

Ocean University of Sri Lanka – 2016

The audit of financial statements of the Ocean University of Sri Lanka for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and cash flow statement for the year 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 Sections 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

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

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 judgements, including the assessment of the risks of material misstatements 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-section (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 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my of 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 as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Although fixed assets purchased at a cost of Rs.655,908,762 using the capital grants received from the Government and the other projects are annually depreciated, the University had not recognized a policy to amortize those capital grants and bring them to accounts.

2.2.2 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 01**

Comparative amounts had not been shown in the financial statements of the year under review as required by Paragraph 53 of the Standard.

(b) **Sri Lanka Public Sector Accounting Standard 07**

In terms of Paragraph 47 of the Standard, when the fair value of property, plant and equipment materially differs, a revaluation is necessary. Nevertheless, property, plant and equipment of the University valued at Rs.358,189,699 shown in the accounts had not been revalued. Further, expenditure of Rs.913,446 incurred contrary to the Paragraph 21 of the Standard for the repairs and maintenance of vehicles during the year under review had been capitalized.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Although the contribution of the Employees Provident Fund relating to the month of December of the year under review amounted to Rs.1,895,481, it had been brought to accounts as Rs.10,713,512 and as such, the balance of the Employees Provident Fund Account and the balance of the Employees Provident Fund Account under the accrued expenditure had been overstated by Rs.8,818,031.

- (b) Sums totalling Rs.6,457,682 paid for the preparation of estimates and carrying out soil testing relating to the five storied building proposed to be built at the premises of Head Office, Mattakkuliya, had been capitalized.
- (c) Instead of accounting 30 per cent of advance amounting to Rs.3,693,591 paid for the workshops and lecture halls proposed to be constructed at the Tangalle Centre under the advances, it had been capitalized.
- (d) Value of the Prior years adjustments of Rs.342, 280 stated in the financial statements had been adjusted to the before tax profit under the nonfinancial adjustments in the cash flow statement.
- (e) Provisions had not been made in the accounts for the Audit fees payable in respect of the year under review and the preceding year.
- (f) Even though the stationery and office expenditure during the year under review amounted to Rs.5,082,605, it had been stated as Rs.4,360,436 and as such expenditure on stationery had been understated by Rs.722,169.
- (g) Course fees and the students hostel fees recoverable for the year under review had not been computed and brought to accounts.
- (h) An unidentified balance of Rs. 85,433 in the Suspense Account brought forward from the year 2011 under the current assets in the financial statements had not been settled even by the end of the year under review.

2.2.4 Lack of Evidence for Audit

 Information relating to receivable deposits totalling Rs.4,953,511 and the retention of advance totalling Rs.2,009,844 brought forward since a long period before the commencement of the University had not been furnished to audit.

2.3 Accounts Receivable and Payable

 The following observations are made.

- (a) Out of the Graduate Courses fees of Rs.15,754,623 recoverable by the end of the year under review, a sum of Rs.5,913,500 had been brought forward relating to the period from the year 2001 to 2003 and without being recovered those money, Graduate Certificates had been awarded to the students and as such recovery of those money remained uncertain. Further, course fees of Rs.9,841,123 due from the Graduate and other courses from the years 2009/2010 to 2015/2016 had not been recovered from the students even up to the end of the year under review.
- (b) It was observed in audit that the recovery of students hostel fees of Rs.798,671 brought forward relating to the period from the year 2001 to 2003 remained uncertain as a longer period had elapsed from their leaving of the hostels and the recovery of Rs.191,464 as Tsunami loan too remained uncertain as the officers who obtained the loans were not in the service.

- (c) Action had not been taken to settle the accrued expenditure valued at Rs.11,210,663 brought forward from the previous year and the years preceding that year.

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

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations etc.	Non-compliance
<p>(a) Sections 10 (1), 13 (1), 18,24 (1),28 of the Ocean University of Sri Lanka Act, No.31 of 07 September 2014.</p>	<p>A Chancellor and Deans had not been appointed in accordance with the referred regulations and the establishment of Authorities, Academic Councils and Campuses had not been carried out.</p>
<p>(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p>	
<p>(i) Section 6.1 of Chapter VIII</p>	<p>Although overtime allowances and holiday pays should be computed based on the monthly combined salary, overtime allowances had been paid based on the gross salary.</p>
<p>(ii) Sections 5.1 and 10.1 of Chapter XV</p>	<p>An officer served in the Tangalla Centre who is holding a post of Lecturer had left out of the country for a foreign scholarship from 23 February 2016 to 28 February 2019 without getting approval for the full pay academic leave and without entering in to bond securities and agreements. Nevertheless, a sum of Rs.125,870 had been paid as salaries relating to the months of March and April 2016 in respect of the said officer.</p>
<p>(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p>	
<p>(i) Financial Regulation 394</p>	<p>Action in terms of the Financial Statements had not been taken even as at the end of the year under review in respect of 55 cancelled cheques totalled Rs.697,854 which had been brought forward from the year 2012.</p>

