

Open University of Sri Lanka - 2014

The audit of financial statements of the Open University of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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

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

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 judgement, 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

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 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 2014 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 were made.

- (a) Even though the fully depreciated assets as at 01 January 2014 costing Rs.1,810,669,218 are still in use, no action had been taken to revalue to show a fair value in terms of Sri Lanka Public Sector Accounting Standard 07.
- (b) A sum of Rs.241,628,346 had been shown in the financial statements as revenue receivable as at 31 December in the year under review and provisions had not been made in the financial statements in respect of suspense receipts. Moreover, according to the matters shown in the recognition of revenue in terms of paragraph 19 of Sri Lanka Public Sector Accounting Standard 10, the students' revenue receivable, had not been identified.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.2,392,985 settled in the year under review for security services relating to the year 2013, had been brought to account as expenditure of the year under review instead of showing by adjusting retrospectively.
- (b) A sum of Rs.626,793 incurred for the maintenance of buildings had been brought to account as capital expenditure instead of accounting as recurrent expenditure.
- (c) A sum of Rs.5,353,038 incurred for the maintenance of assets had been brought to account under capital expenditure.
- (d) Even though there are provisions for spending the income received in investing the money received from breaching agreements in fixed deposits in terms of University Grants Commission Circular No.737 of 06 July 2015 for academic purposes of the Lecturers. Nevertheless, the expenditure amounting to Rs.392,727 incurred in the year under review had been shown by deducting from the amount received from the breach of agreements.

2.2.3 Un-reconciled Control Accounts

Non-reconciliations between the balances in the financial statements and the schedule and the ledger of the following items were shown as follows.

Item	Balance according to the Financial Statements	Balance according to the Schedule / Ledger	Difference
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	Rs.	Rs.	Rs.
(a) Income received from breach of agreements	9,580,982	7,642,024	1,938,958
(b) Interest on Fixed Deposits	37,852,367	33,566,505	4,285,862

2.2.4 Lack of Evidence for Audit

Documentary evidence for the confirmation of fixed assets totalling Rs.204,167,730 granted to the Open University by the Distance Education Modernization Project was not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made

- (a) Effective measures had not been taken even by 31 December 2014 to recover a total sum of Rs.59,273,528 receivable from 25 officers who breached agreements.
- (b) Action had not been taken in the year under review as well to recover a sum of Rs.2,033,756 receivable prior to the year 2011 and included in the balance receivable as at 31 December 2014 according to the financial statements.
- (c) The unrecovered employees' loan balance by 31 December 2014 amounted to Rs.760,408 and this balance included a sum of Rs.522,578 older than 05 years, recoverable from deceased, retired and suspended officers.

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

Instances of non- compliance with laws, rules, regulations etc. are given below.

Reference to Laws, Rules, Regulations etc.	Non- compliance
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(a) Section 3.1 of Chapter XX of the Establishments Code of the Universities and Higher	Even though a sum of Rs.544,713,923 had been paid as salaries and allowances for the academic staff of the Open University

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of Sri Lanka in the year 2014, Attendance Registers had not been presented to audit in terms of the Establishments Code of the Universities.

(b) Procurement Guidelines -2006
Section 3.2

- (i) The purpose of providing security services in the years 2013 and 2014 of the Open University of Sri Lanka had been assigned to a private company contrary to the Procurement Guidelines and sums of Rs.16,397,896 and Rs.6,132,003 had been paid thereon for the years 2013 and 2014 respectively.
- (ii) The contract had been awarded for a sum of Rs.3,390,107 without calling competitive quotations to obtain labourers for four construction works of the Open University of Sri Lanka.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 371
(2) (b)

Even though the value of maximum Ad-hoc sub-impressts to be granted, is Rs.20,000, the University had issued a total of Rs.10,029,529 as advances in 158 instances exceeding that limit without the approval of the Treasury.

(ii) Financial Regulation 371
(4)

Advances amounting to Rs.341,380 obtained in 20 instances had been returned after a long period of delay without utilizing for the purpose for which it was granted. Further, out of a sum of Rs.637,760 obtained in 03 instances, the balance of Rs.246,742 had been settled after delays from 5 to 29 days.

