

Open University of Sri Lanka - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Open University of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Finance Act No 38 of 1971 and 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 University as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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 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 Auditor's Responsibility for the Audit of the Financial Statements

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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

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

Non- Compliance with the reference to particular Standard	Comment of the Management	Recommendation
<p>In terms of the Sri Lanka Public Sector Accounting Standards 09, action had not been taken regarding the cost of the damaged and disposed stock worth of Rs.25,072,505 included in the cost of the stock worth of Rs. 182,594,766 in the financial position statement as at 31 December of the year under review.</p>	<p>Board of Survey of the University are appointed to calculate year end stocks and those Board of survey teams will physically verify the inventory in each unit. Based on those physical board of survey reports, action has been taken to disclose year end stock balances in the financial statements.</p>	<p>The stocks in each unit of the University should be completely surveyed physically and the finished, unfinished stocks and unusable stocks at the end of the year should be identified and accounted for.</p>

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) The difference of Rs. 302,544,894 between the balance of the student control account and the balance of the unidentified student income account was accounted for as the receivable student income without correctly identify of student income due for the year under review.	Would like to point out that the value of receivable student income as stated in the financial statements is correct as the student income due was calculated based on the information contained in the two ledger accounts, the student control account and the unidentified student income account.	A proper mechanism should be established for identifying and accounting for student income receivable.
(b) Although it has been stated that according to the policy of the university the student income due from the students who have not renewed their registration for more than 5 years will be writtenoff against the income in every year, student income due from students over 5 years amounted to Rs. 40,655,161 had been writtenoff during the year under review, but the relevant approval had not been obtained.	The university will writeoff any amount due from students who have not renewed their registration for more than 5 years in each year as an expenditure. Therefore, it is practically impossible to recover the dues from the students who have left the university.	Whenever it is convinced that there has been no negligence or wrongdoing or fraud, it should seek the permission of the Secretary to the Treasury to waive any other fees due to the Government and to act accordingly.
(c) Although debit or credit should be made to a ledger account in the form of a payment voucher, receipt or journal voucher, due to deficiencies in the university's OMIS computer system led to the deployment of entries in the depreciation and provision for depreciation accounts in	It was observed that the asset register of the OMIS system had not been updated properly for several years and remedies could not be taken later due to limitations in the system. Therefore, the computer system does not perform depreciation calculations correctly. Accordingly, the depreciation calculations provided by the computer system were removed by	Action should be taken to introduce a proper computer software system.

the computer account system as a day end process transaction. Further, an amount of Rs. 25,692,337 which had been recorded in the ledger accounts incorrectly had been removed from depreciation accounts and provision for depreciation accounts using journal entries at the end of the year.

Further, it was also observed that the ledger accounts such as salaries, stocks, assets etc. were also entered values as day end process transaction without source documents.

journal entries and the accurately calculated annual depreciation values were entered into the computer system by the journal entries. The direct transfers making in the payroll system for salaries and the inventory module were referred as Day End Process Transactions. But the accounts division has the source documents related to salaries, stocks and assets.

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

The following observations are made.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comment Of the Management	Recomdat ion
(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) Damage books valued for Rs. 19,517,405, Rs. 2,637,980 and Rs. 2,891,380 in the years 2018, 2019 and 2020 respectively had been writtenoff only with the approval of the Govering Body of the University without obtaining the	Relevant officers were instructed to take appropriate action in accordance with the Financial Regulations and Circular Provisions regarding stock shortages and surpluses identified in board of surveys.	Finacial Regulations should be complied with.

Treasury approval. Furthermore, financial Regulations regarding stock shortages and surpluses had not been complied with from the outset.

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| (ii) | Although two preliminary inquiry boards have been appointed by the Vice Chancellor to conduct a preliminary inquiry on the differences as per the report of the Board of Survey for the year 2018, relevant action had not been completed even by August 2021. | Relevant activities have been carried out with the approval of the Governing Body on the basis of the reports of the Board of Survey appointed for the shortage items during the board of survey conducted for the year ended 31 December 2018. But some of reports had not been submitted yet. Several reminders have been sent to the relevant inquiry boards in this regard. Relevant reports will be submitted to the Governing Body for approval as soon as they are received. | Financial Regulations should be complied with. |
| (ii) | Financial Regulation 394 (c)
Action had not been taken as per the financial regulation with regard to the balance of the cancelled cheque deposit account amounted to Rs. 1,232,629 as at 31 December 2020 held for 08 years. | Action will be taken to get the cancelled cheque deposit balance into university revenue this year. | Financial Regulations should be complied with. |
| (iii) | Financial Regulation 756
Fully depreciated library books which is still in use costed for Rs.181,639,603 as at 31 December 2020, had not been taken in to | The board of survey teams of the university are appointed to calculate year-end stocks, and those | In accordance with the Financial Regulations, all units are required to conduct physical |

