

## **Ocean University of Sri Lanka – 2015**

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The audit of Financial Statements of the Ocean University of Sri Lanka for the period ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 from 18 June 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the period then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 51(2) of the Ocean University of Sri Lanka Act, No.31 of 2014. My comments and observations which I consider should be published with the Annual Report of the University in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 -1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **1.4 Establishment of the University**

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In terms of Part I and Section 71 of Part XIII of the Ocean University of Sri Lanka Act, No.31 dated 07 September 2014, the National Institute of Fisheries and Nautical Engineering Act, No.36 of 1999 which was published in the Gazette had been rescinded by the relevant Minister with effect from 17 June 2015 and all movable and immovable properties and all liabilities as at that date had been transferred and instead, the Ocean University of Sri Lanka had been established with effect from 18 June 2015.

## **1.5 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Ocean University of Sri Lanka for the period ended 31 December 2015 from 18 June 2015 and its financial performance and cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard 07**

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Contrary to paragraph 21 of the Standard, expenditures amounting to Rs.1,811,948 incurred for repairs and maintenance of motor vehicles had been capitalized in the year under review.

#### **2.2.2 Accounting Policies**

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Fixed assets valued at Rs.605,130,502 had been purchased by using Government grants and capital grants received from other projects. Even though those assets are depreciated annually, a policy on accounting of those capital grants had not been identified by the University.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Expenditure on security charges and receivable income from hostels relating to the preceding year had been brought to account as expenditure and income of the year under review. As such, sums of Rs.2,397,041 and Rs.1,938,343 had been overstated respectively in accounts.

- (b) The payable Provident Fund Account in financial statements had been over computed by Rs.2,699,600 due to deficiencies indicated in accounting the Employees' Provident Fund and surcharges therefor amounting to Rs.4,049,400 paid in the year under review relating to years 2008 and 2009. Moreover, the Employees' Provident Fund Account, Provident Fund Surcharge Account and Accrued Expenditure Account had been under computed by Rs.1,500,600 Rs.1,349,800 and Rs.5,550,000 respectively.
- (c) The higher education course fees, which was outstanding since the academic year of 2009/2010, had been included in the income of the year under review. As such, the income received from courses had been overstated in accounts by Rs.13,421,998 in the statement of financial performance.
- (d) The recurrent expenditure of Rs.979,132 incurred from capital grants received in the preceding year under the Sectorial Skills Development Programme had been shown as a cash outflow in the cash flow statement in the year under review.
- (e) A sum of Rs.6,079,478 which was deducted from the profit of the preceding year had been added to the loss and shown as previous year adjustments in the cash flow statement of the year under review.
- (f) In transferring assets and liabilities of the Head Office and branches of the National Institute of Fisheries and Nautical Engineering to the Ocean University of Sri Lanka, action had not been taken to revalue and account the total assets and liabilities valued at Rs.491,740,679 and Rs.89,345,277 respectively.

#### **2.2.4 Suspense Accounts**

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Action had not been taken even by the end of the year under review to settle the unidentified balance of Rs.85,433 in the Suspense Account shown under current assets in the financial statements since the year 2011.

#### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) As students, from whom balances of course fees and hostel fees amounting to Rs.5,913,500 and Rs.798,671 respectively were recoverable as at 31 December 2015, had completed courses and obtained relevant certificates and left the University and as it had been decided to conduct all courses of the University without charging fees since the year 2017, it was observed that the total recovery of those balances was uncertain.
- (b) Course fees of Rs.9,843,123 recoverable for Degree and other courses from the year 2009/2010 to the year 2015/2016 had not been recovered from students.
- (c) Action had not been taken to recover Tsunami loan balances totalling Rs.191,464 recoverable from 06 officers, brought forward for a long period.

