

## **Report of the Auditor General on Head 151 - Ministry of Fisheries and Aquatic Resources Development– Year 2015**

---

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Ministry of Fisheries and Aquatic Resources Development for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 05 January 2017. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### **1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements**

---

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. The responsibility includes; designing, implementing, maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## **2. Accounts**

---

### **2.1 Appropriation Account**

---

#### **Total Provision and Expenditure**

---

The total net provision made for the Ministry amounted to Rs. 4,001.65 million and out of that Rs. 3,257.16 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provisions of the Ministry amounted to Rs. 744.49 million or 18.60 per cent of the net provisions. Details appear below.

Expenditure -----	As at 31 December 2015 -----			Savings as a percentage of Net Provision -----
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	1,321.65	1,305.87	15.78	1.19
Capital	2,680.00	1,951.29	728.71	27.19
<b>Total</b>	<b>4,001.65</b>	<b>3,257.16</b>	<b>744.49</b>	<b>18.60</b>
	=====	=====	=====	

## 2.2 Advance Account -----

### 2.2.1 Advances to Public Officers Accounts -----

#### Limits Authorized by Parliament -----

The limits authorized by Parliament for the Advances to Public Officers Account of the Ministry under Item No.15101 and the actual amounts are given below.

Expenditure -----		Receipts -----		Debit Balance -----	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
3.00	3.00	2.20	5.48	30.00	20.05

## 2.3 Imprest Accounts -----

The balance of the Imprest Accounts No. 7002/0000/00/0089/0015/000 of the Ministry as at 31 December 2015 totalled Rs. 15.13 million.

## 2.4 General Deposit Accounts -----

The balances of 04 Deposit Accounts under the Ministry as at 31 December 2015 totalled Rs. 90.16 million. Details appear below.

<b>Deposit Account Number</b> -----	<b>Balance as at 31 December 2015</b> -----
	Rs. Millions
6000/0000/00/0012/0073/000	1.01
6000/0000/00/0013/0040/000	0.49
6000/0000/00/0015/0051/000	59.57
6000/0000/00/0016/0021/000	29.09
	-----
<b>Total</b>	<b>90.16</b> =====

## 2.5 Audit Observation

-----

According to the Financial Records and Books for the year ended 31 December 2015, it was observed that subject to the audit observations appearing in paragraph 1.1 of the Management Audit Reports, the Appropriation Account and the Reconciliation Statements of the Ministry of Fisheries and Aquatic Resources Development have been prepared satisfactorily. The material and significant observations out of the above observations appear in paragraphs 3 herein.

## 3. Material and Significant Audit Observations

-----

### 3.1 Non-maintenance of Registers and Books

-----

It was observed during audit test checks that the Ministry had not maintained the following Registers of Fixed Assets on Computers, Accessories and Software while certain other registers had not been maintained in the proper and updated manner.

<b>Type of Register</b> -----	<b>Relevant Regulation</b> -----
(i) Register of Fixed Assets on Computers, Accessories and Software.	Treasury Circular No.IAI/2002/02 dated 28 November 2002.
(ii) Register of Fixed Assets.	Treasury Circular No.842 dated 19 November 1978.
(iii) Vehicle List	Financial Regulation 1647 (e)

### **3.2 Replies to the Audit Queries**

-----

Replies to 06 Audit queries issued to the Ministry in the year under review had not been furnished even by 30 June 2016. The value of quantifiable transactions relating to those audit queries amounted to Rs. 33,503,315.

### **3.3 Imprest Accounts**

-----

The balance of the Imprest Account not settled by the Ministry as at 30 April 2016 totalled Rs. 10,827,954. The unsettled balances of the Imprest Accounts relating to the preceding years had been transferred to the Imprest Account of the year under review. Accordingly, the imprest balance as at 31 December 2015 of the Imprest Account of the year under review had included unsettled balance of Rs.8 million relating to the year 2010. Further, that balance had included 03 deposit balances amounting to Rs.1.73 million continued to exist from the year 2014.

### **3.4 General Deposit Account**

-----

The following observations are made.

- (a) A cheque valued at Rs.10.52 million written to a State Corporation included in the balance as at 31 December 2014 had been cancelled in the year under review and retained in the General Deposit Account.
- (b) The two projects, namely Post-Tsunami Coastal Rehabilitation and Resource Management Programme and the Post Tsunami Livelihood Assistance Co-operation Programme executed under the Ministry had been completed by 31 March 2014. Nevertheless, a balance amounting to Rs.791,731 relating to those projects had not been settled even by 31 December 2015.