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| (ii) Financial Regulation 835 (1), (2), (3) | (i) Without obtaining approval of the Secretary to the relevant Ministry, a sum of Rs.1,650,000 had been paid as the initial payment to the lessors in respect of 03 buildings obtained for the students hostels. |
| | (ii) Although it had been stated that the conditions relating to the payment of initial payments should be included in the agreements in consultation with the Attorney General, action had not been taken accordingly in the event of obtaining the above building on lease. Further, the lists of the furniture and fittings available in those buildings had not been included in those lease agreements. |
| (d) Treasury Circulars No.842 of 19 December 1978 and No. IAI/2002/02 of 28 November 2002. | A register of Fixed Assets had not been maintained in an updated manner in respect of the fixed assets valued at Rs.437,451,967 and a Register of Fixed Assets had also not been maintained relating to the computers, accessories and software costing RS.31,211,626 as required by the circulars. |
| (e) University Grants Commission Circular No.955 of 28 April 2011. | In the computation of contribution to the Employees Provident Fund and the Employees Trust Fund, the academic allowance paid along with the salary should not be taken into account, whereas action had been taken contrary to that matter. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the University during the year under review had resulted in a deficit of Rs.81,951,775 as compared with the corresponding deficit of Rs.47,358,479 for the preceding year, thus showing a deterioration of Rs.34,593,296 in the financial results in the year under review as compared with the preceding year. Although the Government Grants and the grants received from the Sectorial Skills Development Programme had increased by Rs.41,425,816 during the year under review, the above deterioration was mainly attributed to the decrease of the other income by

Rs.27,179,867 and increase in the salary, depreciation and the contractual services such as telephone, electricity, water and sanitary services by Rs.24,926,636, Rs.11,566,163 and Rs.10,008,622 respectively.

4. Operating Review

4.1 Performance

According to Section 4 of the Ocean University of Sri Lanka Act, No.31 of 2014, the objectives of the University shall be to,

- provide for University education in the fields of fisheries, ocean sciences, maritime technology and allied fields and provide for the extension courses for the continuous professional development .
 - offer vocational and technical courses of study relating to fisheries and allied fields in order to cater to the manpower needs in any areas disseminate knowledge relating to fisheries, marine and maritime sectors.
 - provide vocational and technical courses for personnel in the fields of fisheries and allied fields for admission to the University.
 - 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.
- (a) Out of the above objectives, the University had not paid attention on the objective of providing vocational and technical courses for personnel in the fields of fisheries and allied fields for admission to the University.

(b) Enrollment of Students and Conduct of Courses

According to the Action Plan for the year under review plans had been drawn to conduct 97 courses and involved 2,360 students therefor. The following matters were observed in this connection.

- (i) Although, the total number of students expected to be enrolled in 08 regional centres for the Graduate, Diploma and Certificate courses was 1,565, only 596 students had been enrolled during the year under review. Accordingly, the progress of the total student enrollment had been 38 per cent. Out of that, the progress of the students enrolment remained even below 50 per cent in other centres except for the Trincomalee Regional Centre and progress of the Matakuliya and Kalutara Regional Centres remained as an extremely lower level as 20 per cent and 21 per cent respectively.

- (ii) Plans had been drawn to enroll 225 students for 04 diploma courses in 07 regional centres other than the Trincomalee Regional Centre, whereas only 37 students had been enrolled for the Mattakkuliya and Negombo centres. No diploma course whatsoever had been conducted in the remaining 05 regional centres.
 - (iii) Although plans had been drawn to conduct 15 certificate courses in the 8 regional centres and enroll 1,165 students therefor, only 403 students could have been enrolled. Accordingly, the progress of the enrollment of students for the certificate courses stood at 35 per cent.
 - (iv) It had been planned to conduct 06 mobile training courses and another 05 courses in 06 regional centres and enroll 815 students therefor, whereas those programmes had not been conducted in any regional centre. However, 04 programmes which had not been included in the Action Plan had been conducted in 07 regional centres and 500 students had been involved in those courses.
 - (v) Despite the availability of facilities to cater to 175 students for the degree courses, only 156 students had been enrolled for those courses during the year under review and the above enrollments were observed to be an increase in 69 students or 44 per cent as compared with the preceding year. According to the above information, an adequate progress relating to the enrollment of students and the conduct of courses in the Ocean University inaugurated from 18 June 2015 had not been achieved by the end of the year 2016.
 - (vi) Out of the 8 regional centres of the University, only 02 regional centres had conducted NVQ examinations and 30 NVQ certificates only had been issued during the year under review.
 - (vii) According to the information made available, out of 114 students enrolled to the Mattakkuliya Regional Centre for the degree courses, 39 students had left the courses.
- (c) Obtaining standards of the International Organization for Standards (ISO)

