

## **Ocean University of Sri Lanka – 2017**

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The audit of financial statements of the Ocean University of Sri Lanka for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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**

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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 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**

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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 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 positionof the Ocean University of Sri Lanka as at 31 December 2017 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**

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##### **2.2.1 Accounting Policies**

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Although fixed assets purchased at a cost of Rs.707,807,391 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.However from the year under review assets purchased from the Government grants had been identified and similar value to relevant depreciation amount had been adjusted in the capital grant account as a deferred income of the performance statement.

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

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

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The following observations are made.

- a) Contradictory to the paragraph 21 of the standard during the year under review expenditure of Rs. 1,681,850 and Rs. 1,042,461 related to repairs and maintains of buildings and vehicles respectively had been capitalized.
- b) In terms of paragraph 47 of the standard, a revaluation is necessary when the fair value of property plant and equipments materially differs, however a net value of Rs. 491,051,777 of property plant and equipments had not been revalued as at 31 December 2017.
- c) In terms of paragraph 65 of the standard, as a result of not estimating the useful life of non-current assets annually a cost of Rs. 46,798,533 assets which had been fully depreciated are still being in used. Therefore estimation error had not been revised as per Sri Lanka Public sector Accounting Standard 03.

### 2.2.3 Accounting Deficiencies

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The following observations are made.

- (a) Even though a sum of Rs. 723,062 retained for previous year's construction contracts had been released in the year under review, instead of debiting it to repayable retained money account it had been debited to relevant assets account. Therefore assets account and repayable retained money account had been overstated by that amount. Further out of the released money a sum of Rs. 188,540 had been included in the payable retained money amounting to Rs. 2,006,144 as at 31 December 2017.
- (b) Instead of debiting advances amounting to Rs. 30,480,475 paid for constructions into advance account in the year under review, it had been debited to building account. Therefore building account and advance account had been overstated and understated by similar amount respectively.
- (c) Instead of accounting a sum of Rs. 6,126,550 as working progress paid for preparation of estimates and sum of Rs. 331,132 paid for soil testing relating to the five storied building proposed to be built at the premises of head office Mattakuliya had been capitalized under the building and construction account. However as a result of not having Financial provisions constructions had been abandoned as at end of year under review.
- (d) At the end of the year under review, Instead of presenting a sum of Rs. 1,604,783 as working in progress paid for workshop and lecture halls under construction at the Tangalle center and sum of Rs. 16,321,399 presented as accrued expenditure relating to the other constructions had been capitalized. Therefore building account had been overstated and working in progress account had been understated by Rs. 17,926,182.
- (e) As a result of capitalizing an agreed sum of Rs. 21,889,116 related to 2 construction contracts which the agreements were executed as at end of year under review, building & construction and suspense expenditure accounts in the financial statements had been overstated by that amount. Nevertheless one of the constructions amounting to Rs. 15,387,672 had been cancelled on 12 June 2018 as the constructions were not functioned.
- (f) Instead of debiting the released tender deposit in the year under review amounting to Rs. 200,000 into repayable tender deposit account, it had been debited to receivable deposit account. Therefore the tender deposit account and receivable deposit account had been overstated by that amount.
- (g) Provisions had not been made in the accounts for the audit fees in respect of the year under review and previous 03 years.

- (h) Out of arrears salary paid for officers amounting to Rs. 24,590,014 which the provision had not been made in the accounts of year under review, a sum of Rs. 8,762,125 had been debited to creditors account and the balance sum of Rs. 15,827,889 had been debited to accrued expenditure account. Further as a result of these erroneous accountings Creditors Account in the Financial Statements had shown as a debit balance of Rs. 8,153,444.
- (i) As a result of accounting of not received goods and services amounting to Rs. 7,134,344 as accrued expenditure as at end of year under review, accrued Expenditure Account by that amount, Fixed Asset Account by Rs. 6,887,057 and Stationery Account by Rs. 247,287 had been overstated in the Financial Statements.
- (j) Four vehicles amounting to Rs. 27,159,250 and their depreciation of Rs.6,789,812 taken over from Finance Ministry and other Departments by the University in 2015 and 2016 had not been taken into accounts.

