

1.1 Qualified Opinion

The audit of financial statements of the Ocean University of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Section 51 (2) of the Sri Lanka Ocean University Act No. 31 of 2014 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 Ocean University of Sri Lanka as at 31 December 2019, 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 Sri Lanka Public Sector Accounting Standard 03, when correcting accounting errors done in previous years by the entities should be adjusted to effect to the prior years and disclosed in financial statement but had	Action will be taken to correct.	Should be act in terms of the Standard.

not been done for debit value of Rs. 18,294,286 and credit value of Rs. 1,081,250 accordingly.

- (b) 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, it should be necessary to revalue in 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.500,305,508 as shown in the statement of financial position as at 31 December of the year under review. Moreover, contrary to paragraph 21 of that Standard expenditure of recurrent nature amounting to Rs.1,301,495 incurred on repairs and maintenance of motor vehicles had been capitalized.
- Action will be taken to correct.
- Should be act in terms of the Standard.
- (c) 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, two items of fixed assets costed Rs.53,925,596 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.
- Revaluation is being done.
- Action should be taken in terms of the Standard.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.4,153,670 incurred on the renovation of buildings of the Trincomalee College had been debited to the advance Account instead of Buildings Account and the value of property, plant and equipment was under stated and the balance of the advance account was over stated from that amount at the end of the year under review.	Action will be taken to correct.	Expenditure incurred in the year should be accounted correctly.
(b) In the correcting of the error occurred by debiting the accrued expenditure account at the settlement of the amount payable for two constructions related to previous years which had not been accounted for as accrued expenses amounted to Rs. 3,764,056, the deficit and surplus account had been debited instead of debiting to the relevant asset account.	Action will be taken to correct	Accounts must be correctly identified and adjusted when making journal entries for error correction.

1.5.4 Lack of Documentary Evidence for Audit

The following information was not submitted.

Item	Amount Rs.	Evidence not made available	Comment of the Management	Recommendation
Advance Course fee	3,742,163	} Schedules	The manner in which the relevant balances have arisen is being identified.	Relevant schedules should be maintained for balances shown in financial statements.
Receivables	11,797,123			
Hostel fee receivables	215,404			
Balance payable	34,234,573			

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
The total value of long-term unresolved balances under six accounts receivable was Rs. 844,055.	No reply was made.	Action should be taken without delay to recover the balance receivable.

1.6.2 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sri Lanka Ocean University Act No. 31 of 2014 Section 10 (1) and 10 (3)	Although the Chancellor of the University and the Director of the “Admissions Accreditation and Quality Assurance Council” were to be appointed, the University had not appointed officers to those posts from its inception.	Action will be taken to appoint a Chancellor and an Acting Director has been appointed for the Accreditation and Quality Assurance Council.	Should act in accordance with the provisions of the Act
(b) Financial Regulation 206 and 565 (2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Due to having occasions that non-compliance of the provisions in the financial regulations on the refunding of deposits, the value of the deposit that could be further settled to a person / institution on	Action will be taken to maintain relevant registers since the year 2020.	Provisions in the Financial regulations should be followed.

a specific day could not be ascertained. Further, Also, deposit registers had not been maintained.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 51,749,516 as against the deficit of Rs. 5,016,544 in the preceding year, thus indicating a deterioration of Rs.46,732,972 in the financial result. Increase in the expenditure on personal emoluments had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) A new building of about 16,800 square feet had been obtained on a rental basis at monthly rent of Rs. 2.3 million for the purpose of use by the Administrative and Academic Staff of the University and for Classrooms and Libraries From December 2017. In addition to the monthly rent, a sum of Rs. 22 million had been spent on the interior designs of the building. However, it did not show any increase in the number of students being enrolled to the university or the number of degree courses being conducted.	Arrangements are being made to vacate the rental buildings by 2020.	Management should focus on achieving the purpose of obtaining the rental building.
(b) The Sea Training Vessel Maintenance Unit to be established under Section 5.1 (25) of the Ocean University Act No. 31 of 2014 had not	Approval had not been received to recruit the cadre.	Assets should be utilized at full capacity

been established till the end of the year under review. 13 vessels such as Inboard, Outboard and High Speed Boats received from 1994 to 2015 for use in this unit were remained idle and underutilized in the regional colleges.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Even though the number of registered students had increased from 87 under 04 degree courses in the year 2015 to 156 by the year 2016, there had not been a sufficient enough growth since then and by 2019 the number of students enrolled under 05 courses was only 207.	Efforts are being made to increase the number of courses to 6 by 2020.	Management needs to focus on increasing the number of courses and students.
(b) The number of students following courses under 12 Vocational Courses (NVQs) in the year 2015 was 466 and that was not increased sufficiently and the number of students registered under 14 such courses was 604 in the year under review. Accordingly, the management had not focused on enrolling more students for degree and vocational courses.	Action will be taken to make progress in the future.	Management needs to focus on increasing the number of courses and students.
(c) 107 programs were planned to be conducted with the participation of 1922 students under 23 degree, diploma and certificate (ISO, NVQ and Non NVQ) courses during the year under review. However, only 61 programs under 18 courses	No reply was made.	The performance of the faculties of the University should be improved.

were achieved during the year under review and the number of registered students was only 1339.

