

## **National Institute of Fisheries and Nautical Engineering - 2013**

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The audit of financial statements of the National Institute of Fisheries and Nautical Engineering for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance and cash flow statement for the year then ended 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 25 of the National Institute of Fisheries and Nautical Engineering Act, 36 of 1999. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **2.2 Comments on Financial Statements**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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A statement of changes in net assets / equity had not been presented along with the financial statements presented to audit in terms of the Sri Lanka Public Sector Accounting Standards.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The sums totaling Rs.481,846 recovered from the salaries of the employees serving the Institute on contract basis as the contributions to the Employees Provident Fund for the period January to December 2013 had not been brought to account.
- (b) The expenditure payable amounting to Rs.697,854 relating to 55 cancelled cheques had been brought to the income of the preceding year by journal entries instead of taking action for payment by following the approved procedure in terms of Financial Regulation 396.
- (c) The work-in-progress of the Negombo Hostel costing Rs.8,592,240 had been brought to account under fixed assets and provision for depreciation thereon amounting to Rs.859,224 had been made.
- (d) Even though expenditure had been incurred from the annual capital grants received, that had been shown in the Accumulated Fund Account without recognizing a fair amount as income.

- (e) The balance of the Suspense Account amounting to Rs.85,433 existing from the year 2012 had been shown under the current assets without being settled.

### 2.3 Accounts Receivable and Payable

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Staff loans amounting to Rs.424,300 granted to 3 officers during the year had not been recovered even up to June 2014.

### 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations, etc.,</b>	<b>Non-compliance</b>
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371(2)(c)	Even though the advances granted for any purpose should be settled immediately after the completion of the purpose, the settlement of advances amounting to Rs.189,600 obtained in 05 instances in the year under review had been made after delays ranging from 03 months to 11 months after the completion of the relevant purposes.
(ii) Financial Regulation 371(2)(b)	Even though advances limited to Rs.20,000 in each instance can be granted only to Staff Officers, advances exceeding that limit amounting to Rs.1,530,450 had been granted in 16 instances in the year under review and in 04 instances advances exceeding Rs.100,000 had been granted to an officer.

### 3. Financial Review

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#### Financial Results

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According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.62,279,486 as compared with the corresponding deficit of Rs.40,459,698 for the preceding year, thus indicating a deterioration of Rs.21,819,788 in the financial results. The increase of the operating expenditure of the year under review as compared with preceding year by a sum of Rs.41,337,957 had been the main reason for the deterioration.

## **4. Operating Review**

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### **4.1 Performance**

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Even though the Institute had planned for enrolling 2,123 students for 12 academic courses during the year under review, out of the students enrolled, only 1,619 students had completed the courses during the year while 165 students had abandoned the courses.

### **4.2 Operating Inefficiencies**

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The following observations are made.

- (a) According to the reports of the Consultancy Services engaged due to the inability to obtain the ISO 9001-9008 Standard Certificates for 02 Diploma Courses conducted by the Institute for identification of the prevailing deficiencies, lack of adequate staff, training equipment and the infrastructure facilities for academic activities had been revealed. Nevertheless, it was observed that the management had not paid adequate attention to overcome those weaknesses.
- (b) The following observations are made in connection with the supply of library facilities.
  - (i) Out of the 08 Colleges situated Island-wide library facilities had not been provided for 06 Colleges.
  - (ii) The following observations revealed that a formal methodology had not been adopted for the purchase of library books.
    - Recommendation had not been obtained from the Instructors in charge of the subjects and a Board of Academics knowledgeable in the subjects in determining the requirement of library books.
    - A formal methodology in terms of Section 9.4.1 of the Procurement Guidelines had not been followed the purchase of books. Purchases had been made from Public Exhibitions of Books and from the market.
    - According to the test check of the purchase of library books during the year under review and the three preceding years, out of the 1,347 books requested for the respective courses, action had not been taken to purchase 277 books. The manner of selection of the books purchased had not been reported.
- (c) In view of the lack of basic facilities required for the courses on Deck Officers Diploma and the Nautical Engineering Diploma problems relating to their

quality and standards had arisen. This situation had caused obstructions to the students completing the courses to procure employment opportunities in the field locally and internationally.

- Shortage lecture halls with required facilities, training equipment, library facilities, trained staff and qualified Instructors required for obtaining the ISO Standard Certificates for the courses.
- Lack of 18 months training associated with merchant ships.

(d) Expenditure incurred concurrently with Deyata Kirula

(i) Even though a cost estimate of Rs.975,000 had been obtained from a private institution for the production of a documentary film, the work had been awarded to another institution on an estimate of Rs.1,225,224 obtained from that institution, without evaluating the former quotation. An advance of Rs.643,500 representing 52 per cent of the cost had been granted without obtaining an Advance Guarantee contrary Section 5.4.4 of the Procurement Guidelines. Nevertheless, the final payment of Rs.581,724 had been made without a certificate that the work had been duly completed.

(ii) The following matters were observed in connection with the purchase of 300 T shirts for Rs.195,000 from a private institution, for the students and staff who participated in the exhibition.

