

Open University of Sri Lanka – 2015

The audit of financial statements of the Open University of Sri Lanka 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. A detailed report in terms of Sub-section 108 (2) of the Universities Act will be furnished to the Vice Chancellor of the University in due course.

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 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 judgment, including the assessment of 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 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 give 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, except for the effects of matters described in paragraph 2.2. 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 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

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standards 03

The external lecture fees and the security service expenses amounting to Rs.2,212,300 and Rs.15,590,482 respectively relating to the years 2013 and 2014 paid in the year 2015 had been brought to account as expenditure for the year under review instead of being adjusted retrospectively.

(b) Sri Lanka Public Sector Accounting Standard 07

(i) In view of the failure to review the effective life of the non-current assets annually, fully depreciated assets costing Rs.158,885,728 had been in further use and the resultant estimated error had not been revised in terms of the Sri Lanka Public Sector Accounting Standard 03.

(ii) The expectation of using the revaluation format is showing the fair value of the assets in the financial statements. Nevertheless, it was observed according to the following matters that the fair value of the assets is not reflected in the financial statements as the valuation of the assets had not been done correctly on a specified date.

- Even though the assessed value of property, plant and equipment had been shown in the financial statements of the year 2015 as the value that existed as at 01 January 2013, it was revealed that the relevant assessment had been done from the end of the year 2012 to the end of the year 2015. The date of the valuation and the relevant year of valuation could not be ascertained from any of the reports furnished by the Department of Valuation.
- Even though requests had been made to the Department of Valuation up to 18 February 2016 to provide the detailed assessed value of the moveable properties, the reports had not been received. As such the moveable properties amounting to Rs.586,909,445 of the Head Office and 06 Centres representing 90 per cent had been assessed on 20 February 2016 by an Internal Committee. It was observed that the moveable properties valued at Rs.346,548,261 purchased 01 January 2013 to 31 December 2016 were available in the University at the time of computation of the assessed value.
- Even though the fair value of the items of properties should be determined normally by an evaluation of the market based evidence. Even though the Department of Valuation had assessed the market value per perch in respect of the land on which the Nawala Head Office is situated at Rs.728,204 for the year 2012, the Section of 15 perches out of that land given to the Post-graduate Institute of English in the year 2015 had been assessed at Rs.1,500,000. As such it was observed, that the land of the Nawala Head Office appearing in the financial statements does not reflect the fair value.

(c) Sri Lanka Public Sector Accounting Standard 09

Even though the items to be taken as stocks are specified in the Standard, contrary to that, fixed assets valued at Rs.5,864,746 had been brought to account as stocks.

2.2.2 Accounting Policies

The following observations are made.

- (a) It was observed that the University had not followed a uniform policy in accounting for the leasehold properties used by the University.
- (b) Even though it had been stated that it is the policy of the University to transfer the building constructions shown under work-in-progress to the Buildings Account from the commencement of usage, contrary to that, the maintenance building valued at Rs.18,236,276 in use at present is shown under work-in-progress whilst the Nursing Centre Building costing Rs.7,942,050 still under construction had been transferred to the Buildings Account.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The building materials issued for various construction works but further remaining and valued at Rs.3,179,946 had not been included in the financial statements.
- (b) The following classification errors were observed in the Ledger Accounts relating to the financial statements presented were observed.
 - (i) The expenditure of capital nature amounting to Rs.1,084,160 incurred on the modernization of the Health Science Building had been brought to account as maintenance cost instead of being capitalized.
 - (ii) Even though the expenditure on the laboratory equipment, teaching aid and electrical equipment should be brought to account according to the nature of the assets, those had been classified as expenditure according to the location.
 - (iii) Consumable for the use of the laboratories valued at Rs.86,860 purchased in the year 2015 had been shown under the fixed assets as laboratory equipment.
- (c) Even though a sum of Rs.414,000 out of the expenditure on rent for the Trincomalee Academic Centre amounting to Rs.432,000 related to the year under review, the entire amount had been shown as a prepayment.
- (d) The short term course income of Rs.1,740,450 received for the ensuing year had been brought to account as the students income of the year under review.
- (e) Even though a sum of Rs.448,000 had been paid as the lease rent of the Regional Centre, Kurunegala in respect of the period from 01 July 2015 to 30 June 2016, the prepayment of Rs.224,000 had not been shown under the current assets in the financial statements.
- (f) The balance sum of Rs.844,113 remaining after incurring expenditure out of the interest received from the investment of money received in connection with the breach of agreements had been shown as a current liability instead of being transferred to the Funds Account.