### **3.5 Reconciliation Statement on the Advances to Public Officers Account**

-----

The following deficiencies were observed during the course of audit test check carried out on the Reconciliation Statement of the Advances to Public Officers Account, Item No. 15101 as at 31 December 2015.

- (a) According to the Reconciliation Statement presented to audit, the balance that remained outstanding as at that date totalled Rs.1,371,368. Nevertheless, the Ministry had failed to recover those balances although those remained outstanding over a period ranging from 01 to 30 years.
- (b) The installments relating to loan balances totalling Rs.93,006 of 04 officers released permanently to the Corporations and the Boards had not been recovered from the year 2011. Action had not been taken to find out the current service position of those officers and settle those balances.

### **3.6 Good Governance and Accountability**

-----

#### **Internal Audit**

-----

- (a) Although 02 posts of the Internal Audit Division of the Ministry had fallen vacant, the Ministry had not taken action to fill those vacancies.
- (b) Out of 33 audit activities planned to be examined during the year according to the Internal Audit Plan for 2015, 28 audit activities had not been carried out.

### **3.7 Assets Management**

-----

The following deficiencies were observed during the course of audit test check conducted on the assets of the Ministry.

#### **(a) Idle and Underutilized Assets**

-----

The following deficiencies were observed.

- (i) Three motor vehicles valued at Rs.1,065,000 belonged to the Ministry had remained either idle or underutilized over a period ranging from 01 year to 03 years.
- (ii) A television had been purchased at a cost of Rs.108,020 on 30 December 2014 in order to fix it at the ground floor to watch the programmes by the people who visit at the Ministry seeking services. Action had not been taken to fix that television even by 15 August 2016, the date of audit.

#### **(b) Conducting Annual Boards of Survey**

-----

The following observations are made on the Board of Survey conducted relating to the year 2015.

- (i) Although the Board of Survey pertaining to the year 2015 should be conducted and the report thereon should be furnished to the Auditor General before 17 March 2016 in accordance with the Public Finance Circular, No. 02/2014 dated 17 October 2014, the reports of 05 Divisions of the Ministry had been furnished after that date and the reports of other 04 Divisions had not been furnished to audit even by 15 August 2016.
- (ii) In addition to the 50 items of assets included in the Board of Survey Reports presented for the year 2013, assets valued at Rs.1,214,883 had been purchased for the Minister's official quarters during the year under review. It had been stated in the Board of Survey Report that the above assets had not been taken over by the Ministry. Those assets had not been subject to the Board of Survey even in the preceding year.
- (iii) Only the balance according to the ledger had been stated in the Board of Survey Reports presented to the Audit relating to 04 Divisions.

- (iv) Action in accordance with the Financial Regulations had not been taken on the shortages of 30 items of unites pointed out by the Board of Survey Reports pertaining to the year 2015.

**(b) Unsettled Liabilities**

-----  
 Although provision had not been made for the Object No.151-1-1-0-2003 of the Ministry for the year 2015, commitments amounting to Rs.300,663 had been incurred relating to that Object by the end of the year.

**3.8 Non-compliances**

-----  
**Non-compliances with Laws, Rules, Regulations**  
 -----

Instances of non- compliance with the provisions of laws, rules and regulations observed during the course of audit test checks are analyzed below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Value</b>	<b>Non-compliance</b>
-----	-----	-----
(i) Financial Regulation 487 (3)	Rs. 1,009,156	Action had not been taken to settle the unspent balance of the advances obtained from the contingencies Fund.
(ii) Financial Regulation 755	-	Although the Information Division of the Ministry had been closed down, instructions had not been given to handover the assets available therein to the Ministry. Therefore, the existence and the safety of those assets had not been established.

**3.9 Foreign Aid Projects**

-----  
**3.9.1 Delimitation of Outer Edge of Continental Margin of Sri Lanka Project**  
 -----

The project activities had been implemented under the Ministry and those had been discontinued on a Cabinet Decision with effect from 31 December 2012. Although it had been intended to make request for the continental shelf situated beyond the nautical miles limit, acquire it and use the resources therein for the economic development of Sri Lanka, those objectives had not been achieved. For the completion of those activities, a committee called

Noack comprising 11 experts in multiple subject areas had been appointed in terms of the Cabinet Decision dated 09 April 2012.

