

## **Open University of Sri Lanka - 2023**

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### **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 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 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 sum of Rs.4,098,592 paid to the Electricity Board in the year 2022 for getting three-phase electricity connection to 02 buildings of the University has been erroneously accounted as a recurrent expenditure in that year contrary to the paragraph 22 of Public Sector Accounting Standard 7. But the error was not retrospectively rectified during the year under review.	The electricity lines network installed by the Electricity Board is an asset of the Electricity Board. As such, 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.

### **1.5.3 Accounting Deficiencies**

The following observations are made.

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	A sum of Rs.241,336,414 received from the Accelerating Higher Education Expansion and Development Project (AHEAD) for the procurement of buildings and equipment and for the payment of salaries, allowances and other expenses during the period from the year 2018 to the year 2023 had not been accounted.	That all expenses including postgraduate programs, salaries and allowances, building and laboratory expenses are accounted for in the accounts of the AHEAD project.	All the income and expenses of the University should be included in the financial statements.
(b)	The receivable student income in relation to the year under review had not been correctly identifying and the difference of Rs.801,136,623 between the balance of the student income control account and the balance of the unrecognized student income account was accounted	Due to difficulties in the OMIS computer system, it was not possible to obtain an accurate age analysis in relation to student income. Those deficiencies will be	Receivable student income should be accurately identified and accounted for and age analysis should be submitted.

- as receivable student income. Further, even no age analysis had been submitted.
- (c) Intangible assets costed for Rs.13,382,583 as at 31 December 2023 had not been amortized from the date of the procurement till the year under review.
- (d) The value of the stock of course materials as at the last day of the year under review had been over accounted by Rs.123,405,203. As such, the surplus of the year and the current assets in the statement of financial position were overstated by that amount.
- (e) Stationery and computer equipment costed for Rs. 5,976,835 received to the stores in December of the year under review, had not been accounted for.
- (f) Accrued expenses related to the previous year amounting to Rs.27,962,527 had been deducted from the expenses of the year under review, and the accrued expenses related to the year 2021 amounting to Rs.30,282,945 had been deducted from the expenses of the year 2022. But no related written evidence was submitted to the audit and no age analysis was submitted for the accrued expenses balance of Rs.191,982,135 as on 31 December of the year under review.
- (g) As the total amount of Rs.14,023,270 being accounted as Value Added Tax (VAT) expenses to be paid to contractors and suppliers who had not submitted Value Added Tax (VAT) invoices From
- rectified by the new computer system in the future.
- Since the lifetime of E-books and software cannot be predicted, action had been taken to disclose those assets as intangible assets with indefinite lifetime.
- Stock of course material was valued at cost by the Board of survey committee and that the cost has been accounted for.
- Although a stock of stationery and computer accessories was received to the stores at the end of December 2023, the related invoices were received in the year 2024, as such, they had to be inventoried in the year 2024.
- That in paying for the accrued expenses related to the year 2022, instead of debiting the expense to the accrued expenses account, the related expenses account was deducted from the related expenses account in the year 2023 to correct it.
- That the University has taken action to retain VAT from suppliers who have not submitted a valid VAT clearance
- A reasonable estimate of the useful lifetime of intangible assets should be made and amortization should be done.
- Closing stock value should be accurately identified and accounted for.
- Expenses related to the year should be correctly identified and accounted for.
- Written evidence and age analysis should be submitted for the audit.
- VAT should not be paid to the suppliers who do not submit VAT invoices at the time

- the year 2018 to the year 2023, the amount of tax payable was overstated by that amount.
- (h) The existing internal road system of the Open University, situated in a 34 acre had not been valued and accounted for.
- (i) An amount of Rs.175,405,241 received to the University from Curriculum Development on Europe Sri Lanka Capacity Building in Energy Circular Economy from December 2019 to June 2023 and the expenses incurred were not accounted for.
- certificate until such clearance certificate was submitted.
- The revaluation of land and building was carried out by the Government Valuation Department and assumed that the valuation has been done taking into account Of the existing internal road system of the University.
- of the relevant transaction.
- Land and building values should be separated in the financial statements by ascertaining whether the internal road system is included in the land and building value.
- As the ERASMUS+CBHE project is a separate project that operates outside of the accounts of the university, no requirement to disclose the bank account balance of the project in the financial statements of the university.
- All the income and expenses of the University should be disclosed in the financial statements.