#### **2.2.4 Suspense Accounts**

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 Unidentified balance of Suspense account Rs. 85,433 outstanding from 2011 coming under current assets in the Financial Statements had not been resolved as at end of year under review.

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

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 The following observations are made.

- (a) Graduate course fees of Rs. 15,754,623 recoverable as at end of year under review includes a sum of Rs. 5,913,500 relating to the period from the year 2001 to 2003 and sum of Rs.9,841,123 due from the Graduate and other courses from 2015/2016 academic year had not been recovered from the student even up to the end of year under review. However recovery of this money remained uncertain as the University fees had not been charged from 2017. A proper approval for abandon of charging course fees had not been furnished to audit.
- (b) Recovery of student's hostel fees amounting to Rs. 798,671 brought forward relating to the period from the year 2001 to 2003 remained uncertain as long period had elapsed from their leaving of the hostels. Further from 2017 as money is not charging from the hostel students, hostel student fees amounting to Rs. 2,526,383 relating to previous years had been evade by students. . A proper approval for abandon of charging hostel fees had not been furnished to audit.
- (c) Recovery of receivable tsunami loan balance of Rs. 191,464 relating to 06 officers remained Uncertain as these officers were not in the service at present.
- (d) Action had not been taken to identify and settle the accrued expenditure balance amounting to Rs. 5,989,432 brought forward from the year 2015 and before that previous years.

- (e) A sum of Rs. 445,750 deposited NARA(National Archives and Records Administration) for obtaining various services for the period from the year 2002 to 2013 and a sum of Rs. 930,592 relating to Scuba Diving Programs had been remained receivable from the year 2009, however they had not been confirmed by the relevant institution as payables.
- (f) An Audit fee of Rs. 67,247 had been brought forwarded in the accounts without settling for a long period of time.

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

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

<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>
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(a) Sections 10 (1), 13 (1), 18,24 (1),28 of the Ocean University of Sri Lanka Act, No.31 of 07 September 2014.	A Chancellor had not been appointed in accordance with the referred regulations and the establishment of Board of Authorities, Academic Councils and Campuses had not been carried out.
(b) Section 47 of the Employee provident fund Act, No 15 of 1958 and University Grants Commission Circular No.955 of 28 April 2011.	Contradictory to Act and provisions of circulars apart from cost of living allowance other allowances also had been considered for calculation of Employee Provident Fund contribution. Therefore from the period 2010 to July 2012 an additional sum of Rs. 777,342 had been remitted to the fund. Further after July 2012 benefit additionally transferred amount of employee funds had not been calculated and offset from the contribution to be paid in the future.

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 by the university contrary to that matter.

- (c) Establishment Code of the Democratic Socialist Republic of Sri Lanka Section 6.1 of Chapter VIII Even though Over Time payment and Holiday Payment should be calculated based on monthly consolidated salary. Over Time had been paid based on Gross salary.
- (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  
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- (i) Financial Regulation 206 Actions had not been taken according to terms and regulations at the release of retention money Rs.723,062.
- (ii) Financial Regulation 565(2) General deposit register had not been maintained according to the regulation.
- (iii) Financial Regulation 570,571 and 572 Actions had not been taken according to regulations relating to repayable retention money amounting to Rs.2,006,144 remained more than two years.
- (iv) Financial Regulation 835
- (i) Without obtaining approval of the Secretary to the relevant Ministry, a sum of Rs.1,650,000 had been paid as the initial advance payment to the lessors in respect of 02 buildings obtained for the students hostels.
- (ii) Although it had been stated that the conditions relating to the payment of initial advance 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.
- (e) Treasury Circulars No. IAI/2002/02 of 28 November 2002. A Register of Fixed Assets had not been maintained relating to the computers, accessories and software amounting to beginning cost of the year Rs..31,211,626 and during the year under review purchased amount of Rs.4,370,860.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the Financial Statements presented the financial result of the University for the year under review had been a surplus of Rs. 21,768,782, however in the previous year it had been a deficit of Rs. 81,951,775. Therefore compare to previous year in the year under review it had been increased by Rs. 103,720,557. Compare to previous year in the year under review the increase of government grants by Rs. 72,161,000 and adjustment of Rs. 47,915,337 as deferred income out of Government Grants had been contributed for above increase.