The claim of the Sri Lanka regarding the outer edge of continental margin of Sri Lanka is scheduled to be taken into discussion at the United Nations Commission in the year 2025. Taking necessary steps to forward the matters relating to the claim of the Sri Lanka and formulating a policies relating to the exploration and utilization of maritime resources and maritime activities had also been included in the function of this Committee. The Ministry of Fisheries and Aquatic Resources Development had been the one of the 3 institutions responsible for the active maintenance of this Committee. Nevertheless, the Ministry had not taken action to maintain the operation of the relevant Committee and to appoint a representative for that purpose.

### **3.9.2 Cash Balances of the Project Accounts**

-----

There were balances totalling Rs.4,499,791 in 2 bank accounts belonged to Post Tsunami Rehabilitation and Resource Management Project ended on 31 December 2013 and a balance of Rs. 28,618 in a bank account belonged to Coastal Resources Management Project ended on 30 June 2009 as at 31 December 2015 . Nevertheless, action had not been taken to remit those balances to the Department of Treasury Operations and closed those bank accounts.

### **3.10 Implementation of Projects under Domestic Financing**

-----

#### **3.10.1 Project on the Construction and Development of Fishery Harbours and Anchorages**

-----

The Treasury had recommended to implement the project on the Construction and Development of Fishery Harbours and Anchorages commenced in the year 2013 under a **medieval term estimate** within the period from 2015-2017. It had also been agreed to provide Rs.5,300 million for that purpose. The Cabinet of Ministers had decided on 06 November 2015 to strengthen the Implementation and Operating Unit of the Project, implement 7 new projects in addition to the 06 port projects in progress at present, continue the contracts awarded in the same manner and to implement future projects in terms of the provisions contained in the Government Procurement Guidelines.

The following observations are made in this connection.

- (a) The period of the project commenced in the year 2013 had been extended in order to complete it by the end of the year 2017. A project plan had not been prepared so as to cover that period.
- (b) According to the approval granted at the inception of the project in the year 2013, the construction should have been completed by the end of the year 2015. The progress of the 06 projects being operated was as follows.

- (i) Designing and construction of new jetty of the Galle Port had not been initiated.
  - (ii) The physical progress of the construction activities of the Kalametiya Fisheries Harbour had been 36 per cent by the end of the year 2015. The physical progress of the extension of breakwater at the Hambantota Fisheries Harbour and the extension of the breakwater at the Unloading Center at Porutota, Palangaturai had been at 50 per cent.
  - (iii) Even though constructions of the Kaikawala Anchorage scheduled to be completed by the end of the year 2015 had been initiated, the physical progress and the financial progress thereof had been 2 per cent and Rs.84.4 million respectively. Nevertheless, as the approval of the Department of Coastal Conservation had not been obtained, the project had been discontinued. As such the sum of Rs.84.4 million spent thereon had been a fruitless expenditure.
  - (iv) Although the construction of the Maradana Anchorage had been completed, the approval of the Department of Coastal Conservation had not been obtained therefor. As such it had not been possible to assess the environmental impact caused.
- (c) Although the financial progress of the construction of Kareinagar Boat Yard, fisheries harbours at Vennappuwa and Dodanduwa and the Peraliya Anchorage and the development of Negambo lagoon required to be completed in the year 2016 according to the budget proposal, 2014 was Rs.22.63 million as at 31 December 2015, the physical progress had been zero per cent.
- (d) Activities such as preparation of designs and estimates for the improvement of fisheries facilities at the Gandara, Gurunagar and Silawathura areas had been prepared through a company. The following observations are made in this connection.
- (i) In awarding contracts for the preliminary studies, those had not been awarded at the predetermined fixed rates. As a result, out the estimate amounting to Rs.18,221 million presented for the study, the fee of Rs.159 million presented by the contractor as the percentage value had been approved by the Procurement Committee.
  - (iii) After the designs and estimates presented by the contractor were examined by a committee, the revised cost of the project had been computed as Rs.12,045 million. Out of the consultation fee of the contractor relating to the above computed cost, 70 per cent or 8.56 million (inclusive of the Value Added Tax) had been paid to the contractor. Those revised charges and the designs had not been approved by the Procurement Committee.
  - (iv) According to the report presented by the Civil Engineering Department of the University of Moratuwa after examining the study reports pertaining to the construction of the Gurunagar Port, the cost thereof had been Rs.2,432.2



million, whereas the consultation fee of the contractor had been paid by taking into consideration the cost of the project as Rs.2,520.9 million. As a result, a sum of Rs.590,884 had been overpaid.

