

## **Open University of Sri Lanka -2012**

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### **1. Financial Statements.**

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#### **1.1 Adverse Opinion.**

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In my opinion, because of the significance of the matters described in paragraph 1.2 of this report, the financial statements do not give a true and fair view of the financial position of the Open University of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka public Sector Accounting Standards.

#### **1.2 Comments on Financial Statements.**

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##### **1.2.1 Sri Lanka Public Sector Accounting Standards.**

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The following observations are made.

- (a) Even though a proper policy in recognizing income should have been followed in terms of the provisions of the Public Sector Accounting Standards No.01 and 03, the policy of recognizing income of Short Term Courses and Other Sources of income had not been disclosed.
  
- (b) Even though the income and expenditure of the University should not be settled against each other in the financial Statements in terms of the Public Sector Accounting Standard No.01, the income and expenditure had been settled against each other and presented in the financial statements furnished by the University.

**1.2.2 Accounting Policies.**  
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The income received from Short Term Courses and Other Sources of income of the University, and expenditure incurred thereon, had been brought to account as per subsequent decision taken by the Centre for Consultancy and External Resources which implemented as Internal Committee of the University instead of brought to account in terms of the Public Sector Accounting Standards. It was observed as this committee decision had delayed, the income from Short Term Courses and other sources of income and expenditure thereon for the period from 2008 to 2011 had been recognized as income and expenditure of the year 2012.

**1.2.3 Accounting Deficiencies.**  
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- (a) The value of the lands where the Education Centers of Vauniya and Gampaha were situated, had been revalued excessively by Rs.585,500 and shown in the financial statements.
- (b) The legal ownership of the lands had not been vested with the University where the buildings of Regional Offices and Education Centers had Constructed, But the value of the lands and buildings amounting to Rs.13,792,455 had been included in the financial statements.
- (c) It was pointed out through the Notes to the financial statements that the value of lands should be decreased by Rs.193,888,000 and the value of the buildings should be increased by Rs.53,905,317 according to the interim report of the Department of Valuation presented in the year 2012. Further the completed report on revaluation functions executed by the Department of Valuation had not been presented even by 30 April 2013 and as such it was unable to satisfy in audit on the correctness of the balances of assets, accumulated depreciation, and revaluation reserve shown in the financial statements.

- (d) Even though motor vehicles, furniture, machineries and equipment valued at Rs.1,896.5 million had been received during the period from the year 2004 to 2010 as grants of the Distance Education Modernization Project, the value of office equipment machineries and plant had been brought to account understating by Rs.663.5 million and the value of motor vehicles, furniture and laboratory equipment overstating by Rs.144 Million. It was observed that depreciation on fixed assets had been understated due to that action had not been taken to identify the goods received and adjust the accounts even by 31 December 2012.
- (e) Even though constructions valued at Rs.971.9 million had been carried out at the Head Office premises Nawala, and Regional Education Centers of the University it had been brought to account as Rs.903.08 million understating by Rs.68.1 million and the accumulated depreciation relating to that had been brought to account understating by Rs.12.4 million. Owing to the erroneous computation the accumulated depreciation had been brought to account overstating by Rs.26.9 million due to not correctly deciding the year of completion of construction and not considering the liquidated damages.
- (f) Money credited to the collection account of the University by the students for other fees including fees for courses of the University had not been identified daily and not recorded and as such money received from the students amounting to Rs.10,284,621 brought forward from the year 2009 had been shown as unidentified receipts in the financial statements.
- (g) Income received from income sources under the authority of the Centre for External Research Committee appointed by the Governing Council had been recognized and brought to account after several years without recognizing the income at each instance of respective work completed. The income received in 08 instances from the year 2008 to 2012 amounting to Rs.12,691,683 and expenditure incurred thereon amounting to Rs.6,787,295 had not been brought to financial statements as income and expenditure even by 31 December 2012.

