

## **Open University of Sri Lanka - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of financial statements of the Open University of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 provisions of the Finance Act No 38 of 1971 and National Audit Act. No.19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Open University of Sri Lanka as at 31 December 2021, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1.2 Basis for Qualified Opinion**

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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**

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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 determines 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 matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University 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 Sub-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 Auditor's Responsibility for the Audit of the Financial Statements**

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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 or the override of internal control.
- Obtain an understanding of internal control 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 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. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. 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 has performed according to its powers, functions and duties; and
- 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 Audit Observations on the Preparation of Financial Statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

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The following observation is made.

<b>Non Compliance with the reference to particular Standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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<p>Since residual value and the useful life time of the assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, library books costed for Rs. 194,197,449 were further in use despite being fully depreciated. As such, action had not been taken to revise the said</p>	<p>The calculating the book values are already being started and planned to complete the task by this year and will be disclosed in the financial statements of the year 2022.</p>	<p>Sri Lanka Public Sector Accounting Standards should be followed.</p>

estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03. Further, in terms of paragraph 92 of the standard disclosures about such assets were not made.

### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The cost of the closing stock of course materials as on 31 December 2021 was over stated by Rs.1,480,000.	Action will be taken to correct it in the future.	The physical closing stock balance of the year should be accounted accurately.
(b) The assessed value of Rs. 6,500,000 of 02 vehicles received from the Presidential Secretariat in March 2020, had not been taken into accounts.	Those vehicles could not be disclosed in the 2020 financial statements as the assessed value was not calculated at the time of the assets were received. Since the assets have been valued by now, action will be taken to disclose correctly in the preparation of the financial statements in 2022.	Assets received as donations should be valued and accounted for.
(c) Due to the interest income of Rs.1,322,959 relevant to the year under review in relation to 07 fixed deposits was not accounted for, the surplus and the receivable interest income for the year was under stated by that amount in the financial statements.	Action will be taken to correct in the year 2022.	The interest on fixed deposits for the year should be calculated and accurately accounted for.
(d) The difference of Rs.442,108,770 between the balance of the students control account and the balance of the unrecognized student income account had been accounted as receivable students	Due to existing deficiencies in the OMIS computer system, an accurate age analysis of student income could not be produced. The	Action should be taken to accurately identify the receivable student income and accounted for and submit the age analysis

income without accurately identifying the receivable student income related to the year under review. Also, the age analysis related to that receivable student income and unrecognized student income was not submitted to the audit.

- (e) Entries had been made in the depreciation, provision for depreciation and asset accounts in the computerized accounting system without preparing source documents such as payment vouchers, receipts and journal vouchers etc. Further, an amount of Rs.335,896,468 had been removed from the depreciation and provision for depreciation accounts at the end of the year by using journal entries to correct the wrong entries in such entries. Also, a journal entry was not prepared for the correction of the over recovery retention money amounted to Rs.1,198,818.
- (f) Intangible assets costed for Rs.4,847,854 as on 31 December 2021 had not been amortized since the date of procurement till the year under review.
- (g) The construction of the seven-storied building in the Jaffna Regional Center at a cost of Rs. 186,010,726 was completed on 15 March 2021 but due to capitalized on 31 December 2021, depreciation amounting to Rs.6,599,559 was not accounted for in respect of that period.
- new computer system is expected to correct those deficiencies in the future.
- Depreciation calculations were not done accurately in the OMIS computer system. Accordingly, the depreciation calculations generated by the computer system were removed by journal entries, and the correctly calculated annual depreciation value was entered into the computer system through journal entries.
- Defects in computer software should be rectified.
- Since the lifetime of E-books and software valued for Rs.5,340,344.00 was unable predicted, those assets had been disclosed as intangible assets with indefinite lifetime. Accordingly, those assets were not depreciated as per SLPSAS 20.
- The useful life time of intangible assets should be recognized and amortized.
- A correction will be made during the preparation of the financial statements for the year 2022.
- Depreciation should be calculated from the date the asset is made available for use.