- (v) In the payment of charges to the contractor, due to the payment of the consultation fees computed based on the estimates inclusive of cost that may occur in relation to the unexpected price variations, a sum of Rs.8,146,264 had been paid in respect of uncertain cost that is likely to occur in future.
- (vi) After obtaining the relevant preliminary study reports, the construction of harbours at Gandara and Silawathura had been abandoned.
- (e) The Negambo Lagoon Development Project had been estimated to Rs.1,000 million. For its initial activities, advances amounting to Rs.5,000,000 had been paid to the Chairman of the Fishery Harbours Corporation on 24 December 2014. Without settling those advances and after bringing it to account as an expenditure, the project had been abandoned without implementing.
- (f) A retired officers on whom a decision had been taken by the Cabinet of Ministers not to recommend the appointment had been appointed to a post of Project Director for a period of five months from 10 April 2015. Contrary to the Circular pertaining to the reemployment of Pensioners, a sum of Rs.356,313 had been paid to that Project Director as salaries and allowances during the year under review.

### **3.10.2 Dickowita Fishery Harbour Project**

-----  
Out of the provisions made for the Project on the Construction and Development of Fishery Harbours and Anchorages for the year under review, a provision of Rs.77 million had been transferred to the Dickowita Fishery Harbour Project under the Financial Regulation 66 and thereby the project had been implemented and a sum of Rs.68,691,077 had been spent thereon.

The following observations are made in this connection.

- (a) Due to the delay in the settlement of the bills of the contracts pertaining to the Ice Factory constructed at the harbour premises by this project, an interest of Rs.3,279,729 had been paid to the contractors.
- (b) The certificate of completion of the project required to be issued by the contractor had not been furnished to Audit.
- (c) The contractor had handed over the project after a delay of 134 days from the date that had been agreed to be completed and handed over the project. The liquidated damages amounting to Rs.6,509,014 or 6.05 per cent of the bill value relating to that delayed period had not been recovered even by the end of the year under review in accordance with the agreement entered into with the contractor by the Ministry.
- (d) Although designing ships and submarines was not included in the functions of the Dickovita Fishery Harbour, a Computer software used for the above task had been

purchased at a cost of Rs.9,664,584 on 30 April 2014. According to the agreement entered into for this Computer Software Licence, its period of validity had been 05 years. Although a period of 03 years and 06 months had elapsed from the purchase of the above software by the date of audit, it remained idle without carrying out any design.

- (e) The Software referred to in (d) above had been handed over to the Cey-Nor Foundation functioning under the Ministry in February 2016. As that company as well did not build ships and submarines and its officers had not received a necessary training for the use of the software, the utility of it was minimal. Accordingly, it was observed that the sum of Rs.9.7 million spent on the above Software had been a loss sustained by the Government. The Naval Draftsman who recommended the purchase of this Software had left the project in February 2016.
- (f) Dickowita Fishery Harbour Project had spent Rs.180 million for the development of Mattakkuliya Boat Yard of the Cey-Nor Foundation which was irrelevant to it. The Committee on Public Accounts held on 05 March 2013 had directed to prepare and implement a scheme to carry out the repairs of the vessels of the fishermen at concessionary rates and thereby settle the expenditure. Such a scheme had not been prepared therefor even by 31 December 2015 and action had not been taken to make aware of the fishermen. No repair works whatsoever had been carried out by the Cey-Nor Foundation at the concessionary rate during the year under review.
- (g) In terms of Public Finance Circular No.02/2014 dated 17 October 2014, the Board of Survey of the project relating to the year 2015 should be conducted and the report thereon should be furnished to the Auditor General before 17 March 2016. Nevertheless, the reports of the Board of Survey had not been furnished to the Auditor General even by 30 April 2016.
- (h) The Board of Survey for the year 2014 had been conducted in October 2015. Those reports on the Board of Surveys had been furnished to the Auditor General after a delay of one year from the due date. Action in terms of the Financial Regulation 757 had not been taken on 61 shortages relating to 27 items of goods pointed out by those reports.