- (h) All other money belonging to higher education institute and acquired from any source should be credited to Universities Fund in terms of the Section 99 (d) of the Universities Act. Nevertheless a sum of Rs.4,966,250 received from Short Term Courses and 03 Other Sources of income which had not been recognized as income of the year under review had been erroneously shown as a fund in the statement of Financial Position as at 31 December 2012.
- (i) Out of the miscellenous advances and supplies advances granted to officers for the activities of the University, the unsettled balance at the end of the year under review amounted to Rs.1,156,678 and of these the balance of Rs.159,430 remained more than 03 years. Any action had not been taken by the University to recover these advances from the officers who obtained advances.
- (j) The relevant work had been completed from the money received for foreign funded projects and other special projects of the Open University but the balance money amounting to Rs.12,703,904 had not been refunded and it was shown as Restricted Funds as at 31 December 2012. A sum of Rs.4,643,856 retained more than 05 years had included in that balance.
- (k) Forty four sources of funds allocated to miscellenous fund included in the constraint fund totalled Rs.19,123,144 and the transactions had not been made during the year 2012. While 21 funds totalling Rs.10,572,256 had remained idle for more than 03 years. Further 13 funds totalling Rs.4,688,565 had remained idle for more than 05 years.
- (l) The income which considered as income from Short Term Courses received for 04 degree level courses and postgraduate level courses for the period from the year 2008 to 2012 amounting to Rs.17,312,154 and expenditure thereon amounting to Rs.13,702,714 had not been recognized as income or expenditure in the financial statements. Unidentified course fees had been shown as pre-receipts of advances.

**1.2.4 Unexplained Differences.**  
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A sum of Rs.12,075,117 had been recovered from the academic staff and non-academic staff who violated the bonds in the year 2012. Nevertheless it was shown as Rs.15,078,188 recovered from 16 officers according to the schedule furnished by Establishment Section, and as such a difference of Rs.3,003,071 was observed.

**1.2.5 Accounts Receivable.**  
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The following observations are made.

- (a) The Distance Education Computer Access Centers (NODES ACCESS CENTERS) belonging to the Ministry of Higher Education were maintained at the Regional Offices and 20 Educational Centers of the Open University. Effective action had not been taken to recover a sum of Rs.36,993,600 receivable for supply of building accomadation, electricity, water, security and sanitation facilities for those centers by the University.
- (b) According to the agreements entered into with 40 Lecturers and Officers who had violated the bonds in awarding foreign scholarships to the academic and non-academic staff of the University, the surety bonds amounted to Rs.82,622,135 and of there a sum of Rs.11,001,675 should be recovered from 15 of them and that action taken to recover that money was not in a satisfactory position.

**1.2.6 Lack of Evidence for Audit**  
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The following items shown in the financial statements could not be satisfactory verified/vouched in audit due to lack of evidence shown against each item.

Item -----	Value Rs. -----	Evidence not made Available -----
(a) Received as grants -Furniture	116,887,429	Boards of Survey Reports, schedules and Registers to prove the assets have been received correctly.
(b) Academic Staff - Salaries and allowances	376,765,979	Attendance Registers.

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

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Instances of non- compliance with the provision of laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations ect. -----	Non- compliance -----
(a) Financial Regulation 371(6)	<p>(i) A sum of Rs.13,424,081 had been granted as advances in 171 instances exceeding the maximum ad-hoc sub imprests limit of Rs.20,000 of these in 37 instances advances totalling Rs.7,567,365 had been paid exceeding Rs.75,000.</p> <p>(ii) As ad-hoc sub imprests had been granted without an acceptable estimate, the balance of advances ranged between 20 to 94 per cost had remained.</p>
(b) Establishments code for Universities and Higher Education Institutions.	
(i) Sub- section 26.17 of Chapter III	Registers in respect of payments made to Visiting Lecturers, for lectures in Day Schools in the Regional Centers, Colombo had not been maintained properly.

