

1.1 **Qualified Opinion**

The audit of financial statements of the Ocean University of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 National Audit Act, No. 19 of 2018 and the Finance Act, No.38 of 1971. 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 Ocean University of Sri Lanka as at 31 December 2018, 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 Ocean 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 Ocean University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Ocean University's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Ocean 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 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 Ocean 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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ocean 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 Ocean University and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Ocean 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 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

The following observations are made.

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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(a) In terms of Paragraph 47 of the Sri Lanka Public Sector Accounting Standard 07, when the fair value of items of property, plant and equipment differs materially ,a further revaluation is necessary and in case of insignificant changes in fair value, it should be necessary to revalue only every three or five years. Nevertheless, action had not been taken accordingly in respect of property, plant and equipment owned by the University of which the net value amounted to Rs.526,278,876 as shown in the statement of	Necessary action is being taken for revaluation.	Action should be taken in terms of the Standard.

financial position as at 31 December of the year under review. Moreover, expenditure of recurrent nature amounting to Rs.792,674 incurred on repairs and maintenance of motor vehicles and expenditure on newspaper advertisements totalling Rs.578,640 had been capitalized contrary to paragraph 21 of the Standard.

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| <p>(b) Since useful life of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, four items of fixed assets costing Rs.47,875,010 were further in use despite being fully depreciated. However, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03. Two items of assets costing Rs. 1,076,476 included in the said assets had not been included in the schedule of assets presented with the financial statements.</p> | <p>It has been eliminated by journal entries.</p> | <p>Even though it had been fully depreciated, the assets used at present, should not be eliminated from books.</p> |
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1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Audit fees totalling Rs. 1,420,460 payable for the period from the year 2012 to 2018 had been included in the statement of financial performance as an expenditure of the year instead of indicating only the audit fees for the year under review in the statement of financial performance.</p>	<p>The value relating to the year 2018 could not be identified separately.</p>	<p>Audit fees relating to preceding years should be separately identified and adjusted under the prior year adjustments.</p>
<p>(b) Even though the depreciation for the year under review pertaining to 04 motor vehicles costing Rs.27,159,250 which were received as donations during the years 2015 and 2016 amounted to Rs.6,790,812, it had been brought to account as Rs.1,131,635. Thus, the depreciation of the year had been understated by Rs.5,659,177 in the financial statements. Further, depreciation for the period from when those vehicles are available for use up to the</p>	<p>The assets have been depreciated from the date of inclusion in the final accounts.</p>	<p>In terms of the Sri Lanka Public Sector Accounting Standard 07, assets should be depreciated from when it is available for use.</p>

year 2017 had not been brought to accounts, thus the accumulated depreciation had been understated by Rs. 10,622,562.

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| (c) | Even though a sum of Rs.1,092,250 had been allocated for the purchase of Cloaks under accrued expenditure in the preceding year, when making payments thereof in the year under review, it had been debited to the Furniture and Fittings Account instead of being debited to the relevant accrued expenditure account. | Action will be taken to rectify it. | It should be brought to account accurately. |
| (d) | Even though the value of work done pertaining to the constructions of buildings of the Panadura College amounted to Rs.7,627,445 as at 31 December of the year under review, only the net value of Rs5,945,365 paid to the contractor had been debited to the Work-in-progress Account. As such, balances in the Work-in-progress Account and Advance Account had been understated and overstated respectively by Rs.1,682,080. | Action will be taken to rectify it. | Accurate accounting methods should be adopted. |
| (e) | A sum of Rs.5,700,000 paid to the Provincial Engineer's Office on 31 December 2018 for the renovation of buildings of the Trincomalee College, had been debited to the Buildings Account instead of Advance Account. | Action will be taken to rectify it. | Accurate accounting methods should be adopted. |
| (f) | Outstanding course fees totalling Rs.225,000 pertaining to preceding years and received during the year under review had been credited to the Course Fees Revenue Account of the year instead of being credited to the outstanding course fees revenue. | Necessary internal methodologies will be formulated. | Accurate accounting methods should be adopted. |
| (g) | Rentals amounting to Rs.319,777 overpaid in the preceding year had been received again by cash in the year under review and it had been credited to the Lease Rent Account of the year under review instead of being credited to the Prior Year Adjustment Account. | Action will be taken to rectify it. | Accurate accounting methods should be adopted. |
| (h) | In the settlement of Rs.3.938,566 payable for two constructions relating to preceding years and which was not brought to account as accrued expenditure, it had been debited to the | Action will be taken to rectify it after receiving the relevant information. | Accurate accounting methods should be adopted. |

Shortfalls and Excesses Account instead of relevant Assets Account, in rectifying the error occurred due to debit of Accrued Expenditure Account through a journal entry in the year under review.

