

National Institute of Fisheries and Nautical Engineering - 2012

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1: Financial Statements

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1:1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the National Institute of Fisheries and Nautical Engineering as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

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1.2.1 Accounting deficiencies

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An identified balance of Rs.3,346 according to the Bank Statement as at 31 December 2011 had been treated as an error in writing the cash book and adjusted to the cash book balance and the Accumulated Deficits and Surpluses Account as at 31 December 2012. As such the cash book balance and the balance of the Accumulated Deposits and Surpluses Account had been reduced by that amount.

1:2:2 Accounts Receivable and Payable

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Three assets balances amounting to Rs.7,642,763 and a credit balance amounting to Rs.437,324 remaining dormant over a number of years had not been settled even by the end of the year under review.

1:2:3 Lack of Evidence for Audit

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The evidence indicated against the following items of account shown in the financial statements had not been furnished to audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
(a) Repairs to Motor Vehicles	727,724	Recommendations of a Motor Mechanic.
(b) Officers Allowances of the ISIF Project.	3,979,926	Particulars of Allowances and Letters of Appointment/ Assignments.
(c) Additional work of the Mattakkuliya Building and Corridor	1,619,256	Approval for additional work.
(d) Balances Payable	2,935,754	Schedules, Confirmation of Balances and Age Analysis.
(e) Staff Loans	11,104,863	Schedules, Confirmation of Balances and Age Analysis.
(f) Building constructed at the Batticaloa Regional College.	1,078,400	Work Done Reports and Information on Project Staff.
	----- <u>21,445,923</u>	

1:2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions  
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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Financial Regulations -----	
(i) Financial Regulation 104	Action had not been taken for the preparation of the preliminary report and the final report on a loss caused to a motor vehicle and to obtain reimbursement of the loss.
(ii) Financial Regulation 137(5)	Prior to the receipt of goods, the entire sum of Rs.3,029,994 had been paid in 02 instances.
(iii) Financial Regulation 396(d)	Action had not been taken on cheques valued at Rs.452,045 issued but not presented to the Banks for over 06 months.
(b) Government Procurement Guidelines -----	
(i) Guideline 1.3.2	Goods and services totaling Rs.3,362,405 had been purchased in 03 instances without inviting quotations.
(ii) Guideline 3.2	National competitive bids had not been invited for the purchases amounting to Rs.5,701,803 made in 02 instances.
(iii) Guideline 3.3 and 3.5	Bids should be invited from potential suppliers under the limited quotations and in the case of direct contract system, the approval of the Cabinet of Ministries should be obtained. Nautical Maps and books had been purchased for Rs.2,049,994 by inviting quotations from one institution without complying with the above provisions.

- (iv) Guideline 5.4.4 Advances ranging from 25 per cent to 100 per cent of the total value amounting to Rs.3,563,962 had been granted in 06 instances without obtaining advance payment guarantees.
- (v) Guideline 5.6.1 Goods valued at Rs.9,750,427 had been purchased in 06 instances without indicating the specifications.
- (vi) Guideline 8.9.1(b) Agreements had not been entered into in connection with the purchases of goods exceeding Rs.500,000 in value in 07 instances totaling Rs.13,542,714 in the year 2012.
- (vii) Guideline 8.13.3 Sums totaling Rs.2,364,590 over 10 per cent of the estimate ranging from 28 per cent to 16 per cent had been paid for additional work of 02 works without formal approval.
- (c) Public Administration Circular No. 6/2010 of 31 December 2011. Fourteen officers had been recruited in the year 2011 on the contract and assignment basis without the prior approval of the Department of Management Services and had paid salaries and allowances amounting to Rs.4,270,183 up to July 2012.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.42.51 million as compared with the corresponding deficit of Rs.31.85 million for the preceding year, thus indicating deterioration of Rs.10.66 million in the financial results. The increase of the operating expenditure for the year under review as compared with the preceding year by a sum of Rs.32.84 million had been the main reason for the deterioration.

3. Operating Review

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3:1 Performance

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The following observations are made.

3:1:1 Out of the provision of Rs.20,000,000 given by the International Fund for Agricultural Development for the construction of a building at the Regional College at Batticaloa, a sum of Rs.1,078,400 only had been spent up to August 2012. In addition, an Action Plan had not been prepared in terms of clause 2.5 of the agreement.

