

**Qualified Opinion**

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The audit of the financial statements of the Open University of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 a summary of significant accounting policies, 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 National Audit Act No. 19 of 2018. My comments and observations which I consider should be report 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 Institute as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.1 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**

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 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 intend 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 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**

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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, 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 University's 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 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 the University has performed according to its powers, functions and duties; and
- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 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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<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
In accordance with the Sri Lanka Public Sector Accounting Standards 07, assets were not revalued and stated in the financial statements and, therefore, fair value was not reflected in the value of 11 lands amounting to Rs. 149,950,000 and the value of the library books amounting to Rs. 236,567,269.	The process of revaluation of library books had commenced in the 2018 and all books in the library had been physically verified in the year 2018. But it will take long time for valuation of these books and, therefore, the revaluation values could not be disclosed in the financial statements of 2018	Financial statements should be prepared in accordance with accounting standards and ensure that the fair value of the assets was disclosed.

## 1.5.3 Accounting Policies

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though University accounting policy was that the year-end stock balance calculate physically and state in the financial statements, stocks remained in the main stores had been accounted based on the balance in the Ledger account of Rs. 5,594,534.	The balance of books at regional and academic centers will be calculated by comparing the book balance with the physical balance. Action will be taken to conduct this work regularly from the year 2019 onwards and furnish information for the Audit.	Accounting should be done according to the accounting policy.

## 1.5.4 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Action had not been taken to assess the effective lifetime of intangible assets amounting to Rs. 34,847,854 and amortized in the year under review	Intangible assets include OMIS, network systems, and e-books. The OMIS system has being operation for 10 years in the University and it is difficult to determine about the lifetime of other systems in the University and e-books. Therefore, those assets were not amortized	All intangible assets should be identified and included in the financial statements and the effective lifetime should be recognized and amortized

## 1.6 Accounts Receivable and Payables

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### 1.6.1 Receivables

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The following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Total amount of Rs. 48,085,752 should be received from 14 members of the Academic and Non-Academic staff who had breached the agreements from the year 1988 to 2000 and no money had been recovered until the year of under review. Out of total amount due from another 15 officers who violated the agreements valued for Rs. 35,521,351, a sum of Rs. 18,499,495 had been recovered till the previous year but no money had been recovered from those officers in the year under review.	Unable to take legal actions against six officers due to that original creditor and guarantors had vacated from the provided premises and unavailability of their present addresses. Actions are also being taken to sue certain officers, to recover the dues from certain officers in installments basis and to recover the money due from certain officers from the Provident Fund.	Action should be taken to recover dues from the officers.
(b) Un recovered employees loan balances from 56 staff as at 31 December 2018 was Rs. 2,497,789 and in that a sum of Rs. 1,754,223 was belonged to 47 staff who vacated the University.	Out of this employee loan balances, except Rs. 6,400.00 loan balances relevant to 06 employees, action will be taken by the University to recover other balances upon the releasing of their provident fund in accordance with the Supplies and Finance circular No 40 and 59	Prompt action should be taken to recover dues.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Democratic Socialist Republic of Sri Lanka Financial Regulation	Stock books had not been maintained in Regional Academic Centers for course books and academic items issued by the Head Office.	A computer software had been introduced to maintain course books and academic items and presently it is updating.	Action should be taken as per the Financial Regulations.
(i)	Financial Regulation 751 (1)	Even though a board of survey should be conducted and copies of that reports should be furnished to the Auditor General, for library books cost at Rs. 236,567,269 and Clocks cost at Rs. 4,748,975 as at 31 December 2018 had not done so.	A board of survey had been conducted for library books and clocks in 2018. In relevant to the recommendation of the verification Committee on library books, facts had been submitted to the Governing Body regarding the action to be taken in March 2019 and even the approval of the Governing Body had been received.	Should be act according to the University's' Establishment Code
(ii)	Financial Regulation 756 and 757	Even though all employees of the University had to	This requires a change in the university system itself. This was also discussed at the 2014 COPE meeting and the Secretary to the Ministry of Higher Education and the Chairman of the	Should be Act according to the University's'
(b)	Establishment Code for the University and the Institute of Higher Education			
(i)	Section 3.1 of Chapter XX			

