

National Institute of Fisheries and Nautical Engineering - 2010

1. Financial Statements

1:1 Opinion

In view of the comments and observations appearing in this report, I am unable to express an opinion on the Financial Statements for the year ended 31 December 2010 of the National Institute of Fisheries and Nautical Engineering presented for audit.

1:2 Comments on Financial Statements

1:2:1 Non-compliance with Sri Lanka Accounting Standards

The following non-compliances were observed.

- (a) Even though assets should be depreciated from the date of use in terms of Sri Lanka Accounting Standard No.18, the fixed assets valued at Rs.16,408,695 acquired by the Institute during the year under review had not been depreciated. Provision for depreciation amounting to Rs.429,612 had been made for the residential building at Negombo appearing in the Work-in-progress Account.
- (b) Action had not been taken to account for and make the necessary disclosure in terms of Sri Lanka Accounting Standard No.24 in connection with the sum of Rs.37,960,838 provided to the Institute as Government Capital Grant

1:2:2 Accounting Deficiencies

The following observations are made.

- (a) Computation errors amounting to Rs.60,629,405 existed in 17 ledger accounts.
- (b) The balances of 03 accounts amounting to Rs.95,182,149 carried forward as at the end of the proceeding year had not been recorded in the ledger as the opening balances of the year under review.
- (c) The total sum of Rs.474,346 received on the sale of assets had been shown as the income for the year under review instead of adjusting the accumulated depreciation and the sale proceeds of the asset disposed of to the cost of the asset and disclosing the profit or loss arising therefrom in the accounts.
- (d) Expenditure amounting to Rs.1,975,908 incurred on a workshop had been brought to account as an investment.

- (e) An unidentified credit balance of Rs126,531 brought forward over a number of years had been written off against the suspense balance of Rs.728,561 instead of being identified and settled.
- (f) According to the trial balance presented with the financial statements the balance of the Suspense Account amounted to Rs.602,030 whereas the difference between the debit and credit balances including the balance of the cash book as at 31 December 2010 amounted to Rs.83,651,159.
- (g) Even though changes made to the figures in the financial statements by 09 Journal Entries amounted to Rs.21,273,214 the ledger entries had not been adjusted by those Journal Entries.

1:2:3 Accounts Receivable and Payable

Action had not been taken to settle the 07 dormant asset balances and 04 liabilities balances amounting to Rs.7,752,204 and Rs.1,168,298 respectively that existed continuously over several years.

1:2:4 Lack of Evidence for Audit

The following observations are made.

- (a) The following 09 items of account totalling Rs.127,808,267 could not be satisfactorily vouched/verified or accepted in audit due to the unavailability of the evidence indicated against each item.

Item -----	Value ----- Rs.	Evidence not made available -----
Fixed Assets	95,839,673	Register of Fixed Assets
Inventory Goods	196,598	Board of Survey Reports
Creditors	1,511,281	} Schedules, Confirmation of Balances and Age Analysis
Debtors	10,544,517	
Staff Loans	4,581,909	
Bank Balance	6,136,324	Reconciliation Statements and Confirmation of Balance
Employees' Provident Fund Payments	4,886,577	} Files relating to Payments
Employees' Trust Fund Payments	1,224,038	
Repairs to Hostel No.02	2,887,350	Agreement and Certificate of Technical Officer

(b) Replies to 11 and 07 audit queries issued in respect of the years 2008 and 2009 respectively, had not been furnished even up to 31 May 2011. The quantifiable value relating to them amounted to Rs.15,675,055.

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) <u>Financial Regulations</u>	
(i) Financial Regulation 135	Delegations of financial authority had not been reviewed timely and revisions made where necessary.
(ii) Financial Regulation 371(2) Sub-paragraph (b)	Ad hoc sub-impressts each exceeding Rs.20,000 totalling Rs.1,636,771 had been issued in 24 instances.
(iii) Financial Regulation 395 Sub-paragraph (d)	Even though Bank Reconciliations should be prepared for each month, Bank Reconciliation Statements whatsoever had not been prepared for 02 Bank Accounts of the Institute.
(b) <u>Procurement Guidelines</u> Sub-section 4.2.(c)	A Procurement Plan for the Goods and Services expected to be purchased during the current year had not been prepared and approval obtained.
(c) Public Enterprises Circular No.PED/12 of 02 June 2003	
(i) Sub-section 5.2.6	A budgeted Income and Expenditure Statement and a Cash Flow Statement and a budgeted Balance Sheet for the last date of the year under review had not been prepared and presented with the Budget.
(ii) Sub-section 6.5.1	Even though the draft Annual Report should be presented to the Auditor General within 60 days after the close of the financial year with copies to the line Ministry and the Department of Public Enterprises it had not been so done in respect of the year 2010.