### **3.10.3 Projects without Progress Despite the release of Money**

-----  
The following observations are made.

#### **(a) Purchase of 02 Mother Vessels**

-----  
With the objective of harvesting the deep sea fishery resource using the long line system and providing required facilities for the multi day vessels, the Ministry had entered into an agreement with a foreign supplier to purchase 02 mother vessels at a cost of Rs.326,016,000 in the year 2007. The following observations are made in this connection.

- (i) Provisions amounting to Rs.40 million had been made for this project during the year under review. As the information demanded from supplier and the Consultant in the preceding year had not been made available, the purchase of the relevant vessels had not been made. Accordingly, the entire provision made during the year under review had been saved.
- (ii) Although provisions had been continuously made for this purchase since the year 2006, no step whatsoever had been taken for the relevant purchase even in the year under review. As such, the accumulated expenditure had been Rs.113,556,801 from the year 2006 to the year 2015. That total expenditure had become fruitless.
- (iii) By the Cabinet Decision dated 22 August 2013, the Secretary had been informed to give explanations on the non-utilization of funds effectively. Nevertheless, the Secretary had not reported any progress of the procurement process even by the end of the year under review.

**(b) Strengthening of Fishing Communities**

-----

For the purpose of strengthening fishing communities, provisions amounting to Rs.159,366,549 had been made during the year under review of which a sum of Rs.154,616,552 had been utilized. The following observations are made in this connection.

- (i) Although a sum of Rs.58,746,696 had been spent for this purpose, it had not been established whether the outriggers, canoes, pallets and nets bought for the fishermen had been distributed among them. Accordingly, it was not possible to establish that the expenses had been utilized for the very purpose of strengthening the fishing communities.
- (ii) A sum of Rs.15 million had been paid to the Agriculture and Agrarian Insurance Board in the year 2015 in respect of the administrative expenditure of the Fishermen's Pension Scheme which had not been included in the Development Plan of the Ministry.

**(c) Provision of Assistance to Construct Lavatories for the Low Income Fishing Communities**

-----

The following observations are made in this connection.

- (i) Under the strengthening of fishing communities, provisions amounting to Rs. 19,080,000 had been made for the construction of 645 lavatories for the low income fishermen in 14 fishery districts. Nevertheless, financial assistance amounting to Rs.7,005,000 only had been released for 4 districts.
- (ii) On completion of the initial activities relating to the construction or repairs of lavatories, the beneficiaries should be paid a sum of Rs.30,000 for the constructions and Rs.15,000 for the repairs on the recommendation of the Fisheries Supervisor and the Grama Niladhari and under the supervision and approval of the District Housing Committee. Nevertheless, action had not been taken accordingly.

- (iii) The physical progress of the project had not been examined being subjected it to the direct supervision of the Ministry.

**(b) Granting Provisions for Other Institutions for the Development Activities**

-----

In order to implement development schemes of the Ministry of the year 2015, provisions amounting to Rs.96.57 million had been made to the District Secretariats and the Department of Fisheries and Aquatic Resources. Similarly, provisions totalling Rs.98.11 million comprising advances of Rs.1.54 million had been made to the National Aquatic Resources Research and Development Agency. Out of that provisions, a sum of Rs.55.08 million had been utilized. An adequate follow-up action had not been taken on the utilization of those provisions and the particulars on the goods and services provided had not been furnished to audit. Further, there were three instances where the projects had not been implemented and two instances with under physical progress.

**3.11 Performance**

-----

According to the Annual Budget Estimates and the Action Plan of the year 2015, observations on the progress of the Ministry are given below.

- (a) Either the plans relating to the operating and management of the fishing vessels owned by the Government, that was a key function included in the medieval term policy framework 2013-2016 of the Ministry had not been included in the Action Plan or the provisions had not been allocated from the budget.
- (b) The following observations are made on the achievement of the objectives of the Ministry.
  - (i) The fish and fish production export income in Sri Lanka had decreased by Rs.10,082 million or 29 per cent in the year under review as compared with the preceding year and the import expenditure had increased by Rs.11,860 million or 63 per cent as compared with the preceding year. As such net foreign exchange earnings had become a negative value of Rs.6,013 million. It had been a deterioration of 62 per cent as compared with the preceding year. Further, contribution of the fisheries sector for the export demand stood at 2.4 per cent in the preceding year and it had dropped up to 1.8 per cent in the year under review. Under the above circumstance, a progress was not shown for reaching towards the objective of the Ministry to earn foreign exchange through the export of fish.
  - (ii) The National fish production which accounted for 535,050 metric tons in the preceding year had decreased up to 520,190 metric tons by 14,860 metric tons or 2.7 per cent during the year under review. The contribution of the fisheries sector for the Gross Domestic Product had been Rs.120,657 million in the year 2014 (based on 2010) in terms of fixed price. It had been Rs.117,453 million in the year 2015, thus decreasing by Rs.3,204 million or 2.7 per cent. Herein, the per capita domestic fish production which stood at 25.76 kilogram in the preceding year had decreased up to 24.81 kilogram