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|      | record their in and out, an attendance register had not been maintained for academic staff of the university and salaries and allowances had been paid without confirming the attendance. | University Grants Commission also agreed to set up a system for this.   | Establishment Code.   |
| (ii) | Sections 3.2 and 3.3 of Chapter XXVI  | After investigating the loss of fixed assets identified in the annual board of survey and it was necessary to identify the person responsible for the deficit, misplacement or damage and to recover the value of the replacement, but did not do so.                             | After receiving stock verification reports, action will be taken in accordance with the reports of the deficit and loss of fixed assets and loss reported by the Audit Division in future.  |
|      |   | Unsettled loan balances of three employees who have transferred to other universities were remained. The relevant universities had been informed to settle the loan balances and reminders also had been sent. Action had already been taken to settle this balance in 2019.      | Should comply with the relevant circular.   |
| (c)  | Budget Circular No. 118 dated 11 October 2004<br>Section 1.1.7  | Even though it is necessary to settle outstanding loan balances between departments within two months of an officer transferred or within three months after the transfer of an officer, contrary to that, a sum of Rs. 490,794 receivable from 08 officers had not been settled. | Out of the advance payments you have mentioned, settlement of 31 advances was made in April and May due to the strike action of the university employees from 28.02.2018 to 17.04.2018. I agree that other advances had not been settled within 30 days |
|      |   |   | Should comply with the instruction memo   |

- (d) Instructions memo No. OU / F / IC / 01 dated 27th December 2010 issued by the Vice Chancellor. Although settlement should be made within 30 days from the date of receipt of advance payment, the settlement period had exceeded 60 days for 40 advances issued in 2018 aggregating to Rs. 1,221,719. from the date of receipt of advance cash.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to deficit of Rs. 337,287,562 and the corresponding surplus in the preceding year amounted to Rs. 125,553,169. Therefore a deterioration amounting to Rs 462,840,371 of the financial result was observed. The reasons for the deterioration are mainly due to the decrease of student income by Rs. 388,718,248 and decrease of short time course fee by Rs. 29,891,638.

### 2.2 Ratio Analysis

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Current assets ratio of the year under review was 0.9:1 and observed that compared to the previous year was decreased by 36 percent.

## 3. Operational Review

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### 3.1 Identified Losses

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Audit Observation	Management Comment	Recommendation
121,248 books worth Rs.21,283,087 had been removed in the year under review due to excessive printing of books.	Surveys carried out in previous years have found that a surplus of books exist in the Central Book Distribution Center. The reasons for such excess books were that all the students who applied for the courses did not register, difficulty in accurately calculating the number of students required to register, and Course books have to be revised periodically to improve the quality of courses. Action has been taken to forecast correctly and reduce the excess books.	A system for obtaining information at regional centers should be prepared and implemented to prevent unnecessary printing of books.



### 3.2 Management Inefficiencies

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The following observations are made.

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| <p>(a) A total value of 266,539,328 buildings had been constructed in 11 lands which were used by the University but not legally vested. The takeover the lands were not done until the year under review.</p>  | <p>Action is being taken by the university to obtain legal ownership of this lands.</p>   | <p>Prompt action should be taken to obtain legal ownership of this lands.</p>   |
| <p>(b) The Education Technology and Media Unit was established in a building worth of Rs. 306.3 million with equipment worth of Rs 133.2 million for the production of programs related to the academic activities of each Faculty of the University (CETMe). Although it could have produced external programs based on commercial objectives, action had not been taken to earn income from it or use it effectively for the benefit of the students until the date of the audit of 30 June 2019.</p> | <p>Even though it was established for the production of audio-visual material of the faculties, since the establishment carried out the maintenance of technical equipment of the University and had to contribute to the university's income. Though by renting the Studio at the Media House an adequate income had been earned before five years, demand has dropped today as external new channels had built and utilized new Studios. It took about a year connect to the Open University Network and restore its functions. Income generated while the institution was under the Ministry was unable to earn as there were obstacles to delivering technical services properly.</p> | <p>A suitable methodology should be developed for maximum utilization for the student's education. Also, Action should be taken to advertise and promote for renting out the studio to outside parties and earn income.</p> |
| <p>(c) The Administration activities of the National Online Distance Education Service established in 2010 was transferred to the Open University on 1st March 2015 and then this unit was established in a building of the University.<br/>Though this project generated a total of Rs. 100,757,839 from 2011 to 2013, it had unable to utilize to earn income by the year under review,</p>   | <p>Though the Ministry agreed to provide funds to repair the technical equipment used at the time of transfer to the university, money was not given later. As such, the University Administration had to remove the equipment used for the old audio-visual conference facilities.</p>   | <p>Obtaining new technical equipment and repairing repairable equipment, ensure that the project's intended objectives are met by maintaining effectiveness.</p>  |

### 3.3 Operational Inefficiencies

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though all courses in the University should have been revised and updated, in generally, once in 04 years in accordance with the University Academic Norms Codes, most courses had not been revised in the university and delay period had taken a higher ranged from 02 years to 24 years.	At present, the university has about 1000 courses and the average number of lessons per course is about 25. Therefore, there are over 25,000 lessons related to the course. The maximum number of lessons that all academic staff have to do with Norms is about 6,000 in four years. Therefore, it is obvious that the courses cannot be revised every four years. However, the university has taken action to revise courses when necessary.	Should be Complied with the University Academic Norms Code.

