

## **National Aquatic Resources Research and Development Agency – 2014**

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The audit of financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity 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 Section 13 (1) of the Finance Act No. 38 of 1971, and Section 25 (2) of the National Aquatic Research and Development Agency Act No. 54 of 1981 amended by the Act No.32 of 1996. My comments and observations which I consider should be published with the Annual Report of the Agency 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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The 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 Auditing 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency’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 Agency’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 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 National Aquatic Resources Research and Development Agency as at 31 December 2014 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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The following observations are made.

- (a.) According to the Sri Lanka Public Sector Accounting Standard 01, assets expected to be recovered before and after 12 months since the reporting date should be disclosed in the financial statements separately in accordance with the liquidity, irrespective of the method of presentation. However, action had not been so done .
- (b.) Even though assets had been revalued in accordance with Sri Lanka Public Sector Accounting Standard 07, adjustments required in that connection had not been made even up to the year under review. Hence, the value of non-current assets had been understated by a sum of Rs. 2,820,421,436 in the financial statements than the revalued amount.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a.) Assets worth Rs. 80,000 that had been disposed in the year under review, had been added to the retained receipts by deducting from the revaluation reserve.
- (b.) Due to computational errors, balance of 4 items of accounts in the provision for depreciation account had been overstated by a sum of Rs. 6,883,045, whereas the balance of 3 items of accounts had been understated by a sum of Rs. 1,928,826.
- (c.) Cost of buildings amounting to Rs. 152,245,007 that had been made usable after being completed during the year under review, had been still shown as work in progress.
- (d.) Although a motor vehicle valued at Rs. 9,390,000 had been granted by the Treasury in the year under review, the entire transaction had been omitted from the accounts.

### **2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions**

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The following Non-compliances with Laws, Rules, and Regulations, etc. were observed.

**Reference to Laws, Rules, Regulations  
and Management Decisions**

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**Non-compliance**

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| (a) National Aquatic Research and Development Agency Act, No. 32 of 1996                                   | A sum of Rs.152,245,007 had been spent on the construction of a fish market contrary to the objectives of the Act.  |
| (b) Section 9.6 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Bills had not been presented to verify that warm cloths had been bought utilizing the advance of Rs. 49,390 given to 03 officers in the year under review to buy warm clothes.  |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka                                |   |
| (i) Financial Regulation 110   | A register for losses and damages had not been maintained.  |
| (ii) Financial Regulation 371  | The advances obtained should be settled as soon as the intended purpose is completed. However, it had taken more than 2 months to settle advances amounting to Rs.6,142,200 given to officers in 88 instances.                                  |
| (iii) Financial Regulation 757(2)  | Board of survey reports relating to the year under review , had not been presented to audit even up to 23 August 2015.  |
| (d) Treasury Circular No. 842 dated 19 December 1978   | Register of fixed assets relating to the fixed assets of the Agency worth Rs. 1,211,097,184, had not been maintained in an updated manner.  |
| (e) Treasury Circular No. IAI/2002/02 dated 28 November 2002   | Although it is necessary to maintain a register of fixed assets relating to computers and software in an updated manner, action had not been so taken with regard to computers valued at Rs.12,653,617.   |
| (f) Public Administration Circular No 06/97 of 03 February 1997  | Contrary to the provisions of the Circular, the Agency had paid a sum of Rs.528,326 to 10 officers as acting allowances in the year under review.   |
| (g) Circular No. 28 dated 10 April 2006 of the Department of the Management Services                       | Contrary to the provisions of the Circular, and without an agreement, a consultant had been appointed for a monthly allowance of Rs.50,000 with effect from 01 April 2013, and an allowance totalling Rs.950,000 had been paid up to October of |

the year under review. Furthermore, the Agency had not been provided with the reports relating to the consultancy services provided by this consultant.

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the financial statements presented, the operation of the Agency for the year under review had resulted in a deficit of Rs.117,261,228 as compared with the deficit of Rs.120,061,820 for the preceding year. Accordingly, an increase of Rs.2,800,592 in the deficit for the year under review was shown. Increase in other income, and decrease in the expenses incurred on maintenance activities had been the main reasons for this increase. Expenses of 08 items of accounts had increased from 12 per cent to 87 per cent in the year under review as compared with the preceding year.