during the year under review. As a result, no progress was shown during the year under review in the achievement of the objective of the Ministry for enhancement of the nutrition level and food security of the people through the increase of fish production.

**(c) Planning**  
-----

The following observations are made on planning the activities of the Ministry in the year 2015.

- (i) Ten projects valued at Rs.2,446 million included in the budget of the Ministry for the year 2015 had not been included in its Action Plan.
- (ii) Four projects for which provisions amounting to Rs.135 million had been made by Budget Estimates, 2015 had not been implemented during the year under review.
- (iii) The physical and financial performance of 09 activities implemented under the project for strengthening of fishing communities had ranged from 20 per cent to 75 per cent.

**3.12 Deficiencies in the Operation of Bank Accounts**  
-----

The following observations are made.

**(a) Long Delays in the Preparation of Bank Reconciliation Statements**  
-----

Long delays in the preparation of Bank Reconciliation Statements of 03 Bank Accounts were observed.

**(b) Dormant Bank Accounts**  
-----

Twenty one Bank Current Accounts maintained by the Ministry had been dormant for a period ranging from 01 year to 06 years. Out of that, the balance that remained dormant relating to 4 accounts had been Rs.4,785,975.

**3.13 Transactions of Contentions Nature**  
-----

Certain transactions entered into by the Ministry had been of contentious nature. The following observations are made on the disposal of 10 condemned motor vehicles of the Ministry revealed during the course of test checks appear below.

- (a) The particulars on the motor vehicles recommended for disposal had not been completed in the due format and furnished to the Department of Public Finance prior to 10 April 2015 as required by the National Budget Circular No.2/2015 dated 31 March 2015.

- (b) In order to value the motor vehicles due for disposal, a Board of Valuers including a Motor Vehicle Examiner of the Department of Motor Traffic should have been appointed in terms of Public Finance Circular No.02/2015 dated 10 July 2015. Although valuation reports had been obtained from the Auto Mobile Association for the disposal of 10 motor vehicles, a Board of Valuers had not been appointed in accordance with the provisions of the Circular. Further, the disposal had not been completed prior to the due period as required by the Circular and the particulars relating to the disposal had not been furnished to the Director General of Public Finance before 30 July 2015.

### **3.14 Irregular Transactions**

-----

Certain transactions entered into by the Ministry had been devoid of regularity. Several such instances observed are given below.

#### **Deviation from Government Procurement Procedure**

-----

The following observations are made in this connection.

(a) **Providing Unloading Equipment, Fish Storage Boxes and Fish Packaging Boxes to the Fishing Societies and the Fishermen.**

-----

The following deficiencies were observed.

- (i) In order to manufacture and supply of fishing gear to the Fishing Societies and the fishermen under the programme of the enhancement of unloading facilities, sanitary and healthcare level associate with the Fishery Harbours, the contract amounting to Rs.35,950,900 had been awarded to a State Company. In awarding that contract, the competitive bids had not been called for in accordance with Guidelines 2:2:1 and 2:4:1 of the Government Procurement Guidelines. The Procurement Committee had taken action to award the contract to the State Company as a direct contract on 23 November 2015 contrary to the Guideline 3:5:1 (c) of the Government Procurement Guidelines.
- (ii) Action had not been taken to obtain a Performance Bond for this contract.
- (iii) Only 200 fish unloading equipment had been manufactured by 31 December 2015. The cheques written after bringing to account a sum of Rs.11.88 million relating to the supply of 25 Fish Storage Boxes, 125 Fish Packaging Boxes and 300 unloading equipment in the expenditure account on 31 December 2015 had been retained in hand without being presented to the Banks and payment had been made on 12 August 2016.
- (iv) Although this project had been implemented as an expeditious procurement to provide relevant equipment for the fishery harbourers subjected to the observations of the representatives of the European Union, only 100 fish unloading equipment had been produced during that period.

