

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of financial statements of the Open University of Sri Lanka for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 provisions of the Finance Act No 38 of 1971 and National Audit Act. No.19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Open University of Sri Lanka as at 31 December 2022, and of its financial performance and 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 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 determines 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's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends 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's financial reporting process.

As per Sub-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 or the override of internal control.
- Obtain an understanding of internal control 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 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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's 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 has performed according to its powers, functions and duties; and
- Whether the resources 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**

<b>Non Compliance with the reference to particular Standard</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.4,098,592 paid to the Electricity Board during the year under review for getting three-phase electricity connection for 02 buildings of the Open University was shown as an expenditure of the year without accounting under buildings in accordance with the section 22 of the Sri Lanka Public Sector Accounting Standard 07. As such, the value of buildings and the surplus of the year were understated by that amount.	The electricity lines network installed by the Electricity Board is not an asset of the University and is an asset of the Electricity Board. Therefore, the service charge paid for the electricity line network had been accounted for as a recurrent expenditure.	Sri Lanka Public Sector Accounting Standards should be followed.
(b) The basis of identifying the course fee income received in installments in relation to the year had not been disclosed in accordance with Section 39 of Sri Lanka Public Sector Accounting Standard 10. As such, out of the income received from the students enrolled for 18 courses in relation to the period from September 2022 to December 2022 a sum of Rs.70,057,777 had been accounted as income for the year under review and a sum of Rs.165,437,666 had been accounted as pre-received	The University collects the student fees annually from the registered students, and it is collected from the students in 02 installments. Since there is a difference between the academic year and the accounting year, the income related to the accounting year under review will be recognized	Sri Lanka Public Sector Accounting Standards should be followed.

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| <p>income, but correctness of it could not be ascertained.</p>  | <p>as student income in that year and the balance will be accounted as previously received income.</p>   |
| <p>(c) In accordance with Sri Lanka Public Sector Accounting Standard 11, in the presentation of the financial statements, journal entries and ledgers entries had not been made for transfer of total sum of Rs.1,040,990,492 to the Accumulated Capital Fund including the capital grants spent balance of Rs.392,547,770, the unspent capital grants balance of Rs.24,789,318 and the donations and other grants balance of Rs.623,653,404 and a sum of Rs.262,678,203 transfer to the Accumulated Capital Fund and Rs.267,960,710 transfer to the Accumulated Recurrent Fund to the General Reserve as of 31 December 2021.</p> | <p>No reply was made. Sri Lanka Public Sector Accounting Standards should be followed.</p>   |
| <p>(d) Fully depreciated library books and journals costed for Rs.208,381,961 and library books and journals net value was Rs.44,264,590 as on 31 December 2022 in 08 regional and academic centers and Nawala main library had been revalued for Rs.325,093,568 as on 31 December 2022 contrary to the paragraphs 42 and 43 of Sri Lanka Public Sector Accounting Standard 07 and a sum of Rs.280,829,078 had been accounted as the revaluation surplus.</p>   | <p>The University conducts board of survey on library books in every 05 years and accordingly, adjustments will be made to the accounts. Paragraph 42 and 43 of the Lanka Public Sector Accounting Standard 07 should be followed.</p> |

### 1.5.3 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) A sum of Rs.18,119,516 received for improvements of buildings and procurement of fixed assets and a sum of Rs.137,265,314 for recurrent expenditure from the Higher Education Access Enhancement Project (AHEAD) to the Open University of Sri Lanka during the period from the year 2018 to year 2022 had omitted from the accounts.</p>	<p>Capital grants have been accounted for this year in the same way that they have been accounted for over the past several years.</p>	<p>Assets received from the project and related expenses should be accounted for.</p>