3:1:2 A sum of Rs.547,000 had been received from a private institution in the year 2009 for the supply of 56 aquaculture equipment to the participants of a course of the Regional College at Batticaloa. The following observations are made in that connection.

(a) Instead of purchasing at the end of the course, 16 equipment had been purchased after 03 years at a higher price thus resulting in a loss of Rs.14,480.

(b) A sum of Rs.412,520 had been idling from the year 2009 to August 2012 due to the failure to purchase 40 aquaculture equipment and due to the delay the students who followed the course had engaged in other jobs. Even though other equipment had been purchased subsequently from that money, the expected objective had not been achieved.

3.1.3 An estimate of Rs.6,282,320 (Australian \$60,500) had been prepared for the design and installation of a Mobile Trading Portal Server for obtaining various information needed by the fishermen, their capacity development and the conduct of training programmes. A grant of Rs.4,153,600 (Australian \$40,000) had been made by a Foreign Fund in August 2011 and a sum of Rs.3,979,927 out of that had been spent. The following observations are made in this connection.

(a) A plan for the supply of the balance sum of Rs.2,128,720 (Australian \$20,500) other than the money supplied by the foreign fund was not available.

(b) According to the Progress Reports the Communications Unit had been designed, but it had not been possible to install that and make available for

obtaining in information required by the fishermen even by December 2012. As such the objective of the Project had not been achieved and the sum of Rs.3,979,927 spent remains a fruitless expenditure until it is put into operation.

3:1:4 A sum of Rs.328,239 had been spent on the inaugural ceremony of the Whales and Dolphins Sighting Project held in December 2011. Holding an inaugural ceremony again for a project in operation since the year 2008 is an uneconomic transaction. Even though sea tours with tourists had been conducted two days after the celebration, the project had not been operated even up to December 2012.

3:1:5 Conduct of Courses  
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(a) Conduct of Degree Courses  
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The Progress of under graduates had been as follows.

Year	Number of Students				
	As at 31 January 2012	Enrolled during the year	Abandoned Courses halfway	Completed the Course during the year	As at 31 December 2012
2009	--	13	02	--	11
2010	11	32	05	--	38
2011	38	33	01	--	70
2012	70	18	04	--	84

(b) Conduct of Diploma and Certificate Courses  
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The participation of students in the year 2012 for the Diploma and Certificate Courses of the Regional Colleges had been as follows.

College	Number of Students				
	As at 01 January 2012	Enrolled during the year	Abandoned Courses halfway	Completed the Course during the year	Number following courses as at 31 December 2012
Trincomalee	--	95	15	80	--
Negombo	30	109	34	70	35
Batticaloa	--	103	22	67	14
Jaffna	--	161	07	140	14
Mattakkuliya	42	172	37	101	76
Kalutara	32	48	15	38	27
Galle	40	104	23	78	43
Tangalla	45	231	93	82	101
	189	1,023	246	656	310

(c) Conduct of Courses other than Degree Courses

The progress of conduct of the courses other than the Degree Courses in the year 2012 is given below.

Colleges	Diploma Courses	Certificate Courses	Courses of 10 to 48 Days duration	Computer Courses	Mobile Courses	Total
Trincomalee	23	50	07	--	205	285
Negombo	07	26	37	--	299	369
Batticaloa	--	18	49	--	--	67
Jaffna	--	30	110	--	25	165
Mattakkuliya	25	76	--	--	39	140
Kalutara	11	27	--	--	--	38
Galle	08	31	39	--	--	78
Tangalla	--	43	10	29	--	82
	<u>74</u>	<u>301</u>	<u>252</u>	<u>29</u>	<u>568</u>	<u>1,224</u>

(Prepared according to the confirmation supplied by the Regional Colleges)

The following observations are made in this connection.

