

## **Open University of Sri Lanka – 2013**

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The audit of financial statements of the Open University of Sri Lanka the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Section 13(1) of the Finance Act, No. 38 of 1971 and 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**

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The 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 and fair presentation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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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 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 judgements, 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. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and the 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**

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

**2. Financial statements**

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**2.1 Qualified Opinion**

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In my opinion, except for the effects of the 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 2013 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**

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**2.2.1 Accounting Policies**

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The following observations are made.

- (a) An allocation of 1 per cent from the course fees had been made without approval of the Finance Committee for the students fees which are repayable due to abandoning the courses. Although the allocation made in this manner in the year 2013 amounted to Rs.5,264,869 , the repayments amounted to Rs.186,182.
- (b) Even though it was disclosed in the accounting policies that depreciation is provided on the basis of date of purchase of the fixed assets as the policy of the depreciation of fixed assets , depreciation for the entire year had not been computed due to failure in the identification of the date of bringing the asset to usable condition in relation to constructions and failure to identify the date of purchase of library books .
- (c) In the recognition the income relating to the expenditure relevant to the Short Term Courses and other income relevant to the Accounting Policies , the income should be recognized in the financial statements as the percentage of the total income. However, the University had not recognized the income relating to the expenditure in recognizing the Short-term Courses and other income .

### 2.2.2 Accounting Deficiencies.

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The following observations are made.

- (a) The depreciation on office equipment purchased during the year had been understated by Rs.475,080 and depreciation on furniture had been overstated by Rs.25,354.
- (b) Even though the income of long-term courses should be included in the operating income as student course fees, the income of Rs.6,048,642 of 04 long-term courses income and expenditure of Rs.6,048,642 had been shown under the short-term courses and other sources income.
- (c) Even though all the income and expenditure in the year should be presented in the financial statements, the income of Rs.2,433,393 and the expenditure of Rs.2,374,650 relevant to the Sustainable Energy Engineering MSc course had been fully omitted from the financial statements and the net result thereon had been shown under the current liabilities as income received in advance.
- (d) Even though the value of lands on which the Education Centers of Vauniya and Gampaha are situated , had been overstated by Rs.585,500 in the financial statements, due to revaluation based on an excessive evaluate ,action had not been taken to rectify it even by 31 December 2013.

### 2.2.3 Accounts Receivable and Payable

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The following observations are made

- (a) In recovering the students fees, students fees for an academic year is recovered in 2 instalments. Even though after paying the first instalment it is considered as an income ,the policy of the University is in issuing of vouchers for the second instalment, it was credited to the revenue account and the amount had been considered as the revenue receivable. The income of the students fees in the year under review amounted to Rs.609,989,377 and out of it the amount receivable at the end of the year amounted to Rs.219,502,265 or 36 per cent which should be receivable in respect of several preceding years. It was observed that the balances recoverable from the students who left the courses are also including in the amount.
- (b)According to the schedule submitted with the financial statements in relation to the distress loans, motor vehicle loans and staff loans given to the University staff, unrecoverable loan balances as at 31 December 2013 amounted to Rs.760,408 and outstanding loan balances existing over a period of 21 years amounting to Rs,33,907 and loan balances older than 5 years amounting to Rs.522,518 had been included therein. Similarly 26 loan balances totaling Rs.160,596 had been identified as unrecoverable.

#### 2.2.4 Lack of Evidence for Audit

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The following observations are made.

- (a) It had been pointed out through the Notes to the financial statements that the value of lands should be decreased by Rs.102,729,215 and the value of the buildings should be decreased by Rs.1,557,533,204 according to the interim reports of the Department of Valuation presented in the year 2013 in relation to the revaluation of assets of the Open University. As the full report on revaluation functions executed by the Department of Valuation had not been presented even by 22 August 2014 ,not possible to be satisfied it was in audit on the accuracy of the balances of assets, accumulated depreciation, and revaluation reserve shown in the financial statements.
- (b) Confirmation had not been made on the office partitions and furniture valued at Rs.28,259,433 out of the assets amounting to Rs.2,868,447,927 received as grants of the Distance Education Modernization Project are in possession of the University. Further, only the schedule had been presented to the audit without mentioning the value of the Information Technology Equipment (ICT Equipment) amounting to Rs.175,907,897.

#### 2.3 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, etc.	Non- compliance
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(a) Procurement Guideline -2006 Section 7.12.1	Even though bids had been called from 18 registered suppliers for purchase of research equipment, bids had been presented only by 2 suppliers. Out of the two institutions the order had been awarded to the institution which presented separate item wise quotations for each item. Rs.279,118 had been over paid due to the prices of certain items of that institution had been more than the other institution which submitted bids. Further, the Technical Evaluation Committee had not given the reasons for purchase the higher priced items from that institution.

(b) Establishments Code for  
Universities and Higher  
Educational Institutions

Paragraph XX

Section 3.1

Even though a sum of Rs.486,147,743 had been paid as salaries and allowances for the academic staff of the Open University of Sri Lanka in the year 2013, Attendance Registers had not been presented to audit in terms of the Establishments Code of the Universities.