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| (b) | The receivable student income relating to the year under review had not been accurately identified and the difference of Rs. 760,779,170 between the balance of the student income control account and the balance of the unrecognized student income account was accounted as receivable student income and even no age analysis was submitted.  | Due to difficulties in the OMIS computer system, unable to get an accurate age analysis related to student income. It is expected to correct those deficiencies from the new computer system in the future.   | Student income should be accurately identified and accounted for.                          |
| (c) | Due to make erroneous journal entries in correcting of excess depreciation accounting amounted to Rs.22,972,539 in the revised financial statements during the year under review, the balances in the Depreciation and Provision for Depreciation ledger accounts were overstated by Rs.45,914,112.   | Accepted that there had an error in the depreciation calculations estimates.  | Depreciation should be accurately accounted for.   |
| (d) | Entries were made to depreciation, provision for depreciation and assets accounts through the computerized accounting system without preparing source documents like payment vouchers, receipts and journal vouchers. Accordingly, an amount of Rs.277,275,406 had been removed from the depreciation and provision for depreciation accounts by using journal entries to correct the incorrect entries made through such entries at the end of the year. | It was observed that the asset register in the OMIS system was not updated correctly for several years and could not be corrected later due to limitations in the system. As such, the depreciation calculations are not done correctly by the computer system. Accordingly, the depreciation calculations provided by the computer system were removed by journal entries and the correctly calculated annual depreciation value was entered into the computer system through journal entries. | The deficiencies in the computerized accounting system should be rectified.                |
| (e) | Intangible assets costing for Rs.5,408,784 as on 31 December 2022 were not amortized from the date of procurement till the year under review.   | Since the lifetime of E-books and software amounting to Rs.5,340,344 cannot be predicted, action had been taken to disclose those assets as intangible assets with indefinite lifetime.   | Action should be taken to recognize the useful lifetime of intangible assets and amortize. |

- (f) According to the financial statements of the Open University of Sri Lanka, the total payable balance to the Government Printing Department and the Post Graduate Institute of English Language was Rs.2,021,113, but according to the financial statements of those institutions, the balance was Rs.4,013,523 and as such, there was a difference of Rs.1,992,410.
- Based on the printing orders issued to the Government Printing Department, the balance due was accounted for. Further, that the portion of Rs.33,002 incurred for 05 Zoom Business Accounts related to the accounting year 2022 had been accounted as an amount payable to the Post Graduate Institute of English Language.
- The balance confirmations obtained from the external parties should be compared with internal documents and only accurate figures should be accounted for.
- (g) According to the financial statements of the university as on 31 December 2022, the course materials stock costed for Rs.47,666,626 in 25 regional centers and the drawing equipment unit was not physically checked, as such, the existence and correctness of the values of the stock could not be verified.
- The course materials stocks of the regional centers of the University will be physically checked and counted by the committees consisted of the Assistant Directors of the regional centers. Accordingly, it cannot be accepted that the course materials stocks were not physically checked.
- Inventories of all units and centers of the University should be verified and balances should be adjusted with financial statements.
- (h) The total accrued expenses amounting to Rs.30,282,945 as on 31 December of the previous year had been deducted from the expenses of the year under review and, accordingly, the expenses of the year were understated by that amount. As such, the surplus of the year was overstated by that amount in the financial statements.
- In making payments for accrued expenses related to the year 2021, the related expense account has been debited instead of being debited the accrued expenses account and in order to correct it, action had been taken to deduct the related expenses account in the year 2022. Accordingly, it is unacceptable that the expenditure of the year under review has been understated.
- While making payments for accrued expenses, deduction should be made from the relevant accrued expenses account.

**1.6 Non – Compliance with Laws, Rules , Regulations and Management Decisions etc.**

<b>Reference to the laws, rules and regulations</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(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	Damaged and expired course materials from the year 2018 to the year 2022 total valued for Rs.31,072,291 had been written off from the books with the approval of the university governing council without obtaining the approval of the Treasury.	The financial regulations should be followed.
(ii) Financial Regulation 113 (3) (b)	According to the policy of the institution, a sum of Rs.10,516,756 due from students whose registration has not been renewed for more than 5 years had been written off in the year under review without the approval of the Treasury. As such, the student income of Rs.392,551,000 had been written off from the year 2014 to 2021.	Printed books may be disposed due to the reasons such as students leaving from the courses and amendments in syllabuses etc. between the academic years. This is a common situation in a university which offers online education. Accordingly, on the approval of the Governing Council, the said course materials have been accounted for as an expense for the relevant year. The computer system of the University maintains the data of all students who have registered for any course in the University. That a student's information will not be removed from the computer system in any case of dropout, discontinue or completion of the course.	The financial regulations should be followed.