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

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) <b>Ocean University of Sri Lanka Act, No.31 of 07 September 2014</b> Sections 10(1), 13(1), 18, 24(1) and 28	In terms of referred Regulations, a Chancellor and Deans had not been appointed and action had not been taken to establish the Boards of Governance, Academic Council and Faculty Boards.
(b) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</b> Financial Regulation 394  Financial Regulation 835 (1),(2),(3)	Action in terms of Financial Regulations had not been taken even as at the end of the year under review in respect of 55 cancelled cheques valued at Rs.697,854 brought forward since the year 2012. (i) Deviating from the procurement process, 03 buildings had been obtained on lease basis at an annual lease rental of Rs.2,520,000 for students' hostels without obtaining a valuation from the Chief Valuer. (ii) A sum of Rs.1,650,000 had been paid to lessees as initial deposits for those 03 buildings without the approval of the Secretary to the Ministry concerned. (iii) Even though the Terms relating to payment of initial deposits should be embodied in agreements in consultation with the Attorney – General, action had not been so taken at the instance of leasing those buildings. Further, details on goods and fittings of those buildings had not been included in relevant lease agreements.

(c) **Establishments Code of the Democratic Socialist Republic of Sri Lanka.**

(i) Sections 4.4 and 5.6 of Chapter VII

(i) The overpaid increment had not been rectified even during the year under review due to failure in making promotions and salary revision of the officers in terms of Sections of the Establishments Code without a proper supervision.

(ii) Outstanding increment of Rs.151,941 had been paid to two officers who were on leave out of the island without confirming the accuracy.

(ii) Section 6.1 of Chapter VIII

Even though the overtime and holiday pay should be calculated on the basis of the monthly consolidated salary, a sum of Rs.2,896,680 had been paid as overtime and holiday pay during the year under review based as well on allowances paid with consolidated salary.

(d) Treasury Circular No.842 of 19 December 1978.

The Register of Fixed Assets had not been maintained in an updated manner in respect of fixed assets to the net value of Rs.351,346,080.

(c) Treasury Circular No. IAI/2002/02 of 28 November 2002.

A Register of Fixed Assets in respect of Computers, Accessories and Software costing Rs.31,211,626 had not been maintained in terms of the Circular.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the financial result of the University for the year under review had been a deficit of Rs.49,327,046 . However, a sum of Rs.87,606,181 had been paid as salaries relating to that period and provisions for depreciation of Rs.37,181,558 had been readjusted, thus indicating a contribution of Rs.124,787,739 in the University.

## **4. Operating Review**

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### **4.1 Performance**

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Objectives of the University in terms of the Ocean University Act, No.31 of 2014 are as follows.

- (a) Provide for University education in the fields of fisheries, ocean sciences, maritime technology and allied fields;
- (b) Offer vocational and technical courses of study relating to fisheries and allied fields in order to cater to the manpower needs in any areas;
- (c) Disseminate knowledge relating to fisheries, marine and maritime sectors among persons who are engaged in fisheries and allied fields;
- (d) Provide for extension courses for continuous professional development in the fields of fisheries, ocean sciences, maritime technology and allied fields;
- (e) Provide vocational and technical courses for personnel in the fields of fisheries and allied fields for admission to the University;
- (f) Provide for the progressive development of students in the fields of engineering, scientific, technical and vocational education and training systems, based on their aptitude and ability to acquire a University education in the fields of fisheries, ocean sciences, maritime technology and allied fields; and
- (g) Provide courses of study for those who possess National Vocational Qualifications and assist them to upgrade their competency and acquire academic qualifications in the fields of fisheries, ocean sciences, maritime technology and allied fields.

The following observations are made on the achievement of those objectives.

#### **(a) Enrollment of Students for Courses and Conducting Examinations**

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- (i) According to the information presented to Audit, 29 courses had been conducted in 08 Colleges during the year under review and the number of students enrolled therefor stood at 407. Further, the number of courses and enrollment of students of Colleges in Jaffna and Kalutara had been at a minimum level as compared with other Colleges.
- (ii) Even though the newspaper advertisements for the enrollment of students had been published in November and December 2014, enrollment of students for the similar courses by 08 Colleges had been carried out on various dates. As such, it was observed that there were inconsistencies in the enrollments and holding examinations by 08 Colleges.

