

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Ocean University of Sri Lanka for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Finance Act No 38 of 1971 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 2020, 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 Audit Observations on the Preparation of 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 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	The value of 06 vehicles currently in use donated by the Presidential Secretariat on 30 December 2019 had not been assessed and accounted for.	Action will be taken to manage and take the necessary arrangements to prevent repeating such situations in the future.	Necessary action should be taken to assess the value of 06 vehicles and take them into account.
(b)	As a result of the capitalization of Rs. 4,298,618 spent on the	Instructions had been given to maintain proper accounts in future years.	Recurrent and capital expenditures should be accurately identified

maintenance of fixed assets, fixed assets was over stated and the deficit for the year was under stated by that amount in the financial statements.

and accounted for.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to recover the balance due over a period of 02 years amounting to Rs. 21,258,931 during the year under review.	Even though action had been taken to obtain the necessary approval to write off these balances from accounts, approval had not been received and remains as an inactive balance for longtime.	Action should be taken to recover the due balances or to write off with formal approval.

1.6.2 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken settle payable expenditure total amounting to Rs. Rs. 20,748,514 remained at the end of the year under review and it includes 08 balances worth of Rs. 12,354,640 for more than 03 years.	Expect to take the necessary action in the future.	Necessary action should be taken to settle.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Management Services Circular No. 02/2014 dated 11 February 2014	As per the circular without satisfying the progress of the research by the Research Committee, total	Approval for future payments will only be granted if the progress of each	The circular should be followed.

research allowances of research is
Rs. 8,629,870 had been satisfied.
paid to 32 officers who
are entitled for research
allowances during the
year under review.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.4,063,873 as against the deficit of Rs. 51,749,516 in the preceding year, thus indicating an improvement of Rs.47,685,643 in the financial result. Increase in the government grants and other income and decrease in salaries, travelling, service supplies, maintenance expenditure, contractual services, training, and other expenditure had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) When purchasing 84 numbers of i7 computers in two occasions on 05 November 2020, the lowest bid had been rejected without inquiring from the relevant agencies to rectify the minor deficiencies in bid securities offered with the lowest bid and the University Fund had incurred a loss of Rs. 416,400 due to the rejection of the minimum price. Action had not been taken to obtain performance guarantee from the computer supplier in terms of Section 5.4.10 of the Government Procurement Guidelines 2006. Due to inaccurate forecasting of the requirement, the university had to incur a loss of Rs.</p>	<p>The Technical Evaluation Committee rejected the minimum bid, citing the fact that the bid documents stated that bid security should be directed to the Vice Chancellor towards the purchase of 24 computers and that the non-submission of manual for the purchase of 60 computers was a major omission. Not getting a performance security is a shortcoming. State that arrangement has been made to commence procurement according to the priority</p>	<p>The university should focus on making procurements at minimal cost and comply with procurement guidelines. Procurements should be made according to a procurement plan for the year.</p>

480,000 due to the price variation caused by the purchase of the same type of computer in two occasions during the year under review. given by a committee that identifies the first requirements before commencing procurement activities in the year 2021.

- (b) In the Vocational Education Division, the percentage of students who dropped out of 13 courses conducted in Tangalle, Jaffna, Negombo, Kalutara, Panadura, Mattakkuliya and Batticaloa had exceeded 20 percent during the years 2018, 2019 and 2020. It was observed that the organizing of the courses, the quality, the timeliness of the courses, the weaknesses in the course improvements was the reasons for this. Leaving the course is at the discretion of the students. Action is being taken to improve the quality of the courses. Intended to resolve existing issues regarding the conducting of the courses. Management should focus on improving the timeliness and quality of courses to prevent students from dropping out of courses.
- (c) Despite of having enough space for constructing a new building, a building had been leased from the year 2018 to 2020 and had been paid more than a sum of Rs. 86,792,671 without paying attention on it. Student growth has increased for vocational training and higher education courses from 2015 to 2020. Accordingly, building space was not sufficient enough at the Mattakkuliya Regional Center, as well, the Ministry had not given financial allocation for the construction of a permanent building. As such, a building has been rented on a lease basis following proper procurement procedures. Attention should be paid to the efficient use of public funds.

3.2 Human Resource Development

Audit Observation	Comments of the Management	Recommendation
<p>(a) There were 141 vacancies in 35 categories as on 31 December of the year under review. Out of that, 47 instructors have been vacant for years. Without filling the vacancies 25 consultants on contract basis have been employed and an allowance of Rs. 10,680,000 had been paid during the year under review alone. Also, 11 officers of 04 posts, exceeding the approved cadre, have been deployed for duties during the year under review and a sum of Rs. 3,909,180 had been paid as salaries and allowances.</p>	<p>The recruitment procedure for filling the vacancies has been prepared and referred to the Department of Management Services. In the case of employee absorption, the excess employees were absorbed into the position as personal.</p>	<p>Vacancies related to the approved cadre should be filled expeditiously. Recruitment should be expedited as soon as it is approved by the Management Services Department.</p>

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation	Comments of the Management	Recommendation
<p>The Annual Reports for the years 2018 and 2019 had not been prepared and tabled in Parliament in terms of Section 9 (1) of the Sri Lanka Ocean University Act No. 31 of 2014. Further, the draft annual report for the year under review was not submitted to the audit.</p>	<p>The 2018 report has been submitted to the Line Ministry. The 2019 report has been drafted.</p>	<p>Necessary action should be taken to table the Annual Reports in Parliament within the stipulated time.</p>