- (b) Section 11(a) of the Finance Act No. 38 of 1971
- The University had invested a sum of Rs.1,516,407,982 as of 31 December 2022 in fixed deposits without obtaining the prior approval of the concerned Minister and the Minister of Finance.
- Short-term investments cannot be delayed until Treasury approval is received. As such, on the instructions of Treasury officials, request letters for treasury approval had been forwarded to the treasury at the same time on investment in fixed deposits.
- The provisions of the Finance Act No. 38 of 1971 should be followed.
- (c) National Budget Circular No. 03/2022 dated 26 April 2022 and letter No. BD/HRD/126/214/19/2023 dated 18 January 2023 of the Secretary to the Treasury
- (i) Although local funds should not be used to provide air tickets and other facilities for university staff members going overseas for academic activities and on sabbatical leave, a sum of Rs. 435,500 from local funds and Rs. 1,466,300 from the money received from breach of bonds and contracts were spent on air tickets and warm clothes from 26 April 2022 to 31 March 2023 for 04 lecturers and a spouse who had gone overseas on sabbatical leave.
- According to the National Budget Circular No. 03/2022 dated 26 April 2022, addressed to all government agencies, all approvals have been suspended by the University. Later, University Grants Commission Letter No. UGC/DA-F/Bond violation 2022 dated November 09 was allowed for suspended matters.
- The provisions of circulars should be followed.
- (ii) Although the money collected from bonds and contracts violations should be credited to the government revenue immediately and it should not be used for any other purposes, a sum of Rs. 19,007,654 received in the year under review had been taken as income of the university and a sum of Rs. 133,497,387 received in the previous years had been invested in fixed deposits.
- That the University has followed the provisions mentioned in the University Grants Commission Circular 737.
- The provisions of the Treasury circulars should be followed.



- (d) Section 7.6 of Chapter V of Establishment Code for University Grants Commission and Higher Education Institutions. The university was unable to recover a sum of Rs. 58,298,333 to be recovered from 31 officials who breached of bond agreements between the year 1989 and year 2022 even till 31 December 2022. Legal action had been taken against 06 officers. Also, 12 officers whose address cannot be found, 07 officers who are recovering in installments basis, the officers breached their bonds for more than ten years and other officers are being processed according to the decisions made in the leave committee held on 07 October 2021. Prompt action should be taken to recover the amount due to the government from the breached of bonds and agreements by the officials and credit to the university fund.
- (e) Treasury Circular No. 842 dated 19 December 1978. A fixed asset register was not prepared in respect of property, plant and equipment costing for Rs. 14,415,469,928 and intangible assets costing for Rs. 12,744,012 as on 31 December 2022. Details of annual additions to fixed assets of the University and their values are submitting to the audit in every year by way of notes to the financial statements. The Circular should be followed.
- (f) Section 5.4.11 of the Government Procurement Guidelines. Although the value added tax should be paid to the supplier after receiving the VAT invoice, VAT amounting to Rs.10,088,143 was retained from the year 2018 to the end of the year under review without receipt of VAT invoices. The VAT clearance certificates had not been submitted to us by the relevant suppliers in relation to the retained VAT amount of Rs.10,088,143. As such, the amount has been retained until the relevant certificates are submitted. Government procurement guidelines should be followed.
- (g) Section 2.3 of Operational Manual of Public Enterprises Circular No. 01/2021 dated 16 November. The action plan for the year 2022 including the activity schedule of the courses and the activities of all the departments of the university was not prepared. The progress of the action plans for the years 2020, 2021 and The relevant action plan for administrative departments had been updated from the year 2023 onwards and action is being taken to include in the university action plan. The performance of the Open University should be achieved by preparing the action plan and reviewing the progress with the activities of all sectors that contribute

2021	2022 was not prepared to check its performance level.	to the achievement of the overall objectives of the University.
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(h) University Grants Commission Circular No. 636 dated 14 July 1995	According to the data submitted to the audit, after 03 months of conducting 18 examinations, from minimum of 54 days to maximum of 299 days were taken to release the results and the data on conducting the examinations of 88 groups was not submitted to the audit.	No reply was made. Circular should be followed.
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## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a surplus of Rs.617,359,771 as compared with the corresponding surplus of Rs 33,622,146 in the preceding year, thus indicating an improvement of Rs.583,737,625 in the financial result. Increase in the government capital and recurrent grants, course income and sale of applications income had mainly attributed to this improvement.