- (i) When rectifying the overprovision of Rs.1,787,547 made under accrued expenditure on the constructions of Negombo College through a journal entry in the year under review, it had been credited to the Shortfalls and Excesses Account instead of being credited to the relevant assets account .
- Action will be taken to rectify it. Accurate accounting methods should be adopted.

1.5.4 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per Corresponding Records	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Course fees receivable	15,092,123	33,725,250	18,633,127	Outstanding course fee revenue was being identified at college level.	Course fee revenue should be accurately identified and brought to account.

1.5.5 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not made available	Comment of the Management	Recommendation
	Rs.			
Fixed assets and accrued expenditure	773,033,994	Detailed schedules, Register of Fixed Assets and Age Analysis.	A proper Register of Fixed Assets was being prepared.	Schedules should be prepared to identify the items of assets separately.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Action had not been taken to recover hostel fees totalling Rs.2,892,804 receivable over a period ranging from 3 to 5 years, course fees amounting to Rs.15,092,123 receivable and a sum of Rs.840,000 deposited in respect of Perera Hostel in Mattakuliya of which the lease agreement was cancelled on 01 March 2015.	Replies had not been made.	Action should be taken without delay to recover the revenue receivable to the University.
(b) An unsettled balance of Rs.3,742,168 brought forward under Advances since prior to the year 2012 under the accounts receivable, a balance of Rs.1,329,343 receivable pertaining to the period 2002-2014 from National Aquatic Resources Research and Development Agency (NARA) as at the end of the year under review and salaries and advances of travelling expenses totalling Rs.131,500 granted in the year 2012 had not been settled even by the end of the year under review.	Action will be taken to identify and settle the relevant balances.	Action should be taken without delay to recover the balance receivable.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
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Action had not been taken to identify and settle the balances payable totalling Rs.30,353,021 brought forward since prior to the year under review.	Replies had not been made.	Action should be taken to identify and settle the payables.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.5,016,544 as against the surplus of Rs.21,768,782 in the preceding year, thus indicating a deterioration of Rs.26,785,326 in the financial result. Even though the Government grants had increased by Rs.61,887,000, increase in the expenditure on salaries and wages by Rs.59,136,658 and contractual services by Rs.26,600,220 and the decrease in sundry revenue by Rs.6,200,044 had mainly attributed to the said deterioration.

2.2 Trend Analysis of major Income and Expenditure items

- (a) The reason for increase in expenditure on lease rent by Rs.16,511,828 or 210 per cent, expenditure on security services by Rs.4,533,494 or 47.5 per cent and the increase in expenditure on cleaning services by Rs.1,732,620 or 28 per cent had been the new administration and academic building obtained on rent basis.
- (b) The expenditure on salaries and wages and other allowances had increased by 37 per cent or Rs.59,136,658. The reason therefor had been the application of salary codes of the University Grants Commission to the entire staff of the Ocean University.
- (c) Decrease in the course fee revenue of Fishing Vessel Sxiper by 71 per cent or Rs.10,353,127 had affected the decrease in other revenue by 35 per cent or Rs.6,200,044.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) The National Institute of Fisheries and Maritime Training which should be established in accordance with Section 5.1(h) of the Ocean University of Sri Lanka Act, No. 31 of 2014, had not been established even by the end of the year under review. Nevertheless, 12 persons of the approved cadre had been recruited to this sector and salaries totalling Rs.7,858,254 had been paid to them for the year under review. Thirteen units of equipment relating thereto existed in regional Colleges.	Replies had not been made.	Action should be taken to establish the relevant institutions in terms of the Act for the productivity of institution.
(b) Even though the University shall subject to Section 5.1(j) of the Ocean University of Sri Lanka Act, No. 31 of 2014, have the power to charge fees for the courses of study and training programmes conducted by the University, no fees had been charged for the courses and training programmes conducted since the year 2017. The revenue billed for the year 2016 for which the last fee was charged, had been Rs.19.8 million.	Action will be taken to charge the course fees in due course.	Since the fees could be charged in terms of the Act, action should be taken to do so.