According to Financial analysis of the year under review and two previous years of 2015 and 2016 there had been a deficit of Rs. 55,500,835 and Rs. 81,951,775 respectively. Nevertheless in 2017 it had been a surplus of Rs. 21,768,782. However when adjusting salaries and provision for depreciation of fixed assets for Financial results, University's contribution had been Rs. 120,958,811 in 2015 and it had been increased continuously up to Rs. 234,018,352 in 2017.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Activity and Review**

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The following observations are made.

- a) To achieve the objectives of the ocean University of Sri Lanka Act, No.31 of 2014, Even though the University had carried out awareness programs for fisheries by conducting Degree / professional training courses and mobile programs, at the enrolment attention had not been given to provide professional and technical courses to fisheries and staff of related fields.
- b) The following observations are made in relation to enrolment of students and conduct of courses.

- (i) Conduct of Degree programs

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Academic studies had not been commenced until the year end as the enrolment of new students for four courses of two colleges for academic year 2017 / 2018 had been delayed during the year under review.

(ii) Conduct of Diplomas

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Plans had been drawn to enroll 194 students under twelve batches for three courses in six colleges whereas actually 144 students under seven batches in six universities had been enrolled in the year under review. Accordingly the progress of conducting diplomas and student enrollment had been 58 per cent and 74 per cent respectively. As per the information furnished to the audit, it was revealed even though plans had been drawn to complete diploma courses for 29 students enrolled to Negambo Center, in the year 2015, these courses had not been conducted and certificates had not been awarded during the year under review.

(iii) Conducting Certificate Course

Continues Discharge Certificate (CDC course)

More than Rs.3 Million had been cost to obtain the certificate of ISO 9001-2008 for three years from 7 of April 2015 to 8 of April 2018 relating to Dec Rating and Engine Rating diplomas conduct in Mattakuliya and Tangalle centers, which is required for a job in commercial ship under Continues Discharge Certificate. Even though plans had been drawn to enroll 120 students under 4 batches for 2 diploma courses in these two centers , only 42 students for 2 courses had been enrolled in Mattakuliya center and no student had been enrolled to Tangalle center during the period for which the quality qualification obtained. It was observed in the audit the progress of CDC group enrollment was 50 per cent and progress of student enrollment was 35 per cent.

- 33 students had completed and obtained the certificates for CDC diploma in Mattakuliya center. However it was observed in the audit considerable productivity had not been gained from the quality certificate compare to the cost incurred.

(iv) National Vocational Qualification

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- Although plans had been drawn to enroll 534 students under 30 batches for 7 NVQ diplomas in 8 Universities in the year under review, only 202 students had been registered under 15 batches for 7 courses in 5 colleges. Therefore the progress of enrollment of batches was 50 per cent and the progress of registration of students remained at a lower level of 38 per cent.
  - 78 registered students had obtained the certificates for 10 NVQ diplomas during the year under review. However out of 129 registered students for the ten courses at the beginning 51 students (2016 and 2017) had left the course, which is 40 per cent of the registered students.



(v) Non NVQ Diplomas

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Although plans had been drawn to enroll 440 students for 8 NON NVQ courses in 8 colleges, only 222 students for 5 courses in 8 colleges had been enrolled allies 50 per cent.

- c) The following observations are made relating to the conduct of courses as centers and student registration

The performances of the centers remained at a weak level as not completing the activities relating to University staff absorption, not recruiting the consultants, not communicating the awareness program to enroll students and not applying for courses as mention in below

(I) Even though plans had been drawn to enroll 27 students for 2 courses and 40 students to Dec rating and engine rating(CDC course) courses, no student had been enrolled and further three courses planned for 45 students had not been conducted.

(II) Even though plans had been drawn to conduct 2 diploma courses and 5 NVQ courses, only one diploma course and 2 NVQ courses had been conducted in Negambo center. Even though 125 students had been planned to enroll as a whole to the Negambo center in the year under review, the number of registered students were 96.

(III) Even though it had not been planned to conduct diploma in Batticaloa college, one diploma course had been conducted with the participation of 22 students and 04 planned NVQ courses were not conducted. As a whole 70 students had been studied in the year under review.

(IV) Although plans had been drawn to enroll 45 students for 3 diploma courses in Kaluthara center, only 15 students had been enrolled for two courses.