- the verification. Further, the unfinished stock at the printing press and all the stocks in all the units had not been physically verified in calculating the stocks value of Rs. 182,594,766 as stated in the Financial Position Statement as at 31 December 2020.
- verification boards are physically varified the stock in each unit. Based on those physical stock verification reports, action has been taken to disclose the year end stock balances in the financial statements.
- stock verifications and submit verification reports to the Auditor General.
- (b) Treasury Circular No. 842 dated 19 December 1978
- A fixed asset register had not been prepared for property, plant and equipment valued for Rs.14,424,847,934 and intangible assets valued for Rs. 18,968,248 included in the financial statement as at 31 December of the year under review.
- Issues of updating the Fixed Asset Register have arisen due to deficiencies in the computerized system for fixed assets. The university intends to update the fixed asset register with the new computer system being installed by the university. Our expectation is that, the system will be able to overcome the weaknesses in the fixed asset register.
- In accordance with the circular provisions, a fixed asset register should be prepared to confirm the fixed assets disclosed in the financial statement.
- (c) Section 3.1 of Chapter XX of the Establishments Code for University Grants Commission and Higher Education Institutions and the University Grants Commission Circular No. 10/2017 dated
- A sum of Rs.1,601,385,340 had been paid as salaries and allowances for the year under review without confirming the arrival and departure of 354 academic staff officers.
- The academic staff carries out the academic works in accordance with the work norm under the supervision of the Head of the Academic Division and the Dean according to their schedule. Although provisions are made in the Establishments Code and the Public Administration Circular, the arrival and departure of
- Earlier it was stated in the replies that the Secretary of Higher Education and the Chairman of the University Grant Commission had agreed to formulate a mechanism in this regard at the 2014 Committee on the Public enterprises Meeting. Accordingly, the management should focus on taking the

10 July 2017

- (d) Section 8.2.2 of the Public Enterprise Circular No. PED / 12 of 02 June 2003
- The company had invested a sum of Rs.94,679,223 in fixed deposits as at 31 December 2020 without obtaining the prior approval of the Minister in charge of Finance.
- academic staff will not be recorded by fingerprint machines.
- No any short-term investment has been made in 2020. Rs. 670,222,783 investment is not a one year investment but a total of investments over many years.
- Letters seeking Treasury approval for Generated Funds investments amounted to Rs. 251,886,511 have been submitted to the Treasury.
- Letters requesting Treasury approval have been sent to the Treasury at the time of investing in fixed deposits on the advice of Treasury officials as investments cannot be delayed until Treasury approval is obtained.
- necessary action for the officers.
- Investment should be made with prior approval in accordance with the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 531,516,776 and the corresponding deficit in the preceding year amounted to Rs. 587,333,873. Therefore an improvement amounting to Rs. 57,817,097 in the financial result was observed. Increase in government grants and short term course fees had mainly attributed for this improvement.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although buildings have been constructed at a cost of Rs. 584,909,510 in 19 regional centers and study centers used by the university as at end of the year under review, action had not been taken to obtain the legal ownership of that lands to the university even by 10 July 2021.	The Cabinet approval was granted at the Cabinet Meeting held on 19/07/2021 to transfer the ownership of 17 plots of lands out of the which 25 plots of lands occupied by the university which were not legally owned by the university. Necessary action will be taken by the Commissioner General of Lands to take over the legal ownership of the relevant lands to the University and the relevant follow up will be done. Further, arrangements are being made to acquire other lands occupied by the University.	Action should be taken to take over the legal ownership of the relevant lands.
(b) Action had not been taken to recover a total amount of Rs. 850,958 due from 18 officers due to suspensions, terminations, dismissals, vacation of post, interdicts and retirements from the year 1992 to 2019 even by August 2021.	From non-performing loan balances, a sum of Rs. 174,406 had been deducted from the provident fund of the person and received by the University. Further, the University has sent release papers of the provident funds to the Grants Commission concerned to recover the 147,790 debt balances. Release papers of the persons concerned to recover Rs. 380,972 loan balances have not been received and upon receipt of the those papers, action will be taken to recover the debt balances upon release of their provident funds.	Immediate action should be taken to recover the relevant loan.
(c) Due to breach of bond agreements during the period from the year	Even if the address of one debtor is found, it was prescription and the	A system should be established to recover the

1989 to 2015 a sum of Rs. 19,884,652 were due from 11 officers, but nothing had been recovered from the date of breach of contract until 31 December 2020, the date of the audit. It was continuously reported to the Auditor General since 2016 that a sum of Rs. 4,942,969 due from 04 officers will be recovered from the Provident Fund, but had not acted accordingly.

possibility of recovery from the provident fund is being checked.

Also, due to the inability to find the addresses of the original debtors and guarantors in respect of 6 officers, it was not possible to take legal action and recover the contract value.

The debt balances of 05 debtors will be recovered from the provident fund and another debtor will be sued.

money due before the prescription.

- (d) The maintenance companies were unable to address the shortcomings in the Management Information System (OMIS), which was set up as a 05 modules for the work of 05 divisions of the university. Therefore, the Vice Chancellor informed that the University has focused on establishing an information system by the Information Technology Division to be more efficient and in line with the needs of the University. But even by the end of the year under review, no action had been taken to rectify the shortcomings or to establish a new information system.

Action is being taken to setting up a new information system. The new system will be activated with starting the registration works of students enrollment from December 2020. Other activities will be phased out by the new system in the future.

Action should be taken to establish a proper management information system.