

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 2022 comprising the statement of financial position as at 31 December 2022 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 University as at 31 December 2022, 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 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 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 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 Ocean University;
- Whether has performed according to its powers, functions and duties; and
- Whether the resources 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

	Non Compliance with the Reference to the Particular Standard	Comment of the Management	Recommendation
(a)	As per Section 53 of Sri Lanka Public Sector Accounting Standard 7, as a result of a revaluation, when the carrying value of an asset class is reduced, the reduction of it should be recognized in surplus or deficit. But due to the revaluation loss of Rs.62,133,045 had been deducted from the revaluation surplus, the deficit of the year and the revaluation reserve were understated by that amount.	No reply was made.	Sri Lanka Public Sector Accounting Standards should be followed.
(b)	Although capital grants of Rs.63,825,567 were received by the institution in relation to the year under review, no adjustments	Instructions had been given to the present	Sri Lanka Public Sector Accounting

were made in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11. accounts in Standards in accordance with Sri Lanka Accounting Standard 11 during the presentation of the final accounts of the year 2023. should be followed.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The payment of gratuity during the year under review to an officer who completed service in the year 2021 had been accounted as an expenditure of the year without adjustment to provision for gratuity account. As such, provision for gratuity account and deficit for the year were overstated and understated by Rs.563,582 respectively.	Action will be taken to rectify.	Adjustments should be made from the provision for gratuity account at the time of payment of gratuity.

1.5.4 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
The value of the contract retention money according to the financial statements was Rs.7,569,134, but according to the corresponding reports, the value was Rs.14,598,570, and, as such, a difference of Rs.7,029,436 was observed.	That the corrected report be submitted.	Arrangements should be made to prepare the schedules correctly.

1.5.5 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
Although the amount of Rs.6,155,458 shown in the accounts as accrued expenses in the previous years had been written off from the accounts in the year under review, information related to the settlement of that accrued expense was not submitted to the audit.	That the statement of accrued expenses as on 31.12.2020 had been submitted by mistake and has now been fully corrected.	Relevant information and journal entries should be submitted for audit.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
Total receivable balances amounting to Rs. 11,907,417 related to 06 items that were overdue for 5 years shown in the trade and other receivables of Rs.22,149,528 as on 31 December of the year under review was unable to recover during the year under review.	A committee has been appointed to settle the balances and the final report containing the recommendations of the committee will be submitted to the next Audit and Management Committee meeting and action will be taken regarding these balances.	Action should be taken to collect the receivables.

1.6.2 Accounts Payables

Audit Observation	Comments of the Management	Recommendation
Although a total payable amount of Rs.6,147,363 for more than 03 years and a total payable amount of Rs.21,971,620 between 1 and 3 years were in the total payable balance of Rs.28,118,983 as on 31December of the year under review, settlement of those balances was not done even till the end of the reviewed year.	Action will be taken to settle after receiving treasury allocations in 2023	Action should be taken to settle the payables.

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

The following observations are made.

	Reference to Laws, Rules, Regulations etc	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i.	Financial Regulation 151 (1)	200 types of items which the value could not be calculated in Tangalle Faculty were stacked improperly in 02 container boxes and 01 shop room without	No reply was made.	Action should be taken in terms of Financial Regulations.

being entered in the inventory book.

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| ii. | Financial
502 (2) | Regulation | The university had paid a sum Rs. 3,540,626 to a private audit firm and revalued the assets and an asset register was prepared as on 31 December 2021, but action had not been taken to maintain the assets register by 31 December of the year under review. | No reply was made. | Action should be taken in terms of Financial Regulations. |
| iii | Financial
. 570 | Regulation | The contract retention money amounting to Rs. 7,119,436, which had exceeded 02 years, was credited to the income of the institute without being credited to the government income. | An amount of Rs. 7,119,436 had been taken as income after confirming the payable deposits to be repaid by the engineering workshops which the construction works are handled. | Retention money exceeding 02 years should be credited to Government revenue. |
| iv | Financial
. 756 | Regulation | Annual board of surveys had not been conducted since 2020. | No reply was made. | Financial regulations should be followed. |

(b) Establishment Code of the Democratic Socialist Republic of Sri Lanka

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| i. | Section 5.3.1 of Chapter XIX | | The Assistant Director of Tangalle Center occupied in a government scheduled house since 2012 and the due house rent amounting to | No reply was made. | Establishment Code should be followed. |
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Rs.688,113 had not been collected from him.