(b) **Obtaining Quality Certificates of the International Organization for Standardization (ISO)**

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An agreement had been entered into with a private institution on 21 December 2012 on the basis of payment of a sum of Rs.2,500,000 for consultancy services for obtaining ISO quality certificates for 04 courses in 04 Colleges and an advance of Rs.500,000 had been paid on that day. However, the period in which that consultancy service should be rendered and completed had not been included in Terms of the Agreement and ISO quality certificates had been obtained only by the Mattakkuliya College even by the end of the year 2016.

**4.2 Management Activities**

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The following observations are made.

- (a) Even though the students' hostel at Mattakkuliya had been handed back on 31 March 2015 to the lessee, the initial deposit of Rs.840,000 had not been reimbursed even by 30 November 2017.
- (b) Action had not been taken to vest the ownership of lands, buildings and other assets of 08 Colleges located regionally, including the Head Office used from the inception of the National Institute of Fisheries Nautical Engineering, with the University.

**4.3 Identified Losses**

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The Employees' Provident Fund and Employees' Trust Fund had not been accurately computed and as such, sums of Rs.1,349,800 and Rs.70,741 had been paid as surcharges in the year under review relating to the years 2008 and 2009.

**4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) According to the information presented to Audit, 08 out of 29 motor vehicles belonging to the University were condemned and kept at the Head Office for a long period and action had not been taken to get them repaired or to dispose of them.
- (b) It was observed in audit that the ship called "KAYTESMARU" had been anchored at the jetty of the Negombo Training Centre without being used since the year 2013 and a sum of Rs.4,901,386 had been paid as salaries and overtime in the years 2013, 2014 and 2015 to the Watcher and training staff.
- (c) It was observed that 02 external engines purchased at a cost of Rs.1.6 million on 14 December 2014 had been kept in packages even by 21 September 2017 without being made use of. Moreover, 02 Lathe machines as well purchased at a cost of Rs.2.5 million in the year 2014 had not been fixed and supplied electricity so as to make use for training activities.

## **4.5 Staff Administration**

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The following observations are made.

- (a) In terms of Section 70 of Part XIII of the Ocean University of Sri Lanka Act, No.31 of 2014, the staff of the National Institute of Fisheries and Nautical Engineering had not been absorbed to the staff of the University as at the end of the year under review. Further, a new Scheme of Recruitment had not been prepared for the University as at the end of the year 2016.
- (b) According to the information presented to Audit, the approved cadre of the University as at the end of the year under review stood at 303 while the actual cadre stood at 205. Accordingly, 98 vacancies of the permanent staff comprising 24 Executive Officers including 03 posts of Director and 09 posts of Lecturer and 72 Non-Executive Officers including 17 Instructors and Deputy Instructors of Colleges, had not been filled. Further, 14 officers had been recruited on contract and temporary basis without the proper approval of the Department of Management Services instead of filling vacancies of the approved cadre of the University.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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Even though the draft Annual Report and financial statements should be furnished to the Auditor General within 60 days of closure of the financial year, in terms of Section 6.5.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, the financial statements had to be presented separately due to conversion of the National Institute of Fisheries and Nautical Engineering into the Ocean University of Sri Lanka with effect from 18 June 2015. Accordingly, accounts of the Ocean University of Sri Lanka relating to the year under review, had been presented only on 15 January 2018.

### **5.2 Action Plan**

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The University had commenced on 18 June 2015 and it had continuously functioned in a manner in which the National Institute of Fisheries and Nautical Engineering had operated. An Action Plan for the year under review had not been prepared in terms of the Public Finance Circular No. 01/2014 of 17 February 2014 by the University.



## 6. Systems and Controls

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Deficiencies in systems and controls observed in audit were brought to the attention of the Chairman of the University from time to time. Special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Controls	Observations
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(a) Accounting	Failure in recording transactions and journal entries in correct accounts.
(b) Assets Management	(i) Failure in taking action to vest lands and buildings legally. (ii) Delay in distribution of equipment purchased for the requirements of the University. (iii) Failure in maintaining the Register of Fixed Assets properly.
(c) Procurement Control	Non-compliance with Procurement Guidelines and Financial Regulations in getting buildings for hostels on lease basis.
(d) Personnel Administration	Hindrance in conducting courses as planned due to non-filling of vacancies of the staff.