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| (d) | Faculty and College in Tangalle had conducted only 01 degree course since 2015 and there has been no increase in the enrollment of 40 students. The number of certificate courses conducted with the participation of 150 students in 2015 has been reduced from 08 to 04 courses with the participation of 79 students by the year 2019. In 2018, A one year duration diploma course had been introduced and its current number of students was around 20. But Recurrent expenditure in the year 2015 of Rs. 23,182,974 had increased by the year 2019 to Rs. 62,940,565. | No reply was made. | The performance of the faculties of the University should be improved. |
| (e) | According to a test check conducted during the audit, 03 lecture books pertaining to 20 subjects covering 674 hours in the degree courses of the Mattakkuliya Faculty were not submitted for audit and the lecture books submitted had not included information on 435 hours to be covered under 08 subjects. Also, according to the records kept in the lecture books, out of 1854 hours which should have been covered under 38 subjects only 1218 hours were recorded. Accordingly, the audit revealed that there were shortcomings such as lack of proper supervision on the Lecture Record Books introduced by the University to | Action is being taken to correct. | Relevant information systems should be maintained up to date. |

cover the course content and incomplete information.

- (f) In the test check conducted on the students who sat for the examinations, the students were eligible to appear for 1306 question papers for the first time in 36 subjects for which results have been issued from examinations conducted under degree courses in the Mattakkuliya faculty, but only 924 question papers were faced. Accordingly, it was observed during the audit that the university does not have a system to identify the number of students who are eligible to sit for the examinations under each course and the number of students who have appeared for the examinations under that course.
- Action will be taken to introduce bylaws.
- Relevant information systems should be maintained up to date.
- (g) The university had introduced a system of examining the answer scripts within two weeks and releasing the results after a week of evaluation, under the degree courses. According to the test check conducted on examinations held in May and June of the year under review in the Mattakkuliya Faculty, Students were eligible to appear for 3036 question papers under 85 subjects in 12 groups, but the results of only 924 answer scripts pertaining to 36 subjects in 09 groups had been issued as at 31 December of the year under review. The university had not followed a systematic mechanism to ensure that students appeared for the remaining question papers.
- Due to not having enough lecturers, have to hire outside lecturers.
- Should conform to the methodology introduced.

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| (h) | The Admissions Accreditation and Quality Assurance Council, which is empowered under Section 23 of the University Act to formulate criteria for course content, number of students to be recruited and matters of academic staff, has met only 03 times during the year from the inception of the University in 2015 to the year under review but only the absorption of university staff was discussed. | No reply was made. | Should act in accordance with the provisions of the Act. |
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3.3 Idle or underutilized Property, Plant and Equipment

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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An area of 11,778 square feet of the building complex owned by Ocean University was underutilized.	Action has been taken to utilize the building complex from 2020.	Assets should be utilized at maximum capacity.

3.4 Human Resource Development

Audit Observation	Comments of the Management	Recommendation
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(a) The approved cadre of Lecturers in the Higher Education Division where the degree courses are conducted was 31 and the actual cadre was 25, thus 06 vacancies were existed. However, service of 02 lecturers on contract basis and 67 external lecturers had been taken and a sum of Rs. 1,200,000 and Rs. 5,468,025 had been paid respectively as allowances.	10 lecturers have gone for foreign scholarships and the services of external lecturers have been taken to update the academic activities.	Approved cadre should be utilized at maximum capacity and the services of external lecturers should be minimized.
(b) The approved cadre of Instructors in the Vocational Education Division, which	This is due to the fact that the absorption process has not been completed	The permanent cadre should be recruited and the services of external

conducts vocational courses, was 74 and the actual cadre was 18 at the end of the year 2019. In addition to that, service of 25 consultants on contract basis and 79 external consultants had been taken and a sum of Rs. 9,976,285 and Rs. 5,735,245 had been paid respectively as allowances.

and the recruitment procedures have not been approved. lecturers should be minimized.

4. Accountability and Good Governance

4.1 Budgetary Control

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>According to Section 54 of the Sri Ocean University Act No. 31 of 2014, the annual budget estimates and annual budgeted financial statements for a particular financial year had not been prepared.</p>	<p>Budget will be prepared from the year 2020.</p>	<p>In terms of the provisions in the Act, budget estimates should be prepared.</p>