

The National Institute of Fisheries and Nautical Engineering - 2011

1. Financial Statements -----

1.1 Disclaimer of Opinion -----

Because of the significance of the matters described in paragraph 1.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

1:2 Comments on Financial Statements -----

The following observations are made.

1.2.1 Sri Lanka Accounting Standards -----

Capital grants received from government and other foreign institutions had not been brought to accounts in terms of Sri Lanka Accounting Standard 24.

1:2:2 Accounting Deficiencies -----

The following observations are made.

- (a) In the examination of draft financial statements erroneous ledger positions amounting to Rs.2,057,186, omissions of receipts from financial statements amounting to Rs.7,635,756 and payments amounting to Rs.476,105 had been observed. Accordingly the finance statements had been rectified and the final financial statements had been presented. However the existence of further such accounting deficiencies could not be ruled out in Audit.

(b) Deficiencies in the preparation of cash book.

The following observations are made.

- (i) Direct deposits and standing orders amounting to Rs. 7,635,735 and Rs.419,822 respectively had been omitted from the financial statements.
- (ii) The cash book total was not correct. According to the calculations done in audit, there was a difference of Rs.913,859 as per audit calculation between the cash book balance as at 31 December 2011 and the balance presented by the financial statements as at that date.
- (iii) Although the final financial statements had been presented by passing a journal entry for Rs.281, 652 to the cash balance shown in the draft financial statements, it was not posted to the cash book.

(c) In order to clear the debit balance of suspense account amounting to Rs.602,030 prevailed as at 01 January 2011, sums of Rs.8,685,922 and Rs.6,208,785 had been debited and credited respectively through journal entries but there was a credit balance of Rs.311,065 even as at the end of the year under review.

1:2:3 Unreconciled Control Accounts

There was an unreconciled difference of Rs.7,001,987 between the revised balances of 14 items of accounts ascertained after passing journal entries and such balances presented in the final financial statements.

1:2:4 Accounts Receivable and Payable

Action had not been taken to settle 8 assets balances valued at Rs.7,952,204 and 2 liability balances valued at Rs.1,193,778 remained idle for several years even as at the end of the year under review.

1:2:5 Lack of Evidence for Audit

 Evidence relating to the following 8 items valued at Rs.48,314,155 were not made available for audit

Subject -----	Value ----- Rs.	Evidence not made available -----
Inventory items	237,805	Board of Survey Reports
Other Creditors	1,885,342	Schedules, Confirmation of Balance and Age Analysis
Balances Payable	1,299,978	-do-
Debtors	14,517,332	-do-
Staff Loans	7,589,458	-do-
Staff Salaries	944,643	Letters of Appointment
Journal Entries	18,676,433	Journal Vouchers
Credit Entries in the Cash Book } }	<u>3,163,164</u>	Written Confirmation
	<u>48,314,155</u>	

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) <u>Financial Regulations</u> F.R. 110	Register of losses and damages had not been maintained
(b) <u>Chapter xix of the Establishments Code</u> Sub-section 4.3.4	A priority register in respect of 05 employees' quarters belonging to the Institute had not been maintained.

Sub-section 5.8

A procedure for the recovery of water and electricity charges from employees who occupy staff quarters was not available in the institute. A sum of Rs.142,828 had been spent for the last 3 years for electricity charges of 3 houses by the institute.

(c) Circulars

Public Administration Circulars

- (i) Paragraphs 02 of Circular No.41/90 dated 10 October 1990 Fuel consumption of vehicles of the Institute had not been tested.
- (ii) Paragraphs 04 and 06 of Circular No.20/2006 dated 25 November 2006 Special advances given for the purchase of school books should be recovered during the year in which the advances were issued itself, but there was a balance of Rs.298,700 in the special advance account as at 31 December 2011.

2. Financial Review

2:1 Financial Results

The operation of the Institute for the year under review had resulted in a deficit of Rs.32.42 million as compared with the deficit of Rs.13.64 million in the preceding year. Decrease in other income earnings by Rs.10.3 million and increase in operating expenditure by Rs.19.21 million had been specially affected for the deterioration of operating result by Rs.18.78 million.

2:2 Increase in Expenditure and Capital Erosion

Particulars of the initial capital of the Institute were not made available for audit. A sum of Rs.240,649,046 had been shown as the Accumulated Fund including the Annual Capital Grants received from the Government as at 31 December 2011. Similarly, as a result of deficits arisen from operating activities from the beginning to the end of the

year under review, the accumulated brought forward deficit was amounted to Rs.140,789,491. If the overall Capital Grants received up to the year under review had been taken out from the Accumulated Fund it was observed that the Initial Capital of the Institute had been hardly eroded and shown a negative value. However if this erosion continues, it could not be avoided the problematic situation arisen in the existence of the institute.

2:3 Transactions of Contentious Nature

Despite there is an Accounts Division in the Institute, consisting of an Accountant a retired Accountant had been recruited on a assignment basis since September 2011 for accounting purposes. He had been allocated all the functions of the post of Director (administration) since December 2011 and a monthly allowance of Rs.50,000 had been paid. Further, a female officer had been recruited for the preparation of Bank reconciliation statements for the last 4 years since October 2011 and an allowance of Rs.36,000 had been paid.