(V) It had not been planned to conduct diploma courses in Trincomalee center, however no student had been enrolled for 4 NVQ courses which had been planned to enroll 90 students. Further during the year under review 16 students had been enrolled for planned certificate (NON NVQ) diploma and 15 students had been enrolled for unplanned certificate (NON NVQ) diploma, however the period of these two courses remained less than two weeks was observed in audit.

## 4.2 Management Activities

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The following observations are made.

- (a) Arrears of Rs. 2,039,472 the contribution of employees provident Trust Fund for the period from 2010 to 2012 had been paid by the university. However university had to paid a sum of Rs. 2,936,012 as a surcharge in the year under review.

- (b) Actions had not been taken to take over the ownership of the lands and buildings and other properties to the University including the head office of the university, 8 colleges situated in regionally.

#### **4.3 Underutilization of Funds**

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Under the Partial Vocational Training Program a provision of Rs.60.75 million had been granted for academics and constructions development activities. Out of that a sum of Rs.21.64 million or 36 per cent had not been utilized as at end of the year under review.

#### **4.4 Idle and Underutilized Assts**

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The following observations are made

- a) Furniture and fittings amounting to Rs.7 million had been supplied in the year under review for Batticaloa center which was built in 2013 with the cost of Rs.14 million . Even though it has elapse 4 years from the date of built. The building had not been used till 30 April 2018.
- b) As per Internal Audit Report University owned 7 large size fishery vessels, 05 small size vessels and 01 high speed fishery boat, out of them high speed fishery boat, 05 large size fishery vessel and 01 small size vessel had been inactive from several previous years.

#### **4.5 Staff administration**

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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 188 respectively. Accordingly, existing 139 vacancies.

The following observations are made.

- (a) Without being taken action to recruit officers on permanent basis for the vacancies in the approved cadre of the University, 15 officers had been recruited on contract and daily basis without obtaining a proper approval of the Department of Management Services.
- (b) Enrollment procedure of the University had not been prepared as at end of year under review and absorption activities of employees from National Fishery and Navy Engineering Institute to University had not been completed at that date.
- (c) An officer hold the position of lecturer in Tangalle College had left the country for a foreign scholarship from 22 February 2016 to 28 February 2019. However it was observed that the officer had not been taken the approval for the academic leaves with salaries and had not been entered into guarantee bond and agreement. Further a sum of Rs. 125,870 had been paid to her as salary for the months of April and March 2016 and action had not been taken to recover that money.

## **4.6 Utilization of vehicles**

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The following observations are made.

- (a) Out of 29 vehicles of the university 8 vehicles remained condemned position over a long period of time whereas no action had been taken to repair or dispose above vehicles even by the end of year under review.
- (b) A sum of Rs. 716,928 had been spent for repair four vehicles in 2016 and 2017 subjected to accidents. However only Rs. 548,000 had been reimbursed by the Insurance companies. Therefore a loss of Rs. 168,928 had been incurred.

## **5. Sustainable Development**

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### **5.1 Achievement of Sustainable Development Goals**

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According to Sustainable Development Agenda 2030 of United Nation every Government Institution had been aware how they should act through the circulars by approving Sustainable Development Act No. 19 of 2017 dated on 03 October 2017. Even though all the Government Institutions should aware about how to accomplish the works coming under their scope, University had not been aware about it. Therefore index had not been identified regarding the activities that coming under the scope of sustainable development goals & objectives, how to achieve those objectives and measurement of objectives.

## **6. Accountability and Good Governance**

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### **6.1 Procurement and Contract Process**

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#### **6.1.1 Procurement**

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A building with monthly lease value of Rs. 2.3 million for 2 years had been obtained under a lease agreement with the objectives of providing lecture halls, labs and computer labs. Further on 26 December 2017 had been entered into 02 agreements with the total value of Rs. 77.76 million including the cost of Rs. 22.56 million for interior partion of the building and as per the conditions of agreement lesser agreed to extend the duration of the lease for another 2 years.

The following observations are made relating to above matter

- (i) As per section 6 (2) (1) of Sri Lanka Ocean University Act No. 31 of 2014 the ministry had not given a written command to Control Board of University, Further a feasibility study had not been carried out.