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

The following observations are made.

	<b>Reference to the laws, rules and regulations</b>	<b>Non- compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Sections 11(a), 9(2)(e) and 10(5)(1) of the Finance Act No. 38 of 1971	The university had invested a sum of Rs. 2,238,763,138 in fixed deposits as on 31 December 2023 without obtaining the approval of the concerned Minister and the Minister in charge of Finance.	As short-term investments cannot be delayed until Treasury approval is received, letters have been sent requesting Treasury approval at the same time in investing in fixed deposits.	Provisions of the Finance Act should be followed.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			

<p>i) Financial Regulations 102, 103, 104, and Public Finance Circular No. 01/2020 dated 28 August 2020, Public Enterprises Circular No. PED/01/2021 (i) dated 16 May 2023</p>	<p>Damaged and expired course materials from the year 2018 to the year 2023 total valued for Rs. 39,122,656 had been written off from the books with the approval of the university governing council without obtaining the approval of the Treasury.</p>	<p>The University prints academic publications based on the number of students enrolled annually. Printed books have to be disposed in certain time due to the reasons such as students leaving from the courses and amendments in syllabuses etc. between the academic years.</p>	<p>Financial regulations and circular provisions should be complied with and expenses should be incurred in printing academic publications so as to minimize losses.</p>
<p>(ii) Financial Regulations 570, 571 and 572</p>	<p>Expired retentions, bid securities and performance securities total valued for Rs.55,295,904 had not been settled. Further a sum of Rs.1, 204,594 received for the work of the printing press from the year 2013 to the year 2021 had not been settled.</p>	<p>That the necessary actions will be taken to release the bid security as soon as possible and since the related work of the press has been completed, the income will be distributed this year and the accounts will be settled as soon as possible.</p>	<p>Financial Regulations should be followed.</p>
<p>(iii) Financial Regulation 756</p>	<p>Verification of Library book stock worth of Rs.332,601,124 and course materials, drawing equipment and other stocks of 27 regional centers costing for Rs.85,538,631 had not been done.</p>	<p>That verification has been conducted in the year 2019.</p>	<p>Circular provisions should be followed.</p>
<p>(c) 2.7.5 of the Procurement Guidelines and Supplement 35 dated 25 March 2020</p>	<p>In order to avoid deviation of departmental procurement (minor) limit, 03 building renovation procurement works total amounting to Rs.182,544,563 had been divided into 2 phases and 3 phases and started and procured within the same period of the year 2023.</p>	<p>No reply was made.</p>	<p>Procurement guidelines should be followed</p>
<p>(d) Section 3.1 of Public Finance</p>	<p>A credit card with a maximum limit of Rs.500,000</p>	<p>That the letters have already been submitted</p>	<p>The Circular provisions should</p>

	Circular No. 02/2013 dated 31 January 2013	has been obtained and started transactions from the year 2021 without the approval of the Treasury.	for Treasury approval.	be followed.
(e)	Treasury Circular No. 842 dated 19 December 1978	A fixed asset register was not prepared in respect of property, plant and equipment costed for Rs. 2,043,340,394 and intangible assets costed for Rs. 18,780,970 as at 31 December 2023.	That the relevant officials have been instructed to correct the fixed assets module of the OMIS computer system.	The Circular provisions should be followed.
(f)	University Grants Commission Circular No. 15/2018 dated 26 November 2018	An insurance scheme had been established in the university by using Rs.44,000,000 and Rs.39,872,693 from government funds and employee contribution respectively from the year 2020 to 2023 without the approval of the Treasury. Further, an amount of Rs.82,511,730 had been paid for employee insurance applications on the recommendations of an internally appointed committee through an insurance account payable to the scheme.	That on the instructions received from the University Grants Commission that an insurance scheme can be maintained in the Open University with the income generated and an employee contribution in accordance with the University Act and the Commission Circular No. 718 an insurance scheme is maintained.	Action should be taken to obtain the Treasury approval for the insurance scheme.
(g)	Section 7.6 of Chapter V Establishment code for University Grants Commission and for Institutions of Higher Education	A sum of Rs.177,019,582 due from 39 officials who breached bond agreements between the year 1989 and year 2023 had not been recovered till 31 December 2023.	Legal actions have been taken against 06 officers. Also, further action are being taken on 12 officers whose addresses cannot be found, 07 officers who are paying in installments and, who have breached their bonds for more than ten years.	Actions should be taken to recover the money owed to the government due to breach of bonds promptly.
(h)	Paragraph 05 of Secretary to the Treasury letter No. BD/HRD/126/214	An amount of Rs. 26,187,720 collected in the year under review due to breach of bonds and agreements had not been	That the University has acted in accordance with the provisions mentioned in the University Grants	Circular provisions should be followed.