- (i) Even though the primary objective of the Institute is the improvement of the Fisheries and Nautical Engineering Sectors, in the year 2011 59 per cent of the overall student participation of the Tangalla Regional College had followed the computers related courses. That had decreased to 35 per cent in the year 2012.
  - (ii) Out of the students receiving education during the year , 20 per cent had abandoned courses halfway.
  - (iii) Out of the 1,224 students trained in the year, 568 or 46 per cent had participated in the Mobile Awareness Programmes of one day, two days or five days duration. As trained labour is not generated through the conduct of such programmes the achievement of the primary objective of generating trained labour to the Fisheries Sector indicated a slow progress.
  - (iv) The National Institution of Fisheries and Nautical Engineering being and institution with the primary function of the conduct of courses without engaging in other extraneous activity, the number of students completing the courses during the particular year represents the overall output of the Institute during such year. As such the total recurrent expenditure of Rs.150,222,463 incurred in the year 2012 as compared with the overall output consisting of the students who completed the Diploma and Certificate Courses, excluding the Mobile Courses, indicated a cost per student amounting to Rs.228,998.
  - (v) The Institute did not have a methodology for taking follow up action on the progress of the students who had completed the Degree and Diploma Courses.
- (d) Failure to take Action in terms of Provisions in the Act
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Except the action taken on the conduct of courses under (a) and (b) of Section 3 of the National Institute of Fisheries and Nautical Engineering Act, No. 36 of 1996 under which the National Institute of Fisheries and Nautical Engineering was established, the following activities had not been done in the year under review.

- (i) Conduct of conferences and seminars on education in the field of fisheries and nautical engineering.
- (ii) Conduct of research, surveys and investigation on education and extension training in the fields of fisheries and nautical engineering.
- (iii) Exchange of teachers and students or otherwise with institutions in Sri Lanka or abroad.

### 3:2 Operating Inefficiencies

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The following observations are made.

- (a) A trade stall of the Institute situated in Tangalla Town had been leased out in June 2011 for a period of the year at a deposit of Rs.21,000. But the monthly lease rent had not been recovered. Even though the agreement had expired by June 2012 action had not been taken either to recover the tenure of the property or for the recovery of the arrears of the lease rent for the period up to September 2012 amounting to Rs.105,000 at the rate of Rs.7,500 per month.
- (b) There were 02 large vessels and 02 small boats needing repairs for the use of the Tangalla Regional College. An examination in this connection revealed the following matters.
  - (i) Even though an income of Rs.714,565 had been earned in the year 2011 by the rescue of damaged fishing craft, no income whatsoever from that source had been earned in the year 2012. The Institute had not paid attention to carry out repairs to the vessels which could be used for the benefit of the people in the area.
  - (ii) The Log Book and the Register of Fuel of one craft had not been produced for audit. The Head of the Boathouse failed to produce that vessel as the officer in charge of the vessel had gone on leave and to explain about the officer appointed to act for that officer.
  - (iii) As the information the sailing done for training of students had not been maintained by the Training Division, the correctness of those could not be established.

- (c) Even though a staff including an Accountant was available, a retired Government Officer to attend to those functions and an officer for the preparation of Bank Reconciliation had been recruited and payments totaling Rs.239,000 had been made. As the Bank Reconciliations were not correct, preparation of those had been given to a firm of private auditors.
- (d) Five balances receivable several years old amounting to Rs.309,441 had been written off to the Income and Expenditure Account without obtaining approval.
- (e) In terms of the Public Finance Circular No. 449 of 24 February 2011 the appointments on the basis of assignments should be limited only for urgent work not exceeding 45 days duration. Contrary to that, 08 officers had been appointed in the year 2011 for the normal duties of the Institute which were not of urgent nature and a sum of Rs.3,192,099 had been paid up to July 2012. The approval for that had not been obtained from the Secretary to the Ministry. Assignments had not been made for a specified period and the work done during the period could not be clearly identified. Instead of payment of allowance at the rate of Rs.30,000 per assignment, monthly payments at the rate of Rs.50,000 and Rs.35,000 had been made.

3:3 Transactions of Contentious Nature

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The following observations are made.

- (a) A sum of Rs.69,000 had been paid for the transport of sea sand from the Kirinda Fisheries Harbour to Pareiwella Beach, Tangalla where the Beach Sports Festival was held. Transport of sea sand to a coastal area abound in sea sand is questionable.
- (b) According to a proposal of the Engineer recruited on assignment basis for the speedy completion of concreting the internal road of the Institute for a length of 450 feet with direct labour, 166 feet had been concreted by February 2012 by using materials valued at Rs.193,800. The balance 284 feet of this urgent work had not been done even up to August 2012 and the Engineer concerned had left the Institute.
- (c) Even though a sum of Rs.200,000 had been paid to an officer from June 2009 to August 2012 for the supervision of a building constructed at Batticaloa Regional College, provision for that had not been made in the agreement.

