

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 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	An amount of Rs.53,263,671 had been received as capital grants and donations during the year under review and it had been adjusted as income from non-exchange transactions in the statement of financial performance. But it has been again adjusted under the relevant capital grants and donations, in the statement of changes in equity and, also, that amount has been removed from the accumulated surplus. As such, the equity has not been accurately stated in the statement of financial position as on 31 December 2023.	Instructions has been given to make corrections when submitting the final accounts for the year 2024.	Actions should be taken to accurately adjust capital grants and donation receipts in the financial statements.
(b)	The payable expenses of Rs. 2,088,390 relating to the year under review had not been accounted for. As such, the surplus of the year and current liabilities had been overstated and understated respectively by that amount.	As the centers of the university have been located across the island, this problem has occurred in submitting information to the head office	Expenses payable for the year should be accurately included in the financial statements.
(c)	The balance of the unspent capital grant account amounting to	According to Public Accounting Standard No. 11, the amount	The balance of the unspent capital grant

Rs.23,278,137 as on 31 December of the year under review, had been shown under current liabilities instead of being shown under equity.

utilized from the capital allocation provided by the Treasury has been recorded under non-exchange transactions in the financial performance report and the unutilized amount has been shown as a current liability in the statement of financial position.

account from the capital provision should be shown under the equity.

(d) Although capital receipts during the year under review were Rs.66,156,298, it was stated as Rs.46,460,299 in the cash flow statement.

Capital allocation received have been made in accordance with Public Sector Accounting Standard No. 11 and, accordingly, the utilized provision amount has been shown as capital receipts. The unspent allocation amount has been shown as an increase in current liabilities indicating an increase in working capital.

Capital provision receipts should be accurately reflected in the cash flow statement.

(e) Due to the recording of expenses of Rs.361,956 relating to the year 2022 as expenses of the year under review, the surplus for the year was understated by that amount.

Although an internal mechanism has been introduced to monitor expenses, this situation has arisen due to the fact that the centers of the university have been located in various parts of the island and the lack of sufficient staff. Action will be taken to prevent this situation in the future.

Expenses related to the year should be accurately identified and made adjustment .

1.5.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
Although the receivable course fees related to 05 courses as per the financial statements as at 31 December 2023 was Rs.965,005, but as per the schedules, the balance was Rs.1,286,158. As such, the difference was Rs.321,153.	That the information has been corrected and submitted to the audit.	The income shown in the financial statements and the relevant schedules should be reconciled.

1.5.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
Information relating to Rs. 859,430, which was stated as unrecognized income under accounts payable, was	It has been identified and corrected in the 2024 final accounts, and the remaining	Arrangements should be made to submit the information required

not submitted for audit.

amount will be settled in the future. for the audit.

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

	Reference to Laws, Rules, Regulations etc	Non-compliance	Comments of the Management	Recommendation
(a)	Financial Regulation 124(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to obtain the approval of the Secretary of the Ministry regarding the establishment of the Distance Education Center operating as a revenue generating unit and the payment of staff allowances.	A letter has already been sent to the Secretary of the Ministry seeking approval.	Action should be taken to obtain the approval of the Secretary of the Ministry regarding the establishment of the Distance Education Center operating as a revenue generating unit and the payment of staff allowances.
(b)	The Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 August 2020			
(i)	Financial Regulation 371 (2) b	Advances ranged from Rs.106,000 to Rs.674,800 had been given on 13 occasions, exceeding the maximum advance limit without formal approval.	The relevant advances have been released due to practical reasons such as increasing costs due to inflation and the need to pay before receiving services.	Action should be taken in terms of Financial Regulations.
(ii)	Financial Regulation 371 (5)	The advance amounting to Rs. 1,893,476, which had been given on 25 occasions during the year under review, had not been settled as at 31 December of the year.	So far, Rs.1,166,091 has been settled and the recipients of the outstanding advances have been notified to settle them.	Settlement of Advance payments should be done soon after the relevant work is completed.

(iii) Financial Regulation 756 (6)	Annual board of surveys had not been conducted since year 2019.	The 2022 board of survey activities are being completed and instructions have been given to submit the report to the audit.	Annual board of surveys should be carried out.
(c) Section 5.3.1 and 5.5.1 of the Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to recover the house rent amounting to Rs. 1,808,783 from 07 officials residing in government quarters in Mattakkuliya, Trincomalee and Tangalle from the year 2016 to May of the year under review.	Since these buildings have not been recognized as residential properties, it was not possible to charge rent.	Action should be taken to recover the relevant rent from officials residing in government quarters.
(d) Section 5(1) of the Payment of Gratuities Act, No. 12 of 1983	Gratuities of Rs. 4,744,924 had been paid to 05 employees after a delay of between 29 and 144 days.	Action will be taken to avoid delays and manage funds to ensure that gratuity payments are made within the stipulated time in the future.	Gratuity should be paid without delay of time.
(e) Paragraph 5 of the circular letter No. BD/HRD/126/214/19 /2023 dated 18 January 2023 addressed to the Secretary to the Ministry of Education by the Secretary to the Treasury.	Action had not been taken to remit to the Treasury the amount of Rs. 2,876,769 recovered from two lecturers whose bonds had been breached in the year under review.	The funds have been retained in accordance with University Grants Commission Circular No. 805 and the approval of the Governing Board will be obtained in the future to apply of this circular to the university.	Action should be taken to send the relevant funds to the Treasury in accordance with the circular letter of the Secretary to the Treasury.
(f) Section 66 of the Ocean University of Sri Lanka Act No. 31 of 2014	Although it was stated that the provisions of the University Act No. 16 of 1978 should not be	The regulations and rules required for running a university are	Provisions of the Ocean University of Sri Lanka Act. Should be complied.

applied to the Ocean University of Sri Lanka, The Department of Management Services approval had been obtained for the approved posts and salary scales for national universities prescribed by the University Grants Commission for the academic and non-academic departments of the university. Similarly, payments for aptitude tests, establishment of the distance education unit and payment of external lecturer allowances were made based on University Grants Commission circulars without obtaining Treasury approval.

submitted to the Governing Council of the Sri Lanka Ocean University for approval, and the approval of the Governing Council has been obtained for this as well.

1.7 Financial Management

Audit Observation	Comments of the Management	Recommendation
The capital grants of Rs.3,019,030 provided by the Ministry for the development of infrastructure facilities of the regional centers of the University during the year under review had been invested in a fixed deposit account without proper approval and had not been utilized for the relevant purpose.	This amount was retention money of the building construction and has been invested in a source of income earning until the retention is released.	Capital grants provided by the Ministry should be used for the relevant purpose.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs.3,733,753 as compared with the corresponding deficit of Rs.44,713,970 in the preceding year, thus indicating an improvement of Rs.48,447,723 in the financial result. Increase in government recurrent grants had mainly attributed to this improvement.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The Nipunatha Sisu Saviya Scholarship Program, provided by the Ministry for students with financial difficulties undergoing vocational training, provided Rs.6,632,000 to 418 students in June 2023, but only Rs.623,000 was paid to 178 students. The remaining amount of Rs.6,009,000 had not been utilized for the relevant purpose and credited to a current account and remained idle until 31 December of the year under review.</p>	<p>Instructions have been given to promptly pay the remaining funds to the beneficiaries, otherwise the excess funds to be returned to the line ministry.</p>	<p>Action should be taken to utilize the funds of the Nipunatha Sisu Saviya Scholarship Program for the relevant purpose.</p>