	/19/2023 dated 18 January 2023	remitted to the Treasury.	Commission Circular 737.	
(i)	Section 3.1 of Chapter XX of the Code of Establishment for University Grants Commission and Higher Education Institutions and University Grants Commission Circular No. 10/2017 dated 10 July 2017	An amount of Rs. 1,734,782,688 had been paid as salary and allowances for the year under review to 347 academic staff officers without verification of attendance and departure.	Although the provisions were made in the Establishment Code and the Public Administration Circular, the academic staff does not record the attendance and departure.	Provisions in the Circulars and Establishment code should be followed.
(j)	Department of External Resources Circular No. SC & PMU/Grant/20 dated 14 August 2020	The Open University had directly obtained 05 foreign grants of Rs.25,719,472 for research and foreign grants of Rs.193,888,967 for development projects from individuals and institutions during the period from the year 2018 to year 2022, without knowledge and consent of the department.	That the university has acted only as an intermediary institution in the exchange of funds between the lecturers and foreign entities. Hence, those were not applicable to the scope of the said circular.	Circular provisions should be followed.
(k)	Paragraph 04 (III) of Management Services Circular No. 02/2014 dated 24 August 2020	Research allowances were paid to 113 and 281 officers of the Research Department and Faculty of Humanities and Social Sciences in the University's respectively, during the period 2018-2022, based on the submission of the final research report without consulting the appropriate Research Monitoring Committee and obtaining the agreement of the said committee.	No reply was made.	Circular provisions should be followed.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 753,979,584 as compared with the corresponding surplus of Rs 617,359,771 in the preceding year, thus indicating an



improvement of Rs. 136,619,813 in the financial result. Increase in the government grants, students income and short term course income had mainly attributed to this improvement.

### 3. Operational Review

#### 3.1 Management Inefficiencies

The following observations are made.

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	129 academic staff and 269 non academic staff had been recruited on the approval of the Governing Council of the University without obtaining the approval of the Management Services Department and a sum of Rs.137,402,969 had been paid as allowances only in the year under review. Further, 21 academic staff had also been recruited on temporary basis and allowances had been paid.	As the temporary suspension of the recruitment of staff by the government, academic and non-academic staff has been recruited on a temporary basis to maintain the daily academic and administrative activities of the Open University without interruption.	The approval of the Department of Management Services should be obtained for the required academic and non-academic cadre.
(b)	The mobile laboratory bus, which was completed by 28 April 2023 at a cost of Rs. 5,234,000 under the provisions of the Accelerating Higher Education Expansion and Development Project (AHEAD), remained underutilized even at the end of the year under review.	That the bus has been used for various awareness programs/workshops since April 2023.	Resources should be used effectively.

#### 3.2 Operational Inefficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
	Due to the existence of deficiencies in the management information system (omis) which had been established in modules for the activities of 05 departments of the university at a cost of Rs.58 million, a new management information system (omis) at a cost of Rs.48,864,381 was established from the year 2018. But the management was unable to operate the new management information system even by the end of the year under review.	This New OMIS system has been updated and is being installed for receiving of online application and registration for short-term courses and its basic Quality Assurance and Testing activities have been completed.	The management information system should be installed promptly.