## 1.6 Non – Compliance with Laws, Rules , Regulations and Management Decisions etc.

Reference to the laws, rules and regulations	Non- compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 102, 103, 104, and Public Finance Circular No. 02/2016 dated 12 February 2016	(i) Damaged course materials total worth of Rs. 25,046,765 had been written off from the books from the year 2018 to the year 2020 with the approval of the university governing council but without obtaining the approval of the Treasury. Also, financial regulations were not followed in this regard.	(i) Printed books may be disposed due to the reasons such as students leaving from the courses, amendments in syllabuses etc. between the academic years. This is a common situation in a university which offers online education. Accordingly, disposing of printed books cannot be mentioned as stock damage.	The financial regulations and circular provisions should be followed. Further, stock levels should be determined and maintained and orders should be placed accordingly to minimize the losses to the government.
	(ii) Although two preliminary inquiry committees were appointed by the Vice-Chancellor on 06 August 2020 to conduct a preliminary inquiry on the differences in the Board of Survey reports of the year 2018, the investigations had not been completed even by 31 May 2022.	(ii) Actions are already being taken according to the recommendations in the preliminary investigation reports related to the language studies section and examination section. Also, there were some deficiencies in the preliminary investigation report related to the IT	The financial regulations and circular provisions should be followed.

- section and a request had been made to the Chairman of the Investigation Board for further clarifications. Action will be taken soon after those clarifications are received.
- (ii) Financial Regulation 113 (3)(b) Student income amounted to Rs.43,729,298 due from students whose registration was not renewed for more than 05 years was written off without obtaining the approval of the Treasury in the year under review. An amount of Rs. 48,729,298.00 due from the students who left the courses was written off on the approval of the Governing Council in the year 2021. The financial regulations should be followed.
- (iii) Financial Regulations 1645 (b), (c) and Financial Regulation 1646 2,728 fuel liters were used in excess to the normal fuel balancing ratio in relation to 12 vehicles of the university during the period from January 2021 to February 2022. Also, 1,850 liters of diesel and 127 liters of petrol worth of Rs. 232,687 were used without entering the number of kilometers driven in the running charts in relation to 05 vehicles. Accepted. Action will be taken to rectify in the future. The financial regulations should be followed.
- (iv) Financial Regulation 1647 (b) Annual board of survey was not carried out on vehicles and equipment worth of Rs. 110,736,110 owned by the Agreed. Action will be taken to appoint a board of survey committee and conduct verification of vehicles and equipment in the The financial regulations should be followed.

- (b) Section 7.6 of Chapter V of Establishment Code for University Grants Commission and Higher Education Institutions
- university.  
A bond value of Rs. 19,884,652 to be recovered from 11 officials who breached the bond agreements from the date of breach agreements between the year 1989 and year 2015 and an amount of Rs. 9,817,731 due from 09 officials from the year 2017 were unable to recover even till the date of audit of 31 December 2021.
- future.  
A letter, without their consent and declaration letter, had been sent to the University Grants Commission to get approval to recover from the provident fund balance of the officers whose bonds had been breached for more than ten years. Action had been taken to recover the amount due from two from the Provident Fund and legal action had been taken against two. Also, a committee was appointed to look into the overdue bond violations.
- Prompt action should be taken to recover the amount due to the government from the violation of bonds and agreements and credit to the university fund.
- (c) Treasury Circular No. 842 dated 19 December 1978
- A fixed asset register was not prepared in respect of property, plant and equipment costing for Rs.14,266,095,834 and intangible assets costing for Rs.16,167,163 as on 31 December 2021.
- The fixed asset documents requested by the audit were stated in the schedules to the financial statement accounts.
- Action should be taken to prepare a fixed asset register as per provision in the Treasury Circular.
- (d) Section 3.1 of Chapter XX of the Establishment Code for the University Grants Commission and for Higher Education Institutions and University Grants Commission
- A sum of Rs. 1,317,557,428 had been paid as salary and allowances to 348 academic staff officers for the year under review without verifying the attendance and departure.
- Although the provisions were made in the Establishment Code and Public Administration Circular, the attendance and departure of the academic staff will not be recorded.
- Establishment code and the circular provisions should be complied.



