **4.5 Personnel Administration**

-----

The following observations are made.

- (a) There were 08 vacancies and 02 excesses in the University non academic executive staff. As 08 vacancies for Clerical and allied grades and 18 vacancies for minor employees, the total No. of non academic staff vacancies stood at 34. Eighteen vacancies existed in the Academic staff and 37 excesses in the Academic Assistants Staff.

As the effect caused on the activities of the University due to these vacancies, functions had been performed through the excess staff of Academic Assistants staff for vacancies of academic staff and on acting basis for the executive staff vacancies.

- (b) Even though any lecturer who had failed to obtain the Postgraduate Degree during his probationary period in terms of University Grants Commission Circular No. 721 dated 21 November 1997 and Section 21.1.1 of Chapter 111 of the Universities and Higher Educational Institutions' Establishments Code, the Administrative Board of Authority should terminate his service, contrary to that, action had been taken to reappoint him to the post of Temporary Lecturer. According to the test checks it was revealed that two temporary lecturers had been appointed to the post of Senior Lecturer (Grade 11) since the date of fulfilling the qualifications itself.
- (c) Even though a two year Postgraduate Degree including a research in the related subjects should be available for the post of Probationary Lecturer in terms of (b) of Section 03 of the Circular No.721 dated 21 November 1997, the 83<sup>rd</sup> Council held on 11 November 2011 had approved the appointment of a person who had not completed that qualification as at the closing date of applications.

#### **4.6 Idle and Underutilized Assets**

-----  
The following observations are made.

- (a) The Ex- Vice Chancellor's Conference room and its office equipment had remained idle since February 2014 to the end of the year under review without utilizing for a useful purpose.
- (b) It was observed that the Universal Hydraulic Machine valued at Rs.565,000 purchased for the Department of Textiles and Wearable Arts received to the University on 18 October 2013 had remained idle for over 2 years without utilizing.

#### **4.7 Identified losses**

-----  
The Following observations are made.

- (a) The University had paid a sum of Rs.3,642,432 to the hostel owners for losses and damages occurred to the hostels obtained on lease basis.
- (b) As the University had delayed to present the half-yearly Annual reports to the Employees' Trust Fund Board, a fine of Rs.169,847 had been paid in the year under review for settling two law suits instituted against the University by the Fund.

## 5. Accountability and Good Governance

-----

### 5.1 Corporate Plan

-----

The Corporate Plan had not prepared for the years 2014 -2018 in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. Nevertheless, the preparation of this report had been entrusted to a Private Advisory Firm on 15 May 2014. Even though this activity had to be completed by 15 July 2014 in terms of the Agreement, it had been completed in December 2015. About 1½ years had spent for the preparation of Corporate plan and the University had paid a sum of Rs.943,500 to the Advisory Company.

### 5.2 Budgetary Control

-----

As there was a significant variances ranging from 50 per cent to 100 per cent as compared with the budgeted and the actual expenses in the year under review, it was observed that the Budget had not been made use of as an effective instrument of management control.

### 5.3 Unresolved Audit paragraphs

-----

A sum of Rs.1,617,048 recoverable by 31 December in the year under review from two lecturers who had breached the bonds in the years 2008 and 2012 had not been disclosed in the Financial statements. Even though this had been pointed out even in the preceding Audit Reports, the University had failed to take legal action or to recover this receivable amount continued from 3 years to 8 years even by May 2016.

## 6. Systems and Controls

-----

Weaknesses 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.

### Fields of systems and control

-----

(a) Fixed Assets Control

### Observations

-----

Non-reviewing of the effective lifetime of non-current assets annually.

Non-finalization of legal transfers of lands.  
Existence of idle assets

(b) Contract Administration

Awarding of contracts deviating the Procurement Guidelines

Not taking immediate action to get rectified the defects in the constructions by the Contractor.