

# **The Open University of Sri Lanka – 2010**

## **1. Financial Statements** -----

### **1.1 Opinion** -----

In view of my comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Open University of Sri Lanka for the year ended 31 December, 2010 presented to the audit.

### **1.2 Comments on Financial Statements** -----

#### **1.2.1 Sri Lanka Accounting Standards (SLAS)** -----

The following non compliances were observed.

- (a) Instead of being adjusted the rectification of prior years accounting errors to the financial results of the relevant years in terms of SLAS 10 debit balance of Rs.31,846,758 and credit balance of Rs.31,085,990 identified as prior year adjustments the net balance of Rs.760,768 after setting off the balances of each other had been adjusted to the retained earnings during the year under review. Further these prior year adjustments had not been disclosed in terms of the SLAS.
- (b) Instances of non - compliance with SLAS 18 in respect of revaluation of assets are given below.
  - (i) Paragraph: 41- Out of the revaluation reserve of Rs.8,085,836,773 the realized surplus on utilized assets had not been transferred to the retained earnings.
  - (ii) Paragraph: 77- Even though the value of land had been increased by Rs.5,797,800 during the year under review and shown as a revaluation reserve in the financial statements the relevant information thereon had not been disclosed. Action had also not been taken to rectify the errors occurred in the revaluation of fixed assets during the preceding year.

## 1.2.2 Accounting Deficiencies

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The following deficiencies were observed.

### (a) Understatements / Overstatements

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- (i) Fixed assets valued at Rs.2,348,752,669 had been received as grants during the period 2004 to 2010 under the Distance Education Modernization Project out of which fixed assets valued at Rs.2,320,454,170 had not been brought to accounts. Thus, the fixed assets and grants had been understated by that amount.
- (ii) Due to non-computation of interest correctly interest on 6 investments amounting to Rs.6,851 and the interest on 14 investments amounting to Rs.211,157 had been understated and overstated respectively in the financial statements.
- (iii) As the provision for gratuities had not been made in respect of employees whose, service was less than 5 years in making provision for the payment of gratuities, the provision for gratuities had been understated by Rs.5,135,218 as at the end of the year under review.

### (b) Inappropriate Disclosures

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- (i) The service charge of Rs.720,000 paid to the Urban Development Authority for a building application of a building proposed to be constructed which had been submitted for approval had been debited to the buildings account under the head office buildings instead of being debited to the works in progress account.
- (ii) The expenditure of Rs.61,755,419 incurred on the second stage of the examination hall, the construction of which was completed in the year 2010 and being utilized had been shown as work in progress and as such the depreciation on buildings for the year under review had been understated by Rs.3,087,771.

### 1.2.3 Unreconciled Differences

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According to the financial statements of the Open University the balance receivable from the Post Graduate Institute of English amounted to Rs.335,520. Nevertheless according to the financial statements of that Institute the balance payable amounted to Rs.261,810 thus indicating a difference of Rs.73,710. Action had not been taken to reconcile the difference and to rectify the accounts.

### 1.2.4 Non-compliance with Laws, Rules, Regulation and Management decisions

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The following instances of non compliance were observed.

<b>Reference to laws, rules, regulations etc.</b>	<b>Non-compliance</b>
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(a) Nation Building Tax Act No.09 of 2009 Section 2(1)(c)	As the course fee income of Rs.37,425,452 and the receipts from short term courses and practical training amounting to Rs.2,276,328 had not been considered in making payments of Nation Building Tax and Economic Service Charges in the year under review the tax totalling Rs.1,290,308 had been underpaid to the Commissioner of Inland Revenue.
(b) Public Enterprises Circular No.PED/12 of 22 June 2003. Paragraph 6.5.1	The draft annual report had not been presented to audit along with the financial statements.
(c) Financial Regulations (F.R) -----	
(i) F.R. 139 and 261	Cheques amounting to Rs.1,810,850 in 2 bank current accounts had been issued in excess of the bank balances as per cash book.

- (ii) F.R. 371(2)(b)
1. A sum of Rs.4,212,989 had been given as ad-hoc imprests in 73 instances during the 1<sup>st</sup> half year of the year under review in excess of Rs.20,000. Of them the value of advances given in 32 instances ranged from Rs.50,000 to Rs.500,000.
  2. Due to non- preparation of real estimates, savings of more than 50% of the advances given in several instances, long delays in settling advances, issue of advances again prior to the settlement of the previous advances were observed. Thus, internal control over advances was in a weak position.
- (iii) F.R. 570 and 571
- Half yearly reports in respect of deposits amounting to Rs.31,527,719 elapsed for more than 2 years had not been prepared and action had not been taken to settle them or to taken in to revenue.
- (iv) F.R. 1645
- Log books in respect of 25 vehicles belonging to the university had not been properly maintained and updated.
- (d) Section 3.1 of chapter xxvi of the Establishment Code for universities and higher education institutions and F.R.757(C)(2)
- Fixed assets verification reports were not made available for audit.