In order to obtain standards of the International Organization for Standards (ISO) for 04 courses in 04 regional centres, an agreement valued at Rs.2,500,000 had been entered in to with a private institution on 21 December 2012 to obtain consultation services and an advance of Rs.1,207,500 had been paid therefor by the end of the year under review. Nevertheless, ISO standards had been obtained for the Jaffna and Negombo Regional Centres even by the end of March 2018. Further, an indication relating to the due date for the completion of the contractual consultation services had not been included in the conditions of the agreement.

4.2 Management Activities

The following observations are made.

- (a) Even though the student hostel at Mattakkuliya had been handed over to the lessor on 31 March 2015, action had not been take to recover the initial deposit of Rs.840,000 even by 30 November 2017..
- (b) Action had not been take to take over to the University the ownership of the lands and other properties in which 08 regional centres and the Head Office of the University are situated and used by the National Institute of Fisheries and Nautical Engineering vested in the University.

4.3 Underutilization of Assets

The following observations are made.

- (a) Although a sum of Rs.81.69 million had been received as Government Grants for the purchase and improvement of capital assets and the development of human resources, only a sum of Rs.52.14 million of the above amount had been utilized. Accordingly, the management had failed to use the Government Grants as expected and therefore, a sum of Rs.29.55 million or 36 per cent remained underutilized.
- (b) Although provision of Rs.30 million had been made by the Sectoral Skills Development Programme for the development and improvement of infrastructure facilities of the laboratories, workshops and lecture rooms of the University, the management had failed to carry out relevant improvement with the use of the above provision.

4.4 Identified Losses

For the purpose of preparing estimates and carrying out soil testing relating to the construction of five storied building at the Head Office premises, Mattakkuliya, a sum of Rs.6,457,682 had been paid to the State Engineering Corporation and the Engineering and Laboratory Services Pvt. Ltd. on July 2016, whereas action had not been taken to commence the relevant construction even by the end of February 2018. The Vice Chancellor had informed the audit that the relevant construction could not be carried out due to non receipt of the provision.

4.5 Idle and Underutilized Assets

The following observations are made

- (a) Out of 29 vehicles of the University, 08 vehicles remained condemned position over a long period of time, whereas action had not been take to repair or dispose of the above vehicles even by the end of the year under review.

- (b) Two engines which are fixed outside the ships and purchased at a cost of Rs.1.6 million on 14 December 2014 had not been used even by 21 September 2017 and 02 lathe machines which had been purchased at a cost of Rs.2.5 million in the year 2014 had remained idle without being used since those machines had not been installed and supplied electricity connection.

4.6 Staff administration

The following observations are made.

- (a) According to the information furnished to audit, the approved cadre and the actual cadre of the University by the end of the year under review stood at 327 and 199 respectively. Accordingly, the number of vacancies was 128.
- (b) Without being taken action to recruit officers on permanent basis for the vacancies in the approved cadre of the University, 14 officers had been recruited on contract and temporary basis without obtaining a proper approval of the Department of Management Services and a sum of Rs.3,006,866 had been paid as the allowances during the year under review.

5. Accountability and Good Governance

5.1 Establishment of the University

The Ocean University of Sri Lanka was established so as to be effective from 18 June 2015 by terminating the National Institute of Fisheries and Nautical Engineering Act No.36 of 1999 on 17 June 2015, the date of publication the same by the relevant Minister in terms of Section 01 and 71 of the Ocean University of Sri Lanka Act, No.31 of 07 September 2014 by taking over all the immovable and movable properties and the liabilities of the institute existed as at that date.

5.2 Presentation of Financial Statements

Although financial statements should be furnished to the Auditor General within 60 days from the close of the financial year in terms Section 6.5.1 of Public Enterprises Circular No.PED/12 dated 02 June 2003, the accounts of the Ocean University of Sri Lanka relating to the year under review had been furnished on 25 January 2018.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of control.

Area of Systems and Control	Observations
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(a) Accounting	Shortcomings had taken place in entering transactions and journal entries in the ledger accounts.
(b) Assets Management	Assets had not been legally taken over and assets had remained under utilised.
(c) Staff Administration	Failure in properly absorbing the staff and failure in properly conducting the courses due to not filling vacancies.
(d) Hostel Administration	<p>(i) An officer had not been appointed to the post of Hostel Sub-Warden and the students had not been aware on the rules and regulations before providing hostel facilities.</p> <p>(ii) A register had not been maintained to record the information relating to the students' admission to and leave from the hostels.</p>