### 3.4 Idle or Underutilized Assets

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The small polythene packing machine worth Rs. 1,580,000 awarded to the university in 2009 by the Distance Education Project (DEMP) Since the granted year, and 128 other fixed assets items belonging to the University had remained idle for a period of 2 years to 7 years.	Polythene packaging machine had been given to the Electrical and Computer Division of the University.	Action should be taken to identify usable and unusable assets and should be either used or disposed.

### 3.5 Delays in Projects

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) A sum of Rs. 402.5 million had been recommended for the construction of five storied Building of the Faculty of Health Sciences on 11 October 2016 and though the construction works should be completed within two years from that date, the construction works had not been commenced even by the end of the year under review.	The procurement activities relating to the construction of the five storied building of the Faculty of Health Sciences was done by the Procurement Committee appointed by the Cabinet (SCAPC) under the Design	Action should be taken to execute the projects without delay.

& Build methodology. Preliminary works for the bidding process had been completed by the end of 2017 and the Technical Evaluation Committee (TEC) had conducted several sessions and sent to the Cabinet for the approval to award the contract.

The contract will be awarded to the selected contractor as soon as the Cabinet approval is received.

(b) Even though a sum of Rs. 5,392,936 was spent for the repair of the roof of the fourth floor of the Faculty of Education in 2016, the work was not completed until 31 December 2018 and was stated under the work in progress in the financial statements.

The contract was canceled due to breach of contractual agreements made by Sumanasekara Construction (Pvt) Ltd (Contractor) in carrying out the relevant contract. Also, stated that the relevant legal proceedings are in progress. The rest of the works related to the construction of the building has been completed.

### 3.6 Human Resources Management

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
112 vacancies in the Academic cadre and 162 vacancies in the Non-Academic cadre were available as at 31 December 2018 and adequate efforts were not made to fill those vacancies.	Recruitments in the Faculty of Health Sciences and Engineering Technology were completed and the recruitments of the Faculty of Education are in progress. Action is taking to publish an advertisement for the vacancies in remaining departments. Administrative staff recruitments are done by the University Grants Commission.	Action should be taken to fill the vacancy.

#### 4. Accountability and Good Governance

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##### 4.1 Corporate Plan

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though the Corporate Plan and Action Plan had been prepared and submitted to the Audit, the top management had not taken action to use the relevant plans to achieve the overall objectives of the University.	The Corporate Plan and the Action Plan are annually updated and sent to the General Treasury. Based on this, the Treasury releases provisions	Action should be taken to prepare the Corporate Plan to meet the desired objectives of establishment of the University.

##### 4.2 Action Plan

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
When preparing the Action plan for the year under review, it had not been prepared to be identified the achievement of the university's objectives.	The Action Plan are annually updated and sent to the General Treasury. Based on this, the Treasury releases provisions.	Action should be taken to prepare the Action Plan to meet the desired objectives of establishment of the University

##### 4.3 Effectiveness of Management Information System

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though the University Management Information System (OMIS) had been installed in five modules for the activities of five divisions at a cost of Rs. 3,000,000 due to shortcomings in the system the intended objectives were not met.	The initial works was commenced by recruiting new staff to develop a new Information Technology System by November 2018.	Action should be taken to establish an accurate and efficient information system as per the requirements of the University.

#### 4.4 Budgetary Control

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##### **Audit Observation**

Substantial variances ranged from 32 percent to 1,379 percent in the budgeted income and Expenditure and the actual income and expenditure compared to the previous year thus indicating that the budget has not been made use of an effective instrument of financial control factor.

##### **Management Comment**

Estimates for the next year will be prepared based on the actual expenditure and forecasts of previous years, There may be variations between that estimated expenditure and the actual expenditure. But these variations are further minimized

##### **Recommendation**

When preparing the budget, it should be done with the objective of providing financial control. The budget should be prepared in accordance with the actual figures of the previous years and to meet the desired objectives.

#### 4.5 Sustainable Development Goals

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##### **Audit Observation**

The University was made aware of the circulars issued by the Department of National Budget on Sustainable Development and the 2030 Agenda on the United Nations Sustainable Development Goals. The University's Sustainable Development Goals had been identified, but incorporated into the relevant program plans. Identifying milestones, identifying performance indicators, and establishing of information-related system were not performed.

##### **Management Comment**

The Open University was aware of the United Nations' 2030 Agenda on Sustainable Development.

##### **Recommendation**

Should be Focused on achieving the Sustainable Development Goals

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