- (ii) Although approval from Control Board to rent the building had been obtained on 18 September 2017, Procurement notice had been published in news paper on 6 July 2017. However as the information of bidding paragraph and condition paragraph were contradictory to each, after correcting the Procurement agreement had been published on second time with the additional cost of Rs. 83,720 had been incurred on 17 July 2017.
- (iii) As per lease agreement 50 per cent of advance amounting to Rs. 27.6 million had been paid on 27 December 2017. This payment was not compliance to the 5.4.4 of the procurement guideline.
- (iv) As per Procurement guidelines 2.14.1 and supplementary 33 the decision relating to lease and cost of interior partion amounting to Rs. 147.70 million had to be made by the Procurement committee of the ministry, contradictory to it decision had been made by Procurement committee of department.
- (v) According to bidding conditions it was mentioned that total ground size of the building should be 25,000 sqft or more, however it was observed in physical audit carried out on 09 July 2018 that the building was 22,300 sqft with three floors.
- (vi) Approval had not been taken from the secretary to the ministry as per the financial regulation 835(1)(c) for the sum of Rs.27,600,000 paid as an advance at the lease of this building.
- (vii) According to bidding agreement professional charges, stamp charges and registration fees amounting to Rs.833,000 should be afforded equal by two parties, lawyer fees amounting to Rs.623,500 had been paid by University. Therefore an additional sum of Rs. 207,000 had been over paid.
- (viii) Due to the location of the building in the land and lack of facilities in the surround, it was observed that there isn't a suitable environment for University students.
- (ix) It was observed that the building had been leased for Rs. 169.76 million for 4 years of time period to conduct degree programs. However no action had been taken by the university to construct a building to fulfill this necessities
- (x) Even though it had been elapsed one year from sinning of lease agreement for above mention building, all the degree programs had been conducted in premises of head office. It was observed that the lease of this building was an uneconomic transaction as enough space available in head office to conduct degree programs and further there wasn't a considerable progress in student enrollment.

## 6.1.2 Deficiencies in Contract Administration.

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The following observations are made.

- (a) Eventhough the time period elapsed according to contract agreement of four contract amounting to Rs. 49.5 million, construction activities had not been completed as at audited date 10 May 2018. The following observations were made in relation to it.
- (i) it was observed in the document inspection that the physical progress of two contracts as at 10 May 2018 remained at less than 70 per cent, however action had not been taken by the contractor to extend the validity period and attention had not been given by the supervising engineer relating to this.
  - (ii) To repair the building in Bussa College on 17 December 2017 had entered into an agreement with contractor of the contract with the estimated value of Rs. 18,148,219. Although the project had to be completed on 17 July 2018, works of the project had not been commenced even by 17 July 2018.
  - (iii) Proposed welding workshop to be built in Mattakuliya center amounting to Rs.13,380,585 planned to be completed on 4 April 2018. However the progress was at 12 per cent as at audited date 10 May 2018.

The Vice Chancellor had informed to audit that the revised estimation are being prepared to recall the prices again as the contractor had abandon the construction activities.

It was observed in the audit that actions had not been taken according to agreed conditions and bidding clauses relating to delay of 4 constructions amounting to Rs. 49.5 million.

- (b) Instead of accomplishing the defects of the building through the contractor constructed in 2015 under Partial Vocational Development Program amounting to Rs. 27,646,398, it had been accomplished through Jaffna District Secretarial Office with the cost of Rs. 2,147,737.

## 7. Systems and Controls

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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.

<b>Area of Systems and Control</b>	<b>Observations</b>
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(a) Accounting	Shortcomings had taken place in entering transactions and journal entries in the ledger accounts and assets in similar nature and usage had not been taken into one asset category.

- (b) Assets Management            Assets had not been legally taken over and assets had remained under utilised.
- (c) Maintaince of books and documents    A updated fixed asset register had not been maintained
- (d) Procurement                    Procurement guidelines and Financial regulations had not been followed in the lease of buildings
- (e) Staff Administration            Failure in properly absorbing the staff and failure in properly conducting the course due to not filling vacancies.
- (f) Financial Control                As the expense objects and limits of the payments had not been informed properly to the centers, Allowances to external consultants and cost relating to renovations had been paid using petty cash.