2.2.4 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.14,375,504 was observed between the balance of 07 items of income shown in the financial statements and the balances of the schedules.

- (b) The value of the movable assets as at the end of the under review amounted to Rs.941,623,176 and that consisted of the value assessed in the year 2013 and the purchases made thereafter in the years 2014 and 2015. The assets costing Rs.2,661,768,776 as at 01 January 2013 had been assessed at Rs.625,074,917 thus reflecting an abnormal decrease in the value. The valuation reports relating thereto were not made available to audit and as such the accuracy of the value of the movable assets had become a questionable issue in audit. Details appear below.

	Rs.
Cost as at 01 January 2011	700,441,914
Cost of Assets received from the Distant Education Modernisation Project	1,865,189,299
Cost of Assets purchased in the years 2011 and 2012	96,137,563

Cost as at 01 January 2013	2,661,768,776
Assessed Value as at 01 January 2013	625,074,917

Difference	2,036,693,859
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- (c) An examination of the Summarised Valuation Reports prepared by the Head Office based on the reports furnished by the Regional Offices of the Department of Valuation, difference of Rs.47,670,000 relating to the value of building and Rs.300,000 relating to the value of lands were observed between the assessed value of the Head Office and the assessed value of Regional Offices relating to the Centres at Jaffna and Vavuniya.
- (d) The Summarised value of the movable properties of 06 Regional Offices sent by the Department of Valuation amounted to Rs.12,706,000 whereas the value according to the detailed schedules sent by the Regional Offices amounted to Rs.15,085,971, thus indicating a difference of Rs.2,379,971.

2.2.5. Lack of Evidence for Audit

 The evidence indicated against the following items of account had not been furnished for audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Buildings of 20 Regional Offices	655,100,000	Registers showing the manner of computation of the assessed value of each building

(b) Tuition Fees Receivable written off	146,703,270	Schedules showing the make up of the value
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2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The students deposits amounting to Rs.15,183,212 represented a balance older than 05 years and even though the Degree Courses had been completed action had not been taken over a considerable period to account for as income.
- (b) A sum of Rs.41,191,761 recoverable from 13 officers who had breached the bonds had not been recovered from the dates of breach of bonds up to the end of the year under review.
- (c) Even though a sum of Rs.11,576,134 remained recoverable as at 01 January 2015 from 11 officers who had breached the bonds, no recoveres whatsoever had been made during the year under review.
- (d) The loan balance recoverable as at 31 December 2015 from 45 officers including 43 officers who had left the institution amounted to Rs.1,480,664. Even though it was informed that action would be taken for the recovery of the money, recoveries could not be made up to the date of audit (28 January 2016).

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc., -----	Non-compliance -----
(a) Establishments Code for Universities and Institutions of Higher Education (i) Chapter IV	Even though any officer holding any post other than the post of a Lecturer should be transferred within or outside the institution, it was observed that the officers of several grades were performing duties in the same place over long periods.

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| (ii) | Chapter XX Section 3.1 | Salaries and allowances amounting to Rs.671,187,835 of the year had been paid without establishing the times of arrival and departure of the Academic Staff of the Open University of Sri Lanka. |
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| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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| (i) | Financial Regulation 104(1) | A formal inquiry had not been commenced for the determination of those responsible for 4 accidents caused to motor vehicles during the year under review. |
| (ii) | Financial Regulation 371 | Instances of the grant of advances were observed in instances of fulfilling the requirement through the normal purchase methodology. |
| (iii) | Financial Regulation 371(5) | Even though the advances obtained in a particular year should be settled in that year itself, advances amounting to Rs.2,001,946 granted in the preceding years had not been settled even during the year under review. |
| (iv) | Financial Regulation 751(1) | The books and records of the Maintenance Store had not been properly updated and the issues made only up to April 2015 had been posted in the stock books by 28 October 2015, the date of audit. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Institution for the year ended 31 December 2015 amounted to a deficit of Rs.125,721,793 as against the surplus of Rs.296,082,837 for the preceding year, thus indicating a deterioration of Rs.421,804,630 in the financial result for the year under review as compared with the preceding year. Despite the increase of the Government grant by Rs.75,000,000, the decrease of the student income by a sum of Rs.197,615,497, the decrease of amortization by a sum of Rs.114,076,356 and the increase of the academic services expenditure by a sum of Rs.154,552,061 had been the main reasons for the above deterioration.