(iii) Financial Regulation
395(c)

Even though Bank Reconciliation Statements for each month should be prepared before the 15th of the following month, action had not been so taken.

3 Financial Review

3.1 Financial Result

According to the financial statements presented, the operating result of the University for the year ended 31 December 2014 had been a surplus of Rs. 358,891,350 as compared with the corresponding surplus of Rs.145,004,347 for the preceding year thus resulting in an improvement of Rs.213,887,003 in the financial result. The increase of students fees income by Rs. 322,913,073 and Government grants by Rs.120,283,000 and the decrease of depreciation by Rs.188,716,620 had mainly attributed to the favourable improvement of the financial result for the year under review as compared with the previous year.

4. Operating Review

4.1 Management Inefficiencies

The following matters were observed.

- (a) Twenty five per cent representing a sum of Rs.100,000 out of the assessed value of the Badulupitiya Land on which the Badulla Education Centre is being maintained by the University, had been paid to the Divisional Secretary, Badulla on 20 March 2013 to vest that land with the University. Nevertheless, that land had not been vested with the University up to 18 May 2015.
- (b) Even though the Open University had referred the land belonging to the Matara Regional Centre to the Valuation Department for assessment, the land had not been assessed even up to 30 April 2015 due to unavailability of the assistance of the University.
- (c) The previous audit reports stated that the value of revalued assets shown in the accounts was not accurate due to shortcomings occurred at the revaluation of assets in the year 2008 and action had been taken to revalue again with the assistance of the Valuation Department in the year 2012 to rectify relevant shortcomings. Nevertheless, the Register of Assets had not been updated by obtaining a final report up to 15 June 2015.
- (d) Instances where the accuracy of ledger accounts was not shown by the computerized accounting system of the University, were observed and in such cases, rectification had been done through manual entries. It was observed that there will be a possibility of creating a weak accounting system under such circumstances.

4.2 Operating Inefficiencies

The following matters were observed.

- (a) A building, 1,000 square feet in extent owned by the Open University had been rented out to the Postgraduate Institute of English for a monthly rental of Rs.15,000 without assessing the rent on the assessed value and without preparing accurate estimates in respect of expenditure on water, electricity, security and sanitary services.

(b) Even though assignments reviewed and marked by the lecturers should be given to students without delay, approximately 7,000 assignments had not been posted even by 11 February 2015 and had been piled up in the branch. The University had not paid attention on the necessity of handing over those assignments to students before conducting relevant examinations.

4.3 Idle and Underutilized Assets

Thirty five funds totalling Rs.21,741,786 had not been utilized from 01 to 07 years.

4.4 Uneconomic Transactions

The following observation is made.

Even though sums of Rs.149,666 and Rs.242,220 had been spent for the construction of a greenhouse for orchids and a main store in the years 2012 and 2013 respectively, action had not been taken to implement those projects even up to the year under review.

4.5 Lands not vested properly

Constructions costing Rs.500,159,570 had been made on lands, the legal ownership of which had not been vested with the University.

4.6 Personnel Administration

The approved cadre of the Open University had been 1,242 and 139 vacancies existed as at 31 December of the year under review.

5. Accountability and Good Governance

5.1 Action Plan

According to the Action Plan, 10 activities intended to carry out in the year 2014 had not been carried out and the progress on 06 activities had not been reported. Failure in fulfilling activities during the planned period had adversely attributed in fulfilling the intended objectives of the University.

5.2 Internal Audit

Even though the internal audit should contribute to improve and evaluate the risk management, good governance and control activities by using a regular and subject oriented approach, it was observed that the internal audit had not taken action to draw the attention of the top management of the University on working capital management, investment and compliance with the financial regulations and circular instructions.

5.3 Budgetary Control.

Significant variances were observed between the estimated income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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) Fixed Assets Control
- (b) Motor Vehicles Control
- (c) Contract Control
- (d) personnel Management
- (e) Funds Control
- (f) Cash and Bank Activities
- (g) Stores Control