- (vii) It had not been established whether the relevant equipment was handed over to or received by the fishermen or the fishing societies and that such equipment was being utilized even by 15 July 2016, the date of audit. As such, it was observed that the objectives expected from the project had not been achieved.

**(b) Establishment of a Vessels Monitoring System**

-----

The following observations are made at the audit test check carried out on the establishment of a monitoring system for the vessels engaged in fishing in the international waters.

- (i) Action had not been taken to prepare a basic plan or expenditure estimate by conducting a preliminary study for the establishment of respective vessels monitoring system.
- (ii) A Procurement Committee had not been appointed in terms of Guideline 2.7 of the Government Procurement Guidelines for the establishment of a vessels monitoring system.
- (iii) In the selection of the supplier, action had not been taken to give international publicity for the procurement advertisements in order to create a maximum competition in accordance with the Guideline 3.1.4 of the Government Procurement Guidelines. After the evaluation of proposals voluntarily presented by 22 companies, the supplier had been selected.
- (iv) The proposals presented had not been furnished to the Director General of Public Finance as required by Paragraph 06 of the Public Finance Circular No.444 dated 04 August 2010.
- (v) The evaluation of voluntary proposals had not been carried out by a committee with the technical know-how and experience on that matter and the evaluation of the live presentations of the selected companies as well had not been carried out by a technical evaluation committee consisting of the qualified individuals.
- (vi) Although a Cabinet Memorandum had been presented by indicating that the approval of the Department of National Planning was received to the technical and financial proposal of the supplier selected after the live presentation, an approval had not been granted therefor.
- (vii) It had been recommended that prior to the agreement relating to the project is signed by the Director General of the Department of National Planning evaluation of the project should be carried out by the Information Technology Experts, agreement should be entered into after determining the post cost of sales, licence cost should be determined by taking into consideration price fluctuations of 10 years and the project cost should be established by a team

of experts by taking into consideration the international price. Nevertheless, those recommendations had not been implemented.

- (viii) Although it had been directed by the Cabinet Decision dated 15 December 2011 to appoint a Cabinet Appointed Negotiation Committee and Technical Evaluation Committee for the establishment of vessels monitoring system, a Technical Evaluation Committee had not been appointed.
- (ix) In the selection of the supplier, any indication had not been made on the cost of the project and it had been allowed to increase the price quoted by the supplier as a voluntary proposal subsequent to his selection in 2 instances.
- (x) The Cabinet Appointed Negotiation Committee had discussed with the supplier and obtained his concurrence to decrease the total cost of the project by 1.6 per cent. Nevertheless, the Committee had not taken action to obtain directly the competitive market price of the communication sets installed after purchasing them at Euro 6,510,000 from an external institution. As a result, the price thereof had been reduced only by Euro 60,000. However, it was observed due to the reasons such as the removal of 3 items included in the proposal, inclusion of an additional payment including maintenance cost and the future payments, appreciation of price of two items that action had not been taken so as to resulting in the maximum benefit to the Government.
- (xi) As a result of irregular procurement process followed in the establishment of Vessels Monitoring System, the commencement of the project had been delayed by 3 years and as such direct loss of Euro 1.7 million had incurred due to the increase in price. As the establishment of Vessels Monitoring System was delayed, Sri Lanka had sustained losses due to decrease in the export income through the EU ban imposed on Sri Lankan fish export.
- (xii) The procurement process had not been carried out with transparency in accordance with the provisions in the Government Procurement Guideline. The activities such as calling for bids, evaluation of bids, examination of pre qualifications of the bidders, obtaining securities, examination of post qualifications of the bidders and award of contract had not been carried out in this procurement. Instead of appointment of a Procurement Committee and implementation of procurement process by calling for open bids, a voluntary proposal had been recognized and as such over expenditure had been made.



**(c) Purchase Fitness Equipment for Fitness Centres**  
-----

The following observations are made in this connection.