### **1.2.5 Transactions not Supported by Adequate Authority**

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The following observations were observed.

- (a) Contrary to the provisions in the University Grants Commission Circular No.879 the Council had decided that the salaries of technical laborer and non-technical laborer in the Maintenance Division amounted to Rs.800 and Rs.600 respectively. As a result a sum of Rs.144,824 had been over paid as labor wages for the period of 6 months from March to August of the year under review.
- (b) Even though the Director General of Budget had informed by his letter No BD/INS/C/LNA/078 dated 18 July 2003 that in computing the contributions to EPF of the university, ETF and pensions the academic allowance should not be considered, contributions had been computed including the academic allowance. As such, an over payment of Rs.3,877,358 had been made during the year under review.
- (c) Contrary to the circular No.95 dated 14 June 1994 of the Department of Public Enterprises of the Treasury and the letter No.BD/PE1/174/11 addressed to the chairman of the University Grants Commission by the Department of Public Enterprises, a sum of Rs.1,163,755 had been paid as the second and third language proficiency allowance during the year under review.

## **2. Financial and Operating Review**

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### **2.1 Financial Review**

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#### **2.1.1 Financial Results**

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The operation of the university for the year under review had resulted in a deficit of Rs.254,632,295 as compared with the deficit of Rs.335,769,254 for the preceding year, thus indicating an improvement in the financial result by Rs.81,136,959 as compared with that of the preceding year.

Even though the overall expenditure had been increased by Rs. 97,951,034 in the year under review as compared with that of the preceding year, the increase in tuition fees income too by Rs.153,420,309 had been the main reason for it.

## **2.2 Operating Review**

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### **2.2.1 Performance**

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The following matters were observed.

- (a) Even though the University conducts 56 programmes under 4 faculties, only 4 programmes are conducted by the Kalutara Study Centre and the number of registered students amounted to 240.
- (b) Even though a time table, indicating the courses/ programmes proposed to be commenced annually by each faculty of the university and the issue of applications is issued, 17 courses/ programmes for which applications were not issued and 14 instances of considerable delays in issuing applications within the period stated in the time table were observed.
- (c) Due to organization of examinations in accordance with the number of applications handed over for marketing, irrespective of the number of applications marketed in the written tests held for the selection of students for courses a fruitless expenditure had to be incurred.
- (d) Action had not been taken to get return the answer scripts and the balance question papers of the regional /study centers as early as possible. It had taken to return the answer scripts and the balance question papers of the Rathnapura and Kalutara study centers for the period ranging from 5 to 9 days and 5 to 6 days respectively.
- (e) Bachelor of Education (Dramas and Theatre) Degree programme scheduled to be commenced in the year 2007 had not been commenced even up to the year under review. This degree had been targeted to enroll the students who passed the Drama and Theatre Higher Diploma Course conducted by the Towerhall Foundation, it was observed that up to now there are 2 passed out batches who expected to register for this degree.

- (f) The corporate plan prepared for the period 2006 to 2010 and the action plan for the year 2010 had not been updated in conformity with the requirements.

Even though it was proposed to achieve 141 activities in accordance with the Action Plan for the year 2010, the progress of 77 activities had not been reported to audit. According to the performance reports made available for audit, sufficient information in respect of 18 activities was not available and 15 activities had not been achieved.

### **2.2.2 Matters of Contentious Nature**

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The following matters were observed.

- (a) Despite there were 3 Litho Printing Technicians to design the litho printing matters, the university had got these matters done from outside parties by paying money. As a result salaries and cost of living allowance utilized Rs.1.25 million paid annually to them had become a fruitless expenditure.
- (b) Without utilizing the Litho Printing Technicians efficiently for litho printing matters, utilization of risso machines, non-utilisation of the existing machine for the collection of papers to book binding had resulted to spend much money for the payment of OT and piece rates in the press.
- The expenditure incurred for the payment of OT and piece rates in the press in the year under review amounted to Rs.6,486,611 whereas the estimated amount was Rs.2,555,000. This expenditure in the year 2009 amounted to Rs.3,881,065 whereas the estimated expenditure amounted to Rs.2,000,000. Accordingly, the OT expenditure for the year under review in the press had gone up by 67% as compared with that of the preceding year.
- (c) While the revaluation of fixed assets had not been carried out at a professional level, the retention money of Rs.139,500 of the contract awarded for the revaluation of fixed assets and the preparation of the register of fixed assets had been refunded to the contractor.