An analysis of the financial results for the year under review and the 4 preceding years indicated that despite the generation of profits from the year 2011 to the year 2014, it had been converted to

a loss making status in the year under review. Nevertheless, it was observed that after the adjustment of the employees remuneration, the depreciation on non-current assets and the taxes paid to the Government, the University had made a contribution and that contribution at the end of the year under review amounted to Rs.1,421,778,251.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) The following deficiencies were observed in relation to the valuation of assets and the management had not paid attention for the rectification of that valuation.
 - (i) Deficiencies in the detailed reports (arithmetical errors typing errors) on the valuation of assets furnished by the Department of Valuation to the University and contradictions between the records of the Regional Offices and the Head Office were observed.
 - (ii) The Valuation Reports on Lands and Buildings on the Valuation of Assets sent by the Department of Valuation to the Open University included only the summarised values. The detailed reports on the manner of composition of the values (in the case of lands, the value per perch and in the case of buildings, the value of each building) had not been given for establishing the accuracy of the values.
 - (iii) The Open University had not furnished the accurate particulars of the extents of 4 lands at Kandy, Ratnapura, Kegalle and Kilinochchi for the valuation of lands and as such the Department of Valuation had based the valuation on the extent of lands different from the actual of lands existing.
 - (iv) Eleven lands used by the Open University of which it had not been able to obtain the legal title or the lease tenure had also been used for the valuation of the year 2012.
- (b) Even though a long period had elapsed after the transfer of the title of the lands situated in Matara, Kandy, Kalutara and Kegalle action had not been taken even up to the year under review to execute the title deeds.
- (c) The lands and the properties on those lands depicted as blocks 2, 3, 4 and 5 in Primary Deed 4549 on which the Kandy Regional Centre is maintained have been transferred to the University and it has been established that buildings belonging to the University exist

on block 07 as well. But the administration had not paid attention up to the year under review to get the title to that block transferred to the University.

- (d) The Open University had handed over a letter No. VV/Res of 24 November 2014 to the Urban Development Authority to obtain a new land for the Academic Centre at Ratnapura and in response to that it had been informed on 16 June 2015 that the relevant land could be transferred on long term lease basis. But action had not been taken even up to 31 December 2015 to get the land transferred.
- (e) Even though the Open University had paid Rs.100,000 on 20 March 2003 and Rs.443,750 on 09 August 2011 as 25 per cent of the assessed value of the lands at Badulupitiya, Badulla and the land at Ratnapura respectively for the transfer of the land in favour of the University, the title had not been transferred even by 31 December 2015.
- (f) Even though the Open University had obtained certain lands for the Regional Centres on lease basis and constructed buildings at the Government cost, action had not been taken either for the renewal of leases prior to expiry of the leases or for the transfer of the title to the lands in favour of the University.
- (g) Buildings valued at Rs.28,000,000 and Rs.22,900,000 had been constructed on the lands at Ampara and Polonnaruwa respectively with only the leasehold tenure and lease agreements had not been entered into even by the year under review.
- (h) A methodology providing for the issue of stores preventing the validity expiry and waste had not been introduced to the main stores, whilst the Bin Card System had not been followed. A test check revealed that stocks purchased for Rs.538,258 prior to 05 years were remaining in the stores. Adequate protective measures had not been taken against the natural damages caused to the stocks. A proper course of action had not been taken in the storage of cloaks valued at Rs.7,405,500 to ensure their protection.
- (i) The University had not taken action to get down the registers maintained by the Academic Faculties and the Regional Centres containing the details of the student income and other income and the expenditure incurred by the University for the services procured from the external parties for the purpose of the timely and accurate identification of the income and expenditure.
- (j) The management had not paid its attention for the introduction of an appropriate control methodology in order to establish the accuracy of the write off of the irrecoverable academic fees.

4.2 Operating Activities

The following observations are made.

- (a) A sum of Rs.4,500,000 approximately had been spent annually for the maintenance of the Management Information System valued at Rs.58,277,317 received from the Distant Education Modernisation Project. Even though this Information System had defects since its installation to the year 2014, the Information Management System had not been updated in order to obtain accurate information.
- (b) The Information Management System had not been prepared in a manner to obtain the accurate information relating to the identification of student income, identification of the number of registered students, the accurate information on the balance receivable and the accurate information on the non-payment of the relevant installments and the abolition of the studentship.

4.3 Transactions of Contentious Nature

The balance sum of Rs.6,730,454 remaining after the completion of the Short Term Vocational Training Programme implemented under the foreign grants and a sum of Rs.300,000 received from the hire of assets belonging to the Open University of Sri Lanka, had been apportioned to the Funds under the Consultancy Services and Resources Centre without being credited to the University Fund.