**4. Operating Review**  
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**4.1 Performance**  
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The following observations are made in connection with the grants received for the research and development expenses of the Agency for the year under review and 4 of the preceding years, and the expenses incurred therefrom.

- (a.) The decrease in the total grants received for research and development expenses in the year under review amounted to Rs. 67 million as compared with the preceding year, whereas the growth in the total expense incurred thereon amounted to Rs. 02 million. Furthermore, a sum of Rs. 04 million had been incurred by exceeding the total grants received as research and development expenses in the year under review.
- (b.) As the grants received annually had not been utilized for the intended purposes, the utilization was Rs. 277 million despite a sum of Rs. 1,004 million had been allocated to the Agency for research and development expenses for the year under review and 4 preceding years. Accordingly, the utilization of the grants was 28 per cent.

**4.2 Management Inefficiencies**  
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Despite being decided that 08 motorcycles valued at Rs. 220,560, two double cabs valued at Rs. 1,990,280, and 02 vans valued at Rs. 1,520,400 that had been withdrawn from use for over a period of 03 years be disposed, the disposal had not been effected even by 20 May 2015.

**4.3 Transactions of Contentious Nature**  
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The Agency had been paid a sum of Rs. 2,500,000 by the private sector for the preparation of feasibility reports relating to 06 Government fishery harbours to be improved by the private sector, whereas the Agency had spent a sum of Rs. 4,112,898 in that connection. The

feasibility reports had been issued to the private sector without recovering the sum of Rs.1,612,898 that had been overspent by the Agency.

#### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a.) The research vessel built at an expense of Rs. 15,685,682 in the year 2011, had not been used for research activities up to the date of audit as it had not been built with the specific technology.
- (b.) The Mobile 3D Scanner purchased in the year 2013 at a cost of Rs. 7,086,700 to be used in the researches of microorganisms , had not been used in research activities up to the date of audit.
- (c.) Although a sum of Rs. 272,160 had been incurred for purchasing a computer software in the year 2009, the software had not been made use of even up to 30 August 2015.
- (d.) A sum of Rs. 2,626,384 had been spent on the construction of a cafeteria in the year 2011. However, the cafeteria had not been used even up to the end of the year under review.
- (e.) Two boat engines (HP 200) worth Rs. 4,493,052 that had been purchased without a proper evaluation, had remained unused for over a period of 3 years.

#### **4.5 Identified Losses**

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The following observations are made.

- (a.) Goods worth Rs. 978,715 that had been purchased by the Agency in the year 2014 for the Deyata Kirula exhibition held in the premises of Wayamba University , had been insecurely dumped without being reused.
- (b.) A surcharge of Rs. 31,372 had been paid, as the contributions to the ETF had not been paid on time for the year under review.

#### **4.6 Resources of the Agency Given to Other Public Institutions.**

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It is not authorized for the resources owned by the institute be used by the relevant Ministry, or any other Public institutions , or to incur expenses in accordance with Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, the human resources of the Agency had been released to the Line Ministry and other Public institutions by paying a sum of Rs. 1,027,742 as salaries and allowances despite 169 vacancies existed as at 31 December 2014. The Agency had issued fuel valued at Rs. 158,998 for the vehicles of the Ministry.

#### **4.7 Personnel Administration**

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The approved cadre of the Agency as at the last date of the year under review was 499 , whereas the actual cadre was 343, and as such, there were 156 vacancies. The number of casual employees recruited on contract basis was 11.

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

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#### **5.1 Presentation of Financial Statements**

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In accordance with Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, financial statements should be presented within 60 days after lapse of the financial year. However, the Agency had presented financial statements for the year under review on 23 July 2015.

#### **5.2 Budgetary Control**

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As the variance between the budgeted and the actual figures ranged from 10 to 146 per cent, the budget had not been made use of as an effective instrument of management control.

#### **5.3 Fulfilment of Environmental and Social Responsibilities**

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Having failed to identify the disposable goods and take actions to promptly dispose them, such goods had been dumped carelessly and haphazardly paving the way for the mosquitos to breed in the rain water accumulated therein. Owing to this, the court had fined the Agency.

### **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 Agency from time to time. Special attention is needed in respect of the following areas of control.

- (a.) Budgetary Control
- (b.) Control of Fixed Assets
- (c.) Payment of Advances
- (d.) Procurement Process
- (e.) Personnel Administration