- (ii) Section 3.1 of Chapter XX
- Even though every person who were in the service of the University should be recorded their arrival and departure, the academic staff had not recorded their arrival and departure.
- (c) Public Finance Circular  
No.380 dated 19 January 2000
- Income surplus of 04 Long Term courses conducted under the authority of Consultancy and External Resources Center, amounting to Rs.5,519,736 had been erroneously transferred to miscellenous Funds in the year under review.
- (d) Public Enterprises Circular  
No.95 dated 14 June 1994
- Despite a deficit of Rs.50,067,844 was in the financial results of the financial statements for 2012 a scheme of Incentive Allowance had been approved by the Governing Council as per performance of faculties and regional centers of the University and a sum of Rs.7,986,409 had been allocated to pay incentive allowances.
- (e) Internal Circular  
No.VV/2011/VC/01 of the  
Open University dated 06  
October 2011
- Even though it was decided to open savings accounts and grant an advance to pay for telephones, electricity, and water and to make payments to daily employees in the regional centers, a sum of Rs.500,000 had been granted at the rate of Rs.50,000 for 10 centers according to the workload of the education centers without considering the requirement. A sum of Rs.300,000 had been idle in 06 centers.

**2. Financial Review.**  
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**2.1 Financial Results.**  
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According to the financial statements presented, the operation of the University had resulted in a deficit of Rs.713,167,844 before taking into account the Government grant as against the surplus of Rs.1,068,810,727 for the preceding year. After taking into account the Government grant of Rs.663,100,000 received for recurrent expenditure for the year under review that deficit had decreased up to Rs.50,067,844. The Government grant received for recurrent expenditure from the Government for the preceding year amounting to Rs.628,386,000 and identification of the amortization of capital grants for the previous period had attributed for the improvement of surplus amounting to Rs.1,697,196,727 of that year.

Accordingly, the decrease of students income and sale of application income by Rs.206,309,920 and the decrease of amortization for donations and capital grants by Rs.1,592,996,579 had mainly attributed for the deterioration of financial results amounting to Rs.1,747,264,571 for the year under review as against the previous Year.

**3. Operation Review.**  
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**3.1 Performance.**  
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The following observations are made.

- (a) According to the Corporate Plan prepared for the years 2011-2016 of the University, the examination results should be released within 45 days. Out of the examinations conducted in 76 instances in respect of 60 courses during the year 2011/2012 more than 180 days (more than 6 months) had been taken to release results in 19 instances. While more than 365 days (more than one year) had taken to

release results in 06 instances. The results in respect of the examinations conducted in 03 instances in the year 2011 had not been released even by 31 December 2012.

- (b) Delays on examination held and release of results had effected to recruitment of students for next group or next stage and due to delay of commencement of academic activities and examinations held the objectives expected by the action plan had not been executed in targeted durations.

### **3.2 Management Inefficiencies.**

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The preparation of Management Information System had been carried out by 03 institutions of service providers. After completion of the project it should have been taken over by the Department of Information Technology of the Open University and the services should have been provided by that Department. Nevertheless it was not carried out and an agreement had been entered with a private institution for the implementation of functions of the Accounts Section only and it was revealed in audit a sum of Rs.2.8 million had been paid.

### **3.3 Operating Inefficiencies.**

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The following observations are made.

- (a) Out of the lands utilized by the University, the lands belonging to Nawala premises had been shown in different extents in the different correspondence such as Deeds, Survey Plans, Register of Fixed Assets and Register of Land kept in Administration Section. Further 166.81 perches, out of the land extent of Nawala premises had been acquired for the Colombo Floods Control Project in the year 2007, but the relevant amendments to the Deeds and Survey Plans of the land had not been made.
- (b) Even though 12 Education and Regional Centers of the University had been constructed, those lands had not been transferred to the University.

- (c) The land in extent of 135.21 perches in which the Education Centre, Bandarawela and Circuit Bungalow constructed had not been included in the Register of Lands.

### **3.4 Matters of Contentious Nature.**

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The following observations are made.