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| (c) | Appointment of Chancellor and Dean of each Faculty had not been made in terms of Section 10(3) of the Ocean University of Sri Lanka Act, No. 31 of 2014 while the Admission, Accreditation and Quality Assurance Council, Academic Council, Faculty Boards and such other bodies had not been established in terms of Section 18 of the Act even by the end of the year under review. | Action will be taken in due course to fill the relevant vacancies and to establish the relevant councils. | Action should be taken to fill the said vacancies and to establish the councils for the going concern and the proper management of the institution. |
| (d) | A comparison between the approved cadre and actual cadre as at the end of the year under review revealed 147 vacancies and 19 persons had been recruited on contract basis. Further, service of 77 visiting lecturers/ instructors had been obtained due to the vacancies in the academic staff during the year under review and payments amounting to Rs.5,129,825 had been made in this connection. | Action will be taken in due course to recruit and absorb the staff. | Action should be taken to recruit the staff required for the institution. |

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) The University had conducted 106 various courses/programmes for the year under review and the number of participants therein had been 2376. Out of these programmes, 72 programmes were short term or mobile programmes in which 1724 persons ranging from 7 to 25 had participated. Out of the long term degree, diploma and certificate courses conducted by the institution, the number of courses in which 652 students ranging from 7 to 50 were participated, had been only 37.	Replies have not been made.	Special attention of the University is needed in respect of conducting long term courses.
(b) The University had spent the sums amounting to Rs.104,696,296 and Rs.226,204,042 as expenditure on cadre and other recurrent expenditure respectively in view of performing the functions stated in (a) above during the year under review.	Replies have not been made.	Attention of the University staff is needed in respect of conducting long term courses.

3.3 Delays in Projects or Capital Work

Audit Observation -----	Comments of the Management -----	Recommendation -----
The estimated value of Rs.5,700,000 presented by the Department of Buildings in Trincomalee pertaining to the renovation work of stores and workshop buildings of the Trincomalee College, had been paid to the said Department on 28 December 2018. Nevertheless, the relevant Agreements had been entered into only on 14 January 2019. Even though the respective work should have been completed by 14 July 2019 in accordance with the said agreement, its physical progress was only 45 per cent as at 30 June 2019, the date of audit.	Replies have not been made.	Follow up action should be taken in respect of carrying out the work for which the advances are given, within the due period.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation -----	Comments of the Management -----	Recommendation -----
In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year under review had been presented only on 11 July 2019.	Replies have not been made.	Financial statements should be presented in compliance with the statutory provisions.

4.2 Sustainable Development Goals

Audit Observation -----	Comments of the Management -----	Recommendation -----
Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations while the Sustainable Development Act, No.19 dated 03 October 2017 was passed therefor and all Government institutions had been made aware through circulars. Even though all Government institutions should be aware	Replies have not been made.	Action should be taken in terms of the relevant circular.

of the manner in implementing the functions that come under its scope, the University had failed to identify the focal points to reach those targets and indices for measuring the achievement of targets.

4.3 Implementation of the Citizens' / Clients' Charter

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
The Citizens'/Clients' Charter introduced by Circular No. 05/2008 dated 06 February 2008 of the Ministry of Public Administration and Management which was amended by Circular No.05/2018(01) of 24 January 2018, had not been prepared and implemented.	Replies have not been made.	Action should be taken by the institution in terms of provisions in the circular .

4.4 Human Resource Development

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Human Resource Development Plan had not been prepared based on the format in Annexure 02 mentioned in the Public Administration Circular No.02/2018 of 24 January 2018 and action had not been taken accordingly.	Replies have not been made.	Action should be taken in terms of provisions in the circular.