

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the University of the Visual and Performing Arts 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 Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the provisions of the sub section 107(5) of the University Act No 16 of 1978 and the National Audit Act No. 19 of 2018. Comments and observations, which I consider should be submitted 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 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 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 intends to liquidate the Institute 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 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 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 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. 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;
- 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 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the Reference to Particular Standard	comment of the Management	Recommendation
<p>Since useful life time of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fully depreciated property, plants and equipment worth of Rs.742,035,590 were further in use . Further, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.</p>	<p>In accordance with the clarifications issued by the Institute of Chartered Accountants of Sri Lanka on 15 December 2023, items with a carrying value of zero can continue to be maintained and accordingly, the carrying value of zero has been disclosed in the financial statements.</p>	<p>Should follow Sri Lanka Public Sector Accounting Standards.</p>

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the delay charges amounted to a loss of Rs.40,750,130 paid to a contractor in the years 2023 and 2024 due to the delay in the construction of the Faculty of Dance and Drama building and it was capitalized under the building, the balance was shown in the financial statements by that amount</p>	<p>In measuring the cost of an asset, paragraph 35 of Sri Lanka Public Sector Accounting Standard No. 07 states, “If payments are deferred beyond normal credit terms, the difference between the purchase price</p>	<p>Action should be taken to account correctly.</p>

as well as the surplus of the previous year and the year under review overstated by Rs.28,734,873 and Rs.11,015,257 respectively.

for cash and the total payments shall be recognized as interest expense unless the alternative method is used in accordance with Sri Lanka Public Sector Accounting Standard No. 04.” Accordingly, interest expense of Rs.40,750,130 has been capitalized under the allowed alternative method.

(b) The schedules and detailed information relating to the long-standing outstanding capital advance account balance of Rs.2,759,624 included in the financial statements of the university had not been submitted for audit.

We are taking action to correct it.

Long-term balances should be identified and necessary corrections should be made.

**1.6 Accounts Receivable and Payable**

**1.6.1 Payable**

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to identify the students and settle the balance of Rs.4,709,495 in the scholarship payable account since the year 2023.	Noted for rectify.	Should identify old balances and settle.
(b) The balance of Rs.11,536,153 identified as other expenses payable in the previous year, action had not been taken to settle even by the end of the year under review.	Confirmation letters have been requested from the relevant departments and faculties to identify the expenses to be paid for the funds received for research conferences and related seminars, and action will be taken accordingly after receiving those letters.	- do -

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

The following observations are made.

	<b>Reference to laws, rules, regulations</b>	<b>Non compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Financial Regulations 103 and 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	According to the internal audit report, no action had been taken to address the misplacement of 3,940 library books worth approximately Rs.1,097,359.	According to University Grant Commission Circular 01/2022, the stock verification for the year 2024 has been done and it is expected to avoid the weaknesses of the verification conducted until then, identify those responsible for the relevant misplacement, and to act in accordance with Financial Regulations.	Action should be taken to investigate the misplacements and recover the losses from the responsible officials.
(b)	Section 03 (viii) of National Budget Circular No. 03/2022 dated 26 April 2022	Although the allocations for welfare programs not approved by the Cabinet should be stopped, a sum of Rs.1,836,125 had been paid during the year under review for the Employee Medical Insurance Scheme, which was implemented as an employee welfare scheme without obtaining	Insurance facilities are provided under the provisions of Public Finance Circular No. 01/2020 dated 28 August 2020 and University Grants Commission Finance Circular No. 07/2020 dated 13 October 2020. For this, the University and the employee contribute 59 per cent and 41 per	Action should be taken as per the circular.

an approval.

cent respectively.

The income generated through the communication towers at the University will be obtained for this with the approvals of the Finance Committee and the Governing Council.

- (c) Treasury Circular No. BD/HRD/126/214/19/2023 dated 18 January 2023
- Action had not been taken to remit a sum of Rs.970,068 to the Treasury, recovered during the year under review from a lecturer who was breached the bond.
- The money recovered from lecturers whose bonds were breached is being maintained under a special fund (Restricted Funds).
- do -

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs.103,407,441 and the corresponding deficit in the preceding year was Rs.65,562,142. Therefore, a deterioration amounting to Rs.37,845,299 of the financial result was observed. The decrease in government capital and recurrent grants had mainly contributed to this deterioration.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The legally transfer of the ownership of 03 plots of land worth of Rs.1,022,650,000 to the University had not been completed to date.	The University had acquired ownership of one of the three land plots and the ownership of the other two land plots is pending. The Legal Division will take necessary action with the relevant government institutions for this.	Steps should be taken to expedite the necessary steps to acquire legal ownership.

(b) In 2022, a total of Rs.116,845,954 was spent on a building acquired on lease for the Dance Faculty, including 02 years of rent and other initial expenses and the agreement was terminated after 02 years due to complaints made by local residents after a year regarding the excessive noise of drums. Due to the obtaining of this building on lease without conducting a proper feasibility study regarding the needs of the University such as partitioning of rooms and laying carpets. The sum of Rs.28,726,084 had been spent without conducting a proper feasibility study regarding the needs of the university to make the building in a suitable condition for use such as partitioning of rooms and laying carpets, lease had become uneconomical. Further, 27 exhaust fans worth of Rs.1,050,000 and 06 Air condition machines removed from the building had been stored unused.

The building in the Dehiwala campus, which was acquired on a lease basis, the work such as partitioning rooms and laying carpets had to be done to make suitable for students to conduct their studies. The carpets were returned to the Faculty of Dance and Drama for use, upon its departure, and the partition parts used to separate the rooms were brought back to the University and stored safely. The cost incurred to bring the building into proper condition had not been uneconomical. Also, the quality control inspection carried out after bringing the air conditioners had confirmed that they were not in working condition.

Resources should be utilized after conducting a proper feasibility study.