3:4 Transactions outside the Objectives  
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A sum of Rs.225,000 out of the provisions made for the practical training of the trainees had been spent on fuel for holding a meeting of the Assistant Directors of the Institute in April 2012 in a vessel owned by the Institute.

3:5 Underutilized Assets  
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Two trade stalls had been kept closed from the year 2010 to September 2012 and according to the valuation report dated 29 December 2010 the rent of those amounted to Rs.7,000 and Rs.7,500 respectively.

3:6 Identified Losses  
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The following observations are made.

- (a) The arrears of course fees of the Fisheries and Nautical Engineering commenced in the Tangalla College in the year 2009 by September 2012 amounted to Rs.2,743,000.
- (b) No income whatsoever had been received from the year 1991 to September 2012 from the two trade stalls in Tangalla Town leased out to the Ceylon Fishers Corporation.
- (c) According to the quotations received in connection with the purchase of a bus, instead of the possibility of purchasing a 42 seater Tata Benz bus for Rs.3,000,000 a 38 seater bus of the same make had been purchased for Rs.3,250,000.
- (d) Even though the goods had been ordered 46 days after the expiry of the quotations, the supplier concerned had not agreed to supply the goods. Instead of inviting quotations, 80 computers had be purchased on the fresh quotations submitted by the same supplier, thus resulting in a financial loss of Rs.256,000.
- (e) The recommendations of the Technical Evaluation Committee for the purchase of office equipment valued at Rs.2,451,803 without preparing institutional specifications and examining the specimen of the goods posed problems to audit. An overpayment of Rs.278,375 had been made on 07 categories of goods due to the rejecting of the lowest quotations.

3:7 Deficiencies in Contract Administration  
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The following observations are made.

- (a) The contractor had not carried out an item of work amounting to Rs.150,000 in carrying out repairs to the library. Instead of getting that done by the contractor or taking legal action against him before the expiry of the performance bond, a loss of Rs.87,856 had been incurred in getting that work done through another institution. Instead of obtaining confirmation that the work had been done correctly from a professionally competent person, such confirmation had been obtained from the librarian.
- (b) The procurement for the modernization of the main building at Mattakkuliya corridor had been awarded for a bid of Rs.5,813,532. The following observations are made in this connection.
  - (i) Even though the institution awarded the procurement had submitted the lowest quotation, a bid security for an adequate period according to the newspaper advertisement had not been submitted. According to the Guideline 7.8(d) of the Procurement Manual when the period of bid security submitted is less than the period stated the bid should be rejected. Nevertheless, contrary to the provision, the contractor had been requested to extend the validity period and awarded the procurement.
  - (ii) According to clause 04 of the agreement dated 26 January 2012 of the Institute entered into with the contractor, the work should have been completed before 23 July 2012. Nevertheless, an extension of 45 days had been requested. Even though an extension of 90 days had been allowed, the work had been completed only on 12 December 2012. Conditions for the recovery of liquidated damages for delays had not been included in the agreement.
  - (iii) Out of the estimated cost of Rs.5,813,532 work valued at Rs.2,089,413 or 36 per cent had not been done.
- (c) The performance bond submitted for the contract for landscaping of the Head Office had expired by February 2013. The work which should have been completed by November 2012 according to the agreement had not been completed even by April 2013. Conditions for the recovery of liquidated damages for delays had not been included in the agreement.

- (d) Even though the repairs of the vessel at Trincomalee should have been completed in February 2013, that work had not been completed even by September 2013.
- (e) A sum of Rs.589,325 had been paid to the person in charge of the canteen of the Tangalla Regional College based on the number of students who had obtained food from June 2011 to September 2012. The following observations are made in that connection.
  - (i) Quotations had not been invited before the award of the contract.
  - (ii) An agreement had not been entered into and a written agreement on the nature of food supplied and the prices charged by the supplier had not been entered into.
  - (iii) The correctness of the number of students who had obtained food had not been examined.

3:8 Resources of the Institute given to other Government Institutions  
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The building of 2,231 square feet situated in the premises of Tangalla Vipula Mandira had been used by the Presidential Security Division over a period of several years and rent had not been recovered.

3:9 Staff Administration  
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The following observations are made.