### 2.2.3 Management Inefficiencies

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The following observations are made.

#### (a) Financial Control

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- (i) Out of a sum of Rs.6,772,854 received from the University Grants Commission from time to time in 4 instances since 2004 for the Information Technology Development, Rs.6,647,654 representing 98.2 per cent had been idle without being utilized for any useful purpose.
- (ii) Various funds of 151 totalling Rs.114,884,209 had been established and action had not been taken to bring the account balances of which the relevant activity was completed or abandoned to revenue.
- (iii)
  1. Action had not been taken to recover the unsettled petty cash imprest balances of Rs.88,695 which included balances remaining for more than 15 years.
  2. Due to weaknesses such as the non-maintenance of petty cash books indicating all particulars, non-use of petty cash vouchers, delays in reimbursement of petty expenses, incurring expenditure in excess of the petty cash limit, keeping money without safe custody ect. In Anuradhapura, Kalutara and Vaunia study centers and certain divisions of the head office, the internal control over petty cash payments had been at a weak level.

#### (b) Computer Awareness Programme

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The Ms Office 2003 package had been used for the Computer Awareness Programme in the year under review as well and attention had not been drawn to use the Ms Office 2007 package therefore which had been issued by that time.



**(c) Construction of the Examination Hall (stage II)**

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- (i) In awarding the contract for the construction of the examination hall (stage II) requirements such as the minimum qualification of the annual average value of contracts completed during the past 5 years be Rs.41 million, and the minimum availability of current assets or loan facilities be more than Rs.7 million had not been fulfilled by the contractor. It had not been established whether the qualifications and experience of the Civil Engineer, Supervisor (Civil) and the Quantity Surveyor had been complied with the specified conditions.
- (ii) 1. Even though a performance bond, covering even the one year maintenance period should have been submitted, only 2 months and 20 days had been covered by the performance bond.
2. The insurance cover to be submitted for more than 10% of the contract value had not been submitted.

**2.2.4 Idle and Underutilised Assets.**

The following matters were observed.

- (a) Ten laboratory equipments valued at Rs. 27,976,559, a photocopy machine the value of which could not be correctly assessed due to lack of information and office equipment in the mathematics and computer laboratory had remained idle for more than 2 years.
- (b) The computer laboratory, auditorium, audio visual unit, 37 office equipments and a generator given to the Kulutara study center and a diesel generator, 3 televisions, a water motor given to the Ratnapura study center had remained idle for more than 01 year.

- (c) Twenty two equipment existed at the Temporary Residential Facility of the university had remained inoperative, and 36 equipment had remained unutilized.

### **2.2.5 Identified losses.**

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The total amount of Rs.3,664,190 recoverable from 6 lecturers who proceeded abroad and breach agreements. As action had not been taken to file cases within 10 years since the date of breach of agreement, that amount could not be recovered, by the university.

### **2.2.6 Staff**

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There was no sufficient staff in the regional education centers and study centers to operate the functions of those centers by allocation of duties with a responsibility. As a result weaknesses such as allocation of duties to laborers which should have been carried out by a management assistant or a higher officer, lack of supervision, allocation of the custody of financial and other assets to officers on contract basis which should have been allocated to permanent officers, performing duties on verbal instructions without being delegated in writing, issue of cheques to the private bank accounts of officers, and performing duties by one person which could be performed by several officers were observed.

### **2.2.7 Budgetary Control**

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The following matters were observed.

- (a) According to the income statement for the year 2010 and the budget estimate presented to audit, the items under vehicle hire charges and the income from other sources earned had not been estimated. In the preparation of estimates the revenue on short term courses which was included in the corporate plan from which an income of Rs.854,612 was earned during the year under review had been completely ignored.

- (b) The internal income earned by the university during the year 2010 had been increased by 51% over the estimated income. It was 27% in the year 2009 and 45%, in the year 2008. Hence under estimating of internal income had become customary.

### **3 Systems and Controls**

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- (a) Accounting
- (b) Financial control
- (c) Stores control in the press
- (d) Employment of outside laborers to maintenance division
- (e) Distribution of course hand books
- (f) Sale of course application forms
- (g) Providing temporary residential facilities