### **3 Financial Review.**

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#### **3.1 Financial Results.**

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According to the financial statements presented, the operating result of the University for the year ended 31 December 2013 amounted to a surplus of Rs. 150,823,116 as compared with the corresponding surplus of Rs.89,968,693 for the preceding year thus resulting in an improvement of financial results amounting to Rs.60,854,423. Accordingly, the increase of students income by Rs. 304,520,140 and capital grants by Rs.181,615,000 and the decrease of depreciation by Rs.240,943,682 had mainly attributed for the of increase of the financial results for the year under review as compared with the previous Year.

### **4 Operating Review.**

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#### **4.1 Performance.**

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Even though according to the Corporate Plan prepared for the years 2011-2016 and the Action Plan for the year 2013 of the University, the time period of the revision of courses and printing activities to be done had been mentioned, the said amendments had not been done by the Faculty of Education ,Faculty of Engineering and Technology, Electronic and Computer Engineering Development Division in the year under review.

#### **4.2 Management Inefficiencies.**

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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 had been 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 accommodation facilities, electricity, water, security and sanitation facilities for those centers by the University.

- (b) Action taken for the recovery of the sum of Rs.10,673,950 recoverable from 13 officers out of the total sum of Rs.94,665,185 recoverable due to breach of the agreement entered into with 38 officers in the award of foreign scholarships for the academic and non-academic staff of the University had not been in a satisfactory position.
- (c) The attention had not been paid by the University to strengthen the internal control of the University through receiving an efficient service and improving the vocational skills by transferring the non-academic staff of the University among the Divisions of the University. According to the audit test checks carried out ,14 officers for over 10 years and 10 officers for over 20 years had been deployed in a same Division.

### **4.3 Operating Inefficiencies.**

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The following observations are made.

- (a) Ownership of the lands valued at Rs.13,792,455 not used by the University had been shown in financial statements as the lands belonging to the University without being vested legally.
- (b) There are 28 motor vehicles belonging to the University and 03 vehicles out of those had been allocated for 03 officers .Out of the balance 25 motor vehicles, 17 motor vehicles had been allocated to other Divisions including 04 Faculties. Fuel limits had been fixed for those motor vehicles and instances of use of fuel exceeding the limits were observed .
- (c) Adequate action had not been taken by the Management to vest the Government lands on which 17 Educational Centres of the University are being maintained in the University . However, action had not been taken to assets the lands and disclosed in accounts.
- (d) Even though all the purchases relevant to the University should be done by the Supplies Division, books valued at Rs.17,904,626 had been directly purchased by the Library of the year under review.
- (e) Management and control of the Funds had been at a weak level and 46 Funds totaling of Rs.43,921,008 had been idle in the year. Thus included 12 Funds amounting to Rs.4,362,386 ,eight Funds amounting to Rs.5,883,691 and 26 Funds amounting to Rs.33,674,331 had not been utilized to achieve the objectives during periods exceeding 06 years ,over periods of 5 to 6 years and over periods of 01 to 03 years respectively.

#### **4.4 Transactions of Contentious Nature**

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The University had obtained the services of 03 officers on Sabbatical Leave on the assignment basis in the year 2013. Two of those Officers had been paid the academic allowance ,the cost of living allowance and the 15 per cent special allowance from the University they are attached to and this University as well and as such they had obtained a sum of Rs. 1,590,105 more than their entitlement , the academic allowance and the 15 per cent special allowance had been paid to a member of the non-academic staff and as such the officer had been paid a sum of Rs.124,775 more than this entitlement .

#### **4.5 Idle and Underutilized Assets**

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Three small bundle 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 02 modules had not supplied for operating 02 machines , those had been idled and unusable position since that date up to 31 December 2013.

#### **4.6 Staff Administration.**

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The approved cadre of the Open University had been 1240 and of this, 184 representing 15 per cent had remained vacant as at the end of the year under review. Among these vacancies, sector- wise higher number of vacancies at 15 per cent, 06 per cent, 25 per cent and 16 per cent existed in the academic staff, academic subordinate staff, administrative staff and non-academic staff respectively.

### **5. Accountability and Good Governance.**

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#### **5.1 Action Plan.**

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Even though 295 activities had been planned to be carry out through the Action Plan for the year 2013, it was observed that 64 activities had not been achieved. Similarly the performance in relation to several other activities had not been included in the Performance Report submitted to audit.

#### **5.2 Internal Audit.**

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Internal Audit Programme for the year 2013 had been planned and implemented under 07 items. In addition to that, special investigations had been done under 03 items. Even though the post of Audit Assistant had been approved by the University Grants Commission in the year 2012, recruitment had not been done even by the 31 December 2013.

**5.3 Budgetary Control.**

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Variances from 23 per cent to 1029 per cent were observed between the estimated income and expenditure and the actual income and expenditure of 07 sources for the year 2013 and a sum of Rs.327,897 had been spent under those items of expenditure without preparing estimates ,thus indicating that the budget of the University had not been made use of as an effective instrument of management control.

**6. Systems and Controls.**

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Deficiencies 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.

- (a) Funds Control.
- (b) Cash and Bank Activities
- (c) Printing Press Activities.
- (d) Staff Administration
- (e) Motor Vehicles Control
- (f) Stores Control