- The institution concerned had been granted an advance of 60 per cent of the cost without obtaining an Advance Guarantee contrary to Section 5.4.4 of the Procurement Guidelines.
- A preliminary plan on the need for T shirts and the manner of distribution had not been prepared before printing T shirts.
- According to information received by audit, the number of participants in the Deyata Kirula Exhibition had been 32 and the utilization of the money spent for the T shirts purchased in excess for the purposes of a programme contributing to the achievement of objectives of the Institute was not established.

(e) Even though the Institute continues to use 07 motor vehicles received from the Ministry of Fisheries and Aquatic Resources in the year 1999 and one motor vehicle received from the Ministry of Youth Affairs and Skills Development in the year 2013, action had not been taken even by the end of the year under review to transfer the ownership of those motor vehicles to the Institute.

### 4.3 Identified Losses

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It was revealed that the course fees amounting to Rs.5,913,500 and hostel fees amounting to Rs.798,671 receivable since the year 2001 cannot be recovered as the students had left the Institute after graduation.

### 4.4 Deficiencies in Contract Administration

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The following observations are made.

- (a) The procurement of Consultancy Services for the construction of a building for the Chairman's office had not been done in accordance with the Guidelines on Recruitment of Consultants for Building Constructions issued November 2007 and the following deficiencies in that work were observed.
  - (i) The contractor had informed that construction according to the designs cannot be done due to the deficiencies in the bills of quantities prepared and presented by the consultancy company.
  - (ii) Five clauses in the agreement prepared for the recruitment of Consultants had been breached by the Consultants.
  - (iii) An inspection of the work site had not been carried out and report furnished to the institute before the preparation of the plans and bills of quantities relating to the constructions and reports furnished to the Institute.
  - (iv) Commencement of contract work had been delayed as the Consultant had not supplied the Structural work and Drawings relating to the contract.
  - (v) Even though the Consultant should discuss any deficiencies with regard to contract and keep such reports it had not been so done. But the contractor had reported such defects.
- (b) The following observations are made in connection with the award of contract for the construction of the building for Chairman's Office.
  - (i) The value of 5 items in the original estimate of the contract amounted to Rs.11,279,178 and out of the original estimate value work valued at Rs.5,776,874 had not been completed by 11 April 2014, the date of audit and the payments made to the contractor amounted to Rs.8,302,245. The preliminary plan had been changed while the contract work was in progress and the amount of work completed and the cost thereof had not been reported. According to the plan submitted subsequently, the number of floors had been increased from 02 to 03

floors. According to the bill of quantities relating thereto, the quantities and values in the original estimate had been unusually increased. The reasons for such increase had not been given.

- (ii) Even though the contractor had been proved to be an unsuitable person even during the construction of stage I, the contract valued at Rs.17,817,308 for the second stage and other construction works of the Institute had been awarded to the same institution.

#### **4.5 Commencement of Projects on Lands not formally vested**

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The existing assets had not been taken over, assessed and brought to account in terms of Section 29 of the National Institute of Fisheries and Nautical Engineering Act, No. 36 of 1999. The expenditure totaling Rs.146,536,037 incurred on carrying out improvements to the assets since that date up to the year 2013 only had been brought to account as the fixed assets.

#### **4.6 Staff Administration**

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The following observations are made.

- (a) The approved staff of the National Institute of Fisheries and Nautical Engineering as at 31 December 2013 had been 274 and the actual staff had been 170. As such vacancies of 104 officers existed. Out of the vacancies 04 higher management posts existed and as such the activities of the Institute had been executed through the medium level and lower level officers.
- (b) According to the Public Finance Circular No. 449 of 23 February 2011, services on assignment basis should be limited to urgent work on short terms basis not exceeding 45 days. Contrary to that, assignment of work for a period of 06 months had been given to 02 officers by extending the period from time to time. Even though the maximum payment for assignments is Rs.30,000 in terms of the above circular, contrary to that monthly payments of Rs.50,000 and Rs.40,000 had been made. The prior approval of the Department of Public Finance had not been obtained for exceeding the approved limit.

### **5. Accountability and Good Governance**

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#### **5.1 Corporate Plan**

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A review of the operating results of the 3 preceding years had not been included in the Corporate Plan prepared for the years 2012 to 2014 in terms of Sections 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. The Corporate Plan had not been prepared with the financial value of objectives to be achieved to enable the evaluation of the annual progress.

## **5.2 Budgetary Control**

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The budgeted balance sheet, statement of income and expenditure and cash flow statement for the financial year had not been prepared in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

## **5.3 Internal Control Weaknesses**

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A proper distribution of work, and an adequate internal control had not been maintained by the Institute for the grant of distress and other loans, recoveries thereof and keeping records. Files containing the agreements entered into with the borrowers had not been maintained.

## **6. 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 arrears of systems and controls.

- (a) Procurement
- (b) Budgetary Control
- (c) Accounting
- (d) Staff Administration
- (e) Staff Loans Control