2:4 Irregular Transactions

A performance bond had not been obtained for the purchase of 16 training equipment valued at Rs.1,666,560 in terms of Government Procurement Guidelines paragraph 5.4.10 and a formal agreement had also not been signed in terms of Sub-paragraph 8.9.1(b).

3. Operating Review

3:1 Performance

An action plan prepared by including the planed recurrent expenditure as well and the overall physical progress of the Institute for the year under review were not made available for audit and as such targets and performance could not be evaluated. However, according to the information made available, the progress of students participation for courses are given below.

	<u>Course</u>							
	<u>Degree</u>		<u>Diploma</u>		<u>Certificates</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
No. of students at the beginning of the year	24	80	96	105	306	192	426	377
No. of students enrolled during the year	50	49	157	102	443	506	650	657
No. of students who completed training during the year	-	-	128	89	344	374	472	463
No. of drop out students during the year	05	10	20	49	182	161	207	220
No. of students as at the end of the year	75	119	105	69	223	163	403	351

The following observations are made.

- (i) Number of drop out students during the year had been a material percentage of 33 as compared with the students enrolled during the year.
- (ii) Although MSc in construction of vessels and nautical architecture and a degree course in port management had been planned, they had not been conducted.
- (iii) Diploma Course had not been commenced in Trincomalee, Batticaloa and Jaffna regional schools in the year under review as in the previous year.

3:3 Personnel Administration

Cadre position as at 31 December 2011 is given below.

Posts	Approved	Actual	Vacancies	Excess
-----	-----	-----	-----	-----
Staff	13	12	01	-
Non-staff	225	128	97	-
Minor-staff	<u>28</u>	<u>53</u>	<u>-</u>	<u>25</u>
Total	<u>266</u>	<u>198</u>	<u>98</u>	<u>25</u>

The following observations are made.

- (a) Twenty Four per cent of the actual cadre had been on contract basis recruitments. Number of vacancies in the Nautical Division and Lecturers who make direct contribution to achieve the objects of the Institute had been 39 per cent and 60 per cent respectively of the Approved Cadre.
- (b) An officer for the post of Board of Control and Legal Officer who was entitled for the approved monthly salary of Rs.25,640 had been recruited on contract basis and a monthly allowance of Rs.35,000 had been paid without the Treasury approval. Accordingly, an over payment of Rs.23,400 had been made as at the end of the year under review.
- (c) Salaries and allowances totaled Rs.388,085 had been over paid for the 3 government retired officers during the year under review contrary to the Paragraphs 02, 03 and 05 of the Public Administration Circular No.09/2007 dated 11 May 2007.
- (d) Without prior approval of the Department of Management Services in terms of Public Administration Circular No.26/2010 dated 31 December 2010, 14 officers had been recruited on contract and assignment basis during the year under review and a sum of Rs.2,042,077 had been paid as salaries and allowances.
- (e) Five officers had been recruited on assignment basis for the posts, not included in the approved cadre of the Institute in terms of Paragraphs (b), (c) and (d) of the Management Services Circular No.28 dated 10 April 2006 and a sum of Rs.1,308,118 had been paid as salaries and allowances.

3.4 Vehicles Utilization

According to the information made available a vehicle fleet of 25 was in existence in the Institute and the following observations are made in respect of vehicle utilization in the year under review.

- (a) Action had not been taken to dispose of 07 old vehicles which had been dilapidated and destroyed.

- (b) Action had not been taken to acquire the ownership of 5 vehicles donated by the World Food and Agriculture Organization and 01 vehicle received from the Ministry of Fisheries.

4. Accountability and Good Governance

4.1 Corporate Plan

The following observations are made.

- (a) A review of operating results for the last 3 years had not been included in the Corporate Plan prepared for the period 2008-2011 in terms of Paragraph 5.1.2 of Public Finance Circular No.PED/12 dated 02 June 2003. Similarly, the annual progress could not be financially evaluated as the financial values had not been included in the targets to be achieved.
- (b) The up dated Corporate Plan approved by the Board of control should be presented to the Line Ministry, Department of Public Enterprises and to the Auditor General before 15 days of the beginning of the next financial year in terms of Sub-paragraph 5.1.3 of the above circular, but action had not been taken accordingly.

4.2 Action Plan

Although, according to the Sub-paragraph 5.1.2 of the above circular, a corporate plan being identified management's responsibilities with objectives and targets to be achieved during the planned period should be prepared, only a plan in respect of fixed assets expected to be purchased had been prepared.

4.3 Procurement Plan

A Procurement Plan in respect of goods and services expected to be purchased during the year under review had not been prepared in terms of Section 4.3(d) of the Government Procurement Guidelines.

4.4 Budgetary Control

Out of the capital expenditure provision received from the Line Ministry during the year 2011 for the rehabilitation and improvement of buildings a sum of Rs.5,900,206 had been spent to convert the bungalow occupied by the Director General in to an office and to repair the Chairman's bungalow situated within the Head Office premises at Mattakkuliya, instead of incurring this provision for the expected purposes. Approval of the Line Ministry or the Treasury had not been obtained for this deviation.

5. Systems and Controls

Weakness in systems and controls 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 control.

- (a) Supplies and Services
- (b) Budgetary Control
- (c) Accounting
- (d) Accounts Receivable and Payable
- (e) Vehicles Repairs
- (f) Staff Recruitments