- (a) Three persons had been recruited to the posts of Head of Higher Studies and the Senior Information Technology Officer without obtaining the approval of the Department of Management Services and a sum of Rs.1,978,118 had been paid as allowances up to July 2012.
- (b) Even though a clerk of the Institute had been released to another Government institution from December 2010, that officer's salary up to September 2012 had been paid by the Institute.
- (c) The vacancies existing in the approved staff of 272 had been 115 and that included the posts of Directors of Higher Studies, Training, Administration and Finance.
- (d) The Deputy Director had been appointed to act in the post of Director (Training) which fell vacant in October 2011. According to Sub-section 13.3 of Chapter II

of the Establishments Code an acting appointment is a temporary measure until a permanent appointment is made. Nevertheless, a period of 1 ½ years since the acting appointment had elapsed by April 2013. Even though acting allowances totaling Rs.167,605 had been paid from the date of acting appointment up to April 2013, the approval of the Secretary to the Ministry in terms of Sub-Section 12.2.6 of Chapter VII of the Establishments Code had not been obtained.

- (e) Out of the posts of Lecturers and College Instructors 27 posts or 47 per cent had been vacant.
- (f) According to the letter No. DMS/E4/298/1(Vol.1) of the Department of Management Services, the post of Technical Officer had been eliminated from the approved posts. Accordingly, that post had been abolished with the termination of services of the person holding that post at the time. As such the service of the officer appointed to that post on contract basis for 06 month should have been terminated on 07 April 2012. Nevertheless, the service of the officer had been extended for periods of 06 months even up to 26 April 2013, the date of audit. As such the Institution had taken action to pay sums totaling Rs.390,000 from April 2012 to April 2013 for a post not approved.
- (g) An officer appointed in May 2011 as Instructor of Vessels without a approval of the Treasury and the Secretary to the line Ministry had been paid sums totaling Rs.833,203 up to March 2013 at the rate of Rs.3,750 per working day.

### 3:10 Motor Vehicles Control

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The following observations are made.

- (a) A lorry was found at the audit inspection in October 2012 parked and deteriorating in the premises of the Vipula Mandira at Tangalla due to the lack of a starter motor. Except the above repair needed, the reasons leading to the removal of the lorry from running, the date of such removal and the Daily Running Charts had not been furnished to audit. The Institute had not taken action against the officers responsible for leaving a motor vehicle to deteriorate for the want of a minor repair.
- (b) Action in terms of the report of a Depot Engineering on repairs to a bus had not been carried out and the bus had been taken off from running in the year 2008 and left unprotected and deteriorating in the premises of Tangalla College even up to

September 2012. According to a report made by a Depot Engineer on 13 September 2012, the bus had been beyond repairs. The Institute had not taken action against the officers responsible for leaving the bus to deteriorate without taking action to repair it. Even though a request for the bus had been made by the Tangalla College for use of the Engine Training Course, that had not been allowed.

- (c) The Institute had not taken any course of action whatsoever in connection with the motor cycle misplaced about 04 years ago. Even though the Report of the Committee appointed after the issue of the audit query had been submitted to the Director General in January 2013 action thereon had not been taken even up to October 2013.
- (d) Four broken-down motor vehicles and 03 motor vehicles destroyed by the tsunami had not been disposed of.
- (e) The ownership of 05 motor vehicles donated by the World Food and Agricultural Organization and a motor vehicle received from the Ministry of Fisheries had not been transferred in the name of the Institute.

#### 4. Accountability and Good Governance

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##### 4:1 Corporate Plan

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A review of the operating results of the three preceding years in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been incorporated in the Corporate Plan prepared for the years 2012 to 2014. The Corporate Plan had not been prepared by including the financial value of the targets to be achieved to enable the evaluation of annual progress.

##### 4:2 Action Plan

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Even though an Action Plan clearly indicating the objectives to be achieved during the planned period together with the responsibilities of the management should be prepared a plan on the capital expenditure only had been prepared.

4:3 Procurement Plan  
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A Procurement Plan in accordance with Guideline 4.2(c) of the Government Procurement Guidelines had not been prepared and approved.

4:4 Budgetary Control  
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The following observations are made.

- (a) A Projected Balance Sheet, a Statement of Income and Expenditure and a Cash Flow Statement as at the last date of the financial year in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 had not been prepared.
- (b) The Budget Estimates for the year 2012 had been approved by the Board of Directors only on 04 May 2012.

5. 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 Chairman of the institute from time to time. Special attention is needed in respect of the following areas of systems and control.

- (a) Procurement
- (b) Budgetary Control
- (c) Accounting
- (d) Accounts Receivable and Payable
- (e) Staff Administration