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|     | Circular No.<br>10/2017 dated 10<br>July 2017   | Action had not been taken to obtain insurance coverage for vehicles by calling competitive prices annually as per the circular provisions and insurance coverage had been obtained from the Sri Lanka Insurance Corporation from the year 2016 to the year 2020 and a total sum of Rs.8,149,311 had been paid thereon. Furthermore, it was revealed in a sample audit check that the repair works were carried out of 5 vehicles since 2018 which had been met accidents but insurance compensation had not been claimed even by 21 February 2022. | The Public Finance Circular No. 06/2019 came into force from 19/08/2019 and to get insurance services as per the provisions thereon, prices were called from registered insurance service agencies following the approved procurement process and with the approval of the procurement committee, People's Insurance Company was awarded the contract of supply of insurance services. The university has followed the circulars. | Action should be taken to follow the circular provisions.   |
| (e) | Paragraph 02 of Public Finance Circular No. 04/2015 dated 14 July 2015 and Paragraph 02 of Public Finance Circular No. 06/2019 dated 15 August 2019 |  |   |   |
| (f) | Public Finance Circular No. 01/2014 dated 17 February 2014  | The activity plan had not been prepared for the year under review.   | University sends the copies of the Corporate Plan, Action Plan and annually updated Plans to the Treasury and the concerned department of the University Grants Commission.   | An activity plan should be prepared including the tasks expected to be accomplished in the next year. |
| (g) | Section 8.2.2 of Public Enterprises Circular No. PED/12 dated 02  | A sum of Rs.251,886,511 as on 31 December 2020 and a sum of  | The short-term investments cannot be delayed until treasury approval  | Prior approval should be obtained as per the circulars.   |

June 2003	Rs.261,383,503	was received and, accordingly, as per the instructions of treasury officials, letters for treasury approval have been submitted to the treasury at the same time which the investments were made in fixed deposits.
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during the year under review had been invested in fixed deposits without obtaining the prior approval of the Minister in charge of Finance.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review had been a surplus of Rs.103,989,560 as compared with the corresponding deficit of Rs 531,516,776 in the preceding year, thus indicating an improvement of Rs.635,506,336 in the financial result. Increase in the government grants, students income and short-term course income had mainly attributed to this improvement.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Action had not been taken to rectify the existing deficiencies in the Operational Management Information System (OMIS) which was established as 05 modules in relation to the activities of 05 departments of the university from the relevant maintenance companies even by the end of the year under review. Accordingly, it was informed to the audit that the university has focused on establishing an	An information system cannot be established easily in a short period of time. The university has started the establishment of a new information system and the works are in progress.	Action should be taken to introduce the new information system without delay and not to repeat the deficiencies in the existing system.

information system by the information technology department to be more efficient than the existing information system and in accordance with the requirement of the university. But that information system had not been established even by the end of the year 2021.

### 3.2 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>Thirty Nine academic officers and 179 non-academic officers had been recruited on contract basis without obtaining the approval of the Management Services Department and only on the approval of the governing council of the university and a sum of Rs.100,614,207 had been paid as allowances only for the year 2021.</p>	<p>Many vacancies arose due to retirements, resignations, deaths and transfers to other universities in both years of 2020 and 2021. As a result, academic staff were recruited on contract and temporary basis with the approval of the governing council for the smooth continuation of academic activities.</p>	<p>Action should be taken to obtain the Treasury approval and then recruit for the vacant posts.</p>

### 3.3 Management of Vehicle fleet

Audit Observation	Comments of the Management	Recommendation
<p>Three vehicles were parked insecurely inside and outside of the university premises vehicle park for a period from 01 year to 05 years period without being used and a sum of Rs. 235,269 was uneconomically spent on comprehensive insurance coverage of the vehicles for that period.</p>	<p>Quotations had been called from 10 registered suppliers on 29.12.2021 for the repair of these vehicles and the formal procurement process had been followed. Accordingly, as per the recommendation of the Technical Evaluation Committee and the approval of the Minor Procurement Committee,</p>	<p>Insurance should be done only for the running vehicles. Also, the vehicles due for repaired should be repaired without delay and kept in suitable running condition.</p>

two vehicles have been sent for repairs. Action is being taken to obtain the approval of the Chief Accounting Officer for the repair of the van.

Insurance for 'Fleet of Vehicles' had been taken for 34 vehicles including these 04 vehicles and these vehicles will be repaired and driven.