### 2.2 Ratio Analysis

The surplus before adjustment of capital grants in the year under review was Rs.542,960,584 and the total income was Rs.4,516,515,077, as such, the profitability ratio was 12 percent. The previous year the profitability ratio was 02 percent. Current ratio and quick ratio in the year under review and the previous year were 2:1 and 1:1 respectively.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the Cabinet approval was granted on 19 July 2021 for the transfer of the ownership of 17 lands of 8.2965 hectares to the Open University on special offer sheet by charging a nominal fee in accordance with Section 6(1) of the Government Land Ordinance Act., the acquisition of those lands had not been completed even by 08 May 2023, the date of audit. Further, Action had not been taken to take over the	The required recommendations to take over the ownership of the 11 plots of lands to the University will be submitted to the Land Commissioner General Department through the Provincial Land Commissioner through the recommendation report of the respective Divisional	Transfer of ownership should be done efficiently.

ownership of 05 lands of 2.4506 hectares enjoying by the Open University. secretaries and the necessary activities are being taken presently.

- (b) 41 academic staff and 252 non-academic staff had been recruited on contract basis on the approval of the Governing Council of the University without obtaining the approval of the Management Services Department and a sum of Rs.100,314,372 had been paid as allowances during the year under review. Further, 21 academic staff had also been recruited on temporary basis and allowances had been paid. In order to maintain the administrative activities of this university as usual, employees had been recruited on contract basis for all the faculties, departments and other departments and for other positions with the approval of the Governing Council from the funds earned by the university. That temporary lecturers have been recruited to maintain the academic activities of the departments in a systematic manner using the money allocated against permanent cadre vacancies in the approved cadre. The approval of the Department of Management Services should be obtained for the required academic and non-academic cadre.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The maintenance companies had not been able to resolve the deficiencies in the management information system (OMIS) which had been established as modules of the activities of 05 departments of the university at a cost of Rs.58 million. Therefore, even though Rs.45,757,992 was spent to establish a new internal management information system (new OMIS) from the year 2018, the management was unable to establish the new management information system even by the end of the year under review.	Although action had been taken to create a new computer system since the year 2018, the computer system had not been created to account as a computer system and so far, only the activities of gathering the information required for the creation of the computer system had been done.	A management information system should be installed for the university and maintained efficiently and effectively without delay.
(b) 226 academic programs under 06 faculties of the Open University were supposed to be started from the year 2018 to 2022, but 90 academic programs were not started. The delay in the activities of commencing, completing, conducting examinations and issuing results of 136 courses implemented by	No reply was made.	According to the overall Activity Schedule the progress should be reviewed and the performance should be achieved.

06 Faculties was an average of 11 months during this period.

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| (c) | 100 instances were observed during the audit that a minimum of 2 months to a maximum of more than 20 months were taken from the date of calling of applications to the completion of the registration process for 62 main courses conducted by the Sri Lanka Open University in a period of 05 years from the year 2018 to the year 2022. Out of these 100 cases, only 30 cases belonged to the period of Covid-19 epidemic in the country. | No reply was made. | After calling for applications for the courses, registration should be done without delay and arrangements should be made to start the courses promptly. |
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### 3.3 Unauthorized Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Government funds amounting to Rs.42,192,534 had been paid to the Sri Lanka Insurance Corporation for the employee insurance loan scheme implemented by the Open University without the approval of the Treasury from the year 2013 to the year 2019. A total amount of Rs.57,037,256 including Government funds of Rs.30,000,000 and employee contributions of Rs.27,789,813 were used to pay whole amount of employee insurance applications from the year 2020 to the year 2022 on the recommendations of an internally appointed committee through an insurance payable account established in the university.	The University Medical Insurance Scheme was maintained through the Sri Lanka Insurance Corporation in 2013 with the approval of the Governing Council. But because there were some shortcomings, the Open University Medical Welfare Scheme was started from the year 2020 with the approval of the Governing Council, considering a report prepared by studying insurance schemes and other such medical welfare schemes existing in other universities by the Vice Chancellor.	Action should be taken to obtain formal approval for the insurance scheme.

### 3.4 Delays in Projects and Capital works

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Raw materials worth of Rs.11,272,916 were procured in the months of August, September and November 2022 for the renovation works of the roof and the thermodynamic lab of Ratnapura Regional Center on a direct labor basis, but these renovations had not been started even by 15 May 2023.	The renovation of the roof of the Ratnapura Regional Center was planned to be carried out with the direct labour contribution of the Sri Lanka Army and the necessary raw materials were procured in the year 2022. Action had been taken to start those works from the first week of June 2023.	Projects and capital works should be started without delay and efforts should be made to achieve the objectives while avoiding underutilization of funds.