- (a) According to the stock verification report as at 31 December 2011 submitted to audit, Laptop computer valued at Rs.257,687 which received from Distance Education Modernization Project and issued to Registrar had been misplaced on 01 January 2010. A proper investigation had not been carried out relating to the loss of the computer in terms of Section 1.2 of Chapter xxv of the Establishments Code for Higher Education Institutions and decided to write off.
- (b) A sum of Rs.7.5 million had been granted in several instances since the year 2004 to 2010 by University Grants Commission for the development of information technology system of the library of the University, while a sum of Rs.06 million had been invested in fixed deposits without utilizing for respective purpose.
- (c) The University had constructed buildings in the Government lands and being utilized. Even though it was a responsibility of the management of the university to take action for vesting the lands with the University, that actions taken for vesting the lands in which the Education and Regional Centers established were not in a satisfactory level.

### **3.5 Idle and Under - utilized Assets**

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Three small bundles packing Machines valued at Rs.5,308,800 had been given to Packing Section of the University in 2009 under the funds of Distance Education Modernization Project. As Excessive expenditure had to be incurred when operating these machines and supplier had not supplied 02 modules these machines were not in a usable position.

According to the investigation report on these 03 machines made by officers of the Government Press it was confirmed that these machines were not suitable to Press and Packing Section and as such it was observed the sum spent of Rs.5,308,800 was a fruitless expenditure.

### **3.6 Uneconomic Transactions.**

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Two thousand ties had been purchased at the rate of Rs.490 each spending Rs.980,000 in the year 2010 for selling in the 30<sup>th</sup> Anniversary of the Open University. Out of these ties 204 ties had been issued comprising 27 free issues and 177 ties sold and the balance had been 1796. Those ties had been purchased without identification of the requirement and the balance had remained in the stores without being sold.

### **3.7 Personnel Administration.**

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Cadre position as at 31 December 2012 is given below.

	Approved Cadre	Actual Cadre	Vacancies
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Academic Staff	346	285	61
Academic Subordinate Staff	188	155	33
Administrative Staff	87	50	37
Non- academic Staff	633	511	122
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	1,254	1,001	253
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Accordingly, the approved cadre of the University was 1,254 and of this, 253 representing 20 per cent had remained vacant as at the end of the year under review.

Among these vacancies, sector wise higher number of vacancies as 18 per cent, 18 per cent, 43 per cent and 19 per cent had existed in the academic staff, academic sub-ordinate staff, administrative staff and non- academic staff respectively.

**4. Accountability and Good Governance.**  
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**4.1 Action Plan.**  
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Even though 231 activities had been determined to carry out through the Action Plan for the year 2012, information relating to the progress of those activities had not been reported to audit. Further the performance report for the year 2012 had not been prepared by the University. According to the audit test check carried out in respect of 21 activities which should be executed in the Action Plan had been delayed.

**4.2 Internal Audit.**  
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The following matters were observed.

- (b) According to the Internal Audit Programme for the year 2012 the internal audit programme had been planned under 12 items of the Open University. Nevertheless one item of audit programme in respect of regional centers had not been covered due to lack of staff.
  
- (c) Attention had not been paid to get the required cadre approved and recruit number of posts required to implement the adequate internal audit.

**4.3 Budgetary Control.**  
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Variances from 33 per cent to 1,238 per cent were observed between the estimated income and actual income for 07 sources of income for the year 2012. Further, there were variances from 25 per cent to 202 per cent between the estimated expenditure and actual expenditure in respect of 19 Expenditure Heads. It was observed that the budget of the University had not been made use of as an effective instrument of management control in considering the respective expenditure and as compared with the actual income and expenditure.

**5. Systems and Controls.**  
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Deficiencies observed during the course of audit were reported to the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of Control.

- (a) Conduct of Examinations and Issue of Results.
- (b) Funds Control.
- (c) Cash and Bank Activities
- (d) Control over Fixed Assets.
- (e) Arrival and Departure of the Academic Staff.