- ii. Section 5.2.2 of Chapter XIX
- A rent of Rs. 250 per day was charged in violation of the provisions of the Establishment Code while providing residential facilities to external lecturers in the buildings of Tangalle college belonging to the university. Further, no arrangements were made to collect water and electricity charges.
- No reply was made.
- Establishment Code should be followed.
- (c) Ocean University of Sri Lanka Act No. 31 of 2014
- i. Section 23 (a)
- Although it has been stated that an aptitude test for the admission of certain types of applicants should be conducted by the examination department after consultation of the University, the university had not acted accordingly regarding the aptitude tests held so far.
- Since the enrolment of students should be done expeditiously, that Aptitude Tests will be conducted by Examination Division of the university.
- Provisions of the Ocean University of Sri Lanka Act. Should be complied.
- ii. Section 66
- Although it was stated that the provisions of the University Act No. 16 of 1978 should not be applied to the Ocean University of Sri Lanka, contrary to
- Research allowances and academic allowances are paid as per the instructions given by the National Salaries
- Provisions of the Ocean University of Sri Lanka Act. Should be complied.

that, applying the Commission and circulars of the Department of University Grants Management Commission, other Services in payments including approving the study allowance and number of research allowance employees related had been paid only on to the Ocean the approval of the University of Sri Lanka. Governing Council Lanka. without the approval That the approved of the Treasury. posts and salary Further, the approved scales for the positions and salary academic and non-scales for national academic sections universities, which of Ocean have been set by the University of Sri Lanka have been University Grants Commission for the approved by the academic and non-Salaries and Cadre academic sections of Commission and the universities were the Department of also applied to Ocean Management University and Services. approval of the Department of Management Services was obtained.

- (d) Sections 15 and 16 of Chapter XII of Establishment Code and Public Administration Circular No. 02/2019 dated 22 February 2022
- Although the sum of Rs. 1,732,125 recovered from an officer who had taken no pay overseas leave for breach of contract should be sent to the General Treasury, it was stated in the statement of changes in net assets as a bond breach reserve.
- Instructions had been given to rectify.
- This amount should be sent to the General Treasury.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 44,713,970 as compared with the corresponding deficit of Rs 7,719,057 in the preceding year, thus indicating a deterioration of Rs.36,994,913 in the financial result. Increase in training expenses, other expenses, contractual services and supply services had mainly attributed to this deterioration.

3. Operational Review

3.1 Management Inefficiencies

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
A total sum of Rs.489,500 was paid without formal approval to 187 posts of Supervisor Observers and examination hall assistants for the supervision of aptitude test examinations on 14 and 20 November 2021.	A common system will be prepared, approved and implemented regarding the allowances given for the examination duties related to the aptitude tests in the year 2023.	Payments should be made only on formal approval.

3.2 Under Utilization of Funds

Audit Observation	Comments of the Management	Recommendation
A balance of Rs.9,096,181 remained as on 31 December 2022, due to non-utilization of the capital funds properly received for the projects annually.	That Rs.9,096,181 had been used for the settlement of accrued expenses provided for the expenses of the year under review, the settlement of allocated capital expenditure and the balance will be fully settled with the settlement of other payments in the future.	Even after removing the expenditure of Rs.6,942,331 accrued related to the capital expenditure subjects of the year under review, a balance of Rs.2,153,850 remains in this bank account. The capital funds should be used with proper management and the remaining money should be reported to the Treasury.

3.3 Human Resources Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) 25 officers were recruited for 11 posts contrary to approved cadre by the Department of Management Services and a sum of Rs.31,816,612 were paid only for salaries and allowances during the year under review alone.	No reply was made.	Staff should be recruited only for approved cadre of the Management Services Department.
(b) Due to the vacancies of 42 instructors in the head office and colleges, courses could not be conducted qualitatively and effectively and trend of dropout of the courses by students had increased.	No reply was made.	Necessary action should be taken to fill up the vacant posts to keep the performance of the college up to date.

3 Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
In the comparison of the budgeted expenses and the actual expenses, expenses of 10 recurrent subjects were exceeded from 40 percent to 605 percent over the budgeted value.	This situation is due to the high level of inflation during the period of economic crisis, which has resulted in spending more than the budgeted value.	Management should focus on using the budget as a cost control tool