4.4 Under utilisation of Funds

The following observations are made.

- (a) Nineteen Funds totalling Rs.10,627,283 made available for the execution of Special Activities / Objectives for the Open University remained underutilized over periods exceeding 05 years without being utilized for the purposes intended.
- (b) Even though it was stated that the moneys collected in the Funds established for the Academic and other Divisions of the University would be used for the purchase of fixed assets required by such Division, it was observed that the utilization of funds had been at the minimal level.

4.5 Uneconomic Transactions

The following observations are made.

- (a) Even though a sum of Rs.500,000 as the assessed advance had been paid to the Land Reform Commission on 24 March 2005 for the acquisition of a land 0.3887 hectares in extent for the Academic Centre at Hatton, the title or the tenure of the land had not been obtained. That had not been shown as an asset in the financial statements and as such the expenditure had become fruitless.
- (b) According to the Maintenance Agreement entered into with the private company which carried out the maintenance work of the Management Information System for the rectification of the defects of the Management Information System of the Open University, it had been agreed for the payment of a sum of Rs.4.5 million from 31 December 2014 to 30 December 2015. Out of that 50 per cent had been paid on 06 January 2015. As the relevant maintenance work had not been done according to the agreement it was observed that the expenditure of Rs.2,250,000 paid to the contractor company had become fruitless.
- (c) Even though the sum of Rs.242,220 spent in the years 2012 and 2013 for the preliminary works on the construction of the main stores had been shown as the capital work in progress as at 31 December 2015, action had not been taken in the years 2014 and 2015 for completion of that activity.

4.6 Identified Losses

It was observed during the course of physical verification that stocks valued at Rs.1,512,280 out of the stock of timber and ceiling sheets valued at Rs.3,024,560 purchased for the repair of the roof of the Regional Office, Colombo (Block 20) had been misplaced.

4.7 Delayed Projects

Even though it had been proposed for the commencement of the Project on the Information Technology Building on 01 May 2014 and completion on 31 January 2015, it was observed that the relevant project work had not been completed by that date.

4.8 Construction Work Done on Lands not Formally Acquired

Even though 11 lands, the tenure of which had not been obtained legally or on the lease basis had been valued and brought to account at Rs.183,950,000 , buildings valued at Rs.267,697,776 had been constructed on such lands.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

- (a) According to paragraph 03 of the Circular No. 2/2012 dated 01 March 2012 of the Ministry of Higher Education on the preparation of the Corporate Plan, the Corporate Plan should be updated annually. Nevertheless, the Corporate Plan prepared for the years 2011 to 2016 had been furnished to audit for the year 2015 also. But it had not been updated.
- (b) Even though a request was made to furnish the Performance Reports of the 4 Faculties in order to examine whether the activities included Action Plan prepared for the achievement of the expected targets to be executed through the Corporate Plan had been executed within the time frames, the Performance Reports relating to 03 Faculties had not been furnished for audit.

5.2 Internal Audit

Even though the Management Audit Circulars had issued instructions that in addition to the regular financial audit carried out, attention should be paid to the systems analysis, performance analysis and special investigations in order to ensure an effective performance in the institutions and that the Internal Audit Programmes should be prepared by paying attention to covering all the Divisions in the institution and for risk based internal audit, the Senior Management of the Institution had not paid attention to get the Internal Audit Programme of the institution prepared in compliance with those requirements.

5.3 Budgetary Control

Significant variances were observed in the comparison of the budgeted income and expenditure. Accordingly, it was observed that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chancellor of the University from time to time. Special attention is needed in respect of the following areas.

Areas of Systems and Controls -----	Observation -----
(a) Stock Control	The physical balance could not be compared with the book balance as the books and records of the stores of the Maintenance Division had not been properly updated.
(b) Internal Audit	As a result of the absence of a risk based internal audit in operation in the institution there were recurring deficiencies in most of the areas including income and expenditure.
(c) Funds Control	Funds had not been utilized properly.
(d) Income from breach of Bonds	Legal steps had not been taken for the recovery of the money recoverable for the breach of bonds.
(e) Management Information System	The Management Information System had not been prepared in a manner to enable the retrieval of the information on the student income and the summary reports relating thereto.
(f) Fixed Assets Control	As the property, plant and equipment had not been properly valued, the value of fixed assets is not correct. Action on obtaining legal transfer of lands has not been done properly.
(g) Contract Administration	The raw materials required for construction works had been procured without preparing proper estimates.