- (iii) Sub-section 7.4.1 Even though the Audit Committees should meet at least once each quarter, the meetings of those Committees had not been held from 04 April 2009 to 31 May 2011.
- (iv) Sub-section 7.4.2 The Senior Management Committee had not been established.
- (d) Public Administration Circular
20/2006 dated 25 November 2006
Sub-paragraphs 04 and 06 The special advances granted in the year for the purchase of books should be recovered in the year of granting the advances. Nevertheless, out of the opening balance of Rs.92,700 for the year 2010 a sum of Rs.2,000 had been recovered and the closing balance for the year amounted to Rs.292,200.
- (e) Treasury Circular No.842 of 19
December 1978 A Register of Fixed Assets had not been prepared.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2010 had resulted in a deficit of Rs.13,640,675 as compared with the corresponding deficit of Rs.19,148,559 for the preceding year, thus indicating an improvements of Rs.5,507,884 in the financial result for the year under review. The increase in the course fees by a sum of Rs.4,325,988 had been the main reason for the favourable variance.

2:2 Operating Review

2:2:1 Performance

None of the particulars of the physical performance were furnished to audit though called for in writing. As such it was not possible to compare the targeted and the actual performance for the year under review.

2:2:2 Operating Inefficiencies

The following observations are made.

Repairs to Hostel Building No.02 - Mattakkuliya

- (i) Even though the file revealed that the original documents relating to the above contract had been taken over by the officers of the Commission to Investigate Allegations of Bribery or Corruption, a formal confirmation of handing over the documents to that institution was not produced for audit.
- (ii) Retention money amounting to Rs.124,427 had not been recovered in making payment for repairs.
- (iii) Action in terms of Section 26(a) of the Value Added Tax (Amendment) Act, No.14 of 2007, had not been taken to recover a sum of Rs.126,746 being 1/3 of the Value Added Tax of Rs.380,238 payable on the bills of the contractor and remit to the Commissioner General of Inland Revenue.
- (iv) Bills of Quantities had not been submitted for additional work amounting to Rs.281,298. The completion of the work had not been certified by the Technical Officer of the Institute in terms of Sub-section 8.12.2 of the Procurement Guidelines.

2.2.3 Losses and Damage

The following observations are made.

- (a) Surcharges amounting to Rs.72,222 had been paid due to delays in the payment of contributions to the Employees' Trust Fund.
- (b) Surcharges had been paid over and over again due to the delay in the payment of electricity bills of the building belonging to the NARA in which an office is maintained and a sum of Rs.91,498 had been paid as surcharges in the years 2009 and 2010 subjected to a test check.

2.2.4 Motor Vehicles Utilization

The observations are made.

- (a) Steps had not been taken for the disposal of 04 decayed and irreparable motor vehicles remaining over a number of years and 06 years old 03 motor vehicles destroyed by the tsunami disaster.
- (b) Four motor vehicles that could be issued after carrying out repairs had been idling over several years, and a motor vehicle handed over to the Government Factory for repairs had not been brought back despite the completion of repairs. It had been idling in the Government Factory for 15 months.

- (c) Action had not been taken to transfer 05 motor vehicles donated by the Food and Agriculture Organization and a motor vehicle received from the Ministry of Fisheries in the name of the Institute.

2.2.5 Approved Cadre and Vacancies

The following observations are made.

- (a) Vacancies in 112 posts existed and that included 02 posts in the Senior Management Level and 27 senior level posts of the Academic Staff.
- (b) Even though the Approved Cadre of office aides had been 20 the Actual Cadre had been 50. Out of the 30 excess employees 27 had been recruited on contract basis and salaries amounting to Rs.5,598,720 had been paid to them in the year 2010. The Treasury approval for the recruitment of the excess employees in terms of the Management Services Circular No.28 of 10 April 2006, had not been received.

2.2.6 Corporate Plan

A review of the performance results of three preceding years had not been included in the Corporate Plan prepared for the year in terms of Sub-section 5.1.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003. As the financial values of the target to be achieved had not been given the annual progress in financial terms could not be evaluated.

2.2.7 Budgetary Control

Significant vacancies amounting to Rs.9,964,852 as shown below had existed in the budgeted recurrent expenditure for the year. Thus it was observed that the annual budget had not been made use of as an effective instrument of management control.

Item of Expenditure -----	Budgeted ----- Rs.	Actual ----- Rs.	Difference ----- Rs.
Personal Emoluments	56,385,000	62,099,555	(5,714,555)
Travelling Expenses	425,000	1,241,145	(816,145)
Supplies	1,400,000	2,495,395	(1,095,395)
Maintenance	715,000	1,078,790	(363,790)
Contractual Services	5,025,000	8,112,345	(3,087,345)
Training Activities	6,860,000	5,197,850	1,662,150
Others	1,815,000	2,364,772	<u>(549,772)</u>
			<u>9,964,852</u>

3. Systems and Controls

Differences 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 control.

- (a) Accounting
- (b) Budget
- (c) Internal Audit
- (d) Assets Control
- (e) Plan Preparation
- (f) Purchase of Supplies and Services