- (i) The deficiencies such as non-preparation of preliminary cost estimate according to the provisions of the Government Procurement Guidelines, failure to call for quotations from a sufficient number of suppliers, failure to give an adequate period for the presentation of quotations, failure to provide opportunity for the bidders to participate in the opening of bids were observed in the purchase of equipment relating to the establishment of a fitness centre equipped with modern fitness equipment in the Ministry premises at a cost of Rs.14,458,000.
- (ii) In the purchase of fitness equipment, as action had been taken to purchase the equipment with higher price contrary to the recommendations of the Central Engineering Consultancy Bureau, a financial loss amounting to Rs.670,000 had incurred.
- (iii) Action had not been taken to inventories these fitness equipment and keep them under the custodian of an officer and services and the maintenance as well had not been properly carried out.

**(d) Provision of Alternative Fishing Nets for Stoppage of Nets Laid on the Seabed**  
-----

The use of traditional nets laid in the seabed had been detrimental to the sustainable fish management. The fishermen should have been directed towards more effective , efficient and eco-friendly technologies by minimizing the use of those nets and instruments. In this regard, it had been recommended to provide 158 sets of fishing gear comprising 20 Fishing net pieces, 600 Buoys, 3 kilograms of twine and 01 fiber fish box for 158 fishermen in Gurunagar area for ceasing the use of fishing nets laid in the seabed.

In order to provide 05 pieces of net for one person under the first stage, a sum of Rs.16.84 million had been paid to a State Company for the production and supply of 790 pieces of net. The following observations are made in this connection.

- (i) Action had not been taken to select suppliers through calling for competitive bids in terms of Guidelines 2:2:1 and 2:4:1 of the Government Procurement Guidelines.
- (ii) In calling for bids, a bid security had not been obtained in terms of Guideline 7:8:4 of the Government Procurement Guidelines. In awarding the contract, action had not been taken to obtain a Performance Bond in terms of Guideline 5:4:10 of the Government Procurement Guidelines.
- (iii) Although it had been stated that the Technical Evaluation Committee pays attention on the matters such as the long term experience of the contractual company regarding the supply of fishing gear and the quality of the equipment, peculiarly, the durability of the nets and the specifications of the material utilized and the accountability as a Government institution, in the

selection of the supplier, the General Manager had established that the relevant company had bought the fishing nets from another suppliers and supplied.

- (iv) The Ministry had not taken action to enter into a formal contract agreement with the supplier as required by Guideline 8:9:1 of the Government Procurement Guidelines. Even though the supply of equipment had been delayed by 93 days, it had been failed to take action in respect of the said delayed period.
- (v) The price of Rs.19,384 quoted by the supplier for a unit of net on 28 July 2014 had been revised as Rs.21,322 on 24 September 2014. Accordingly, the price of a unit had increased by Rs.1,938. Nevertheless, without considering that matter, the Procurement Committee had accepted the price of Rs.21,323. Therefore, a sum of Rs.1,531,532 had been overpaid.
- (vi) Although a register of names had been presented to the effect that the fishing net sets had been distributed among 100 fishermen out of 158 beneficiaries, evidence that nets were distributed among 58 fishermen was not made available to audit.
- (viii) In order to cease the use of nets laid in the seabed in the fishing industry, the fishermen had requested a set of fishing gear comprising 20 sets of net and recommendation had been granted to it. Accordingly, it had been decided to provide them with only 05 sets of net and action had not been taken to provide other necessary equipment for the fishermen. Hence, the target of providing technical assistance to direct the fishermen towards the eco-friendly technologies by ceasing the use of nets laid in the seabed in the fishing industry as expected from this project had not been achieved.

### **3.15 Losses and Damages**

-----

Observations on the losses and damages revealed during the course of audit test check are given below.

- (a) When reaching a Jeep bought for the Ministry of Fishery and Aquatic Resources Development to the Port, the Ministry had delayed to make necessary arrangements to release the same. As a result, demurrage charges amounting to Rs.149,161 had been paid in releasing the Jeep. It was observed that the sum of Rs.149,161 paid exceeding the local agency fees approved by the Procurement Committee was a payment made without an approval.
- (b) Action in terms of Financial Regulations had not been taken even by 15 August 2016 on a motor vehicle belonged to the Ministry which had met with an accident on 20 December 2015.
- (c) Action in terms of Financial Regulations had not been taken on the loss amounting to Rs.939,173 resulting from an accident caused to a motor vehicle belonged to the

Ministry on 26 December 2012 and a loss amounting to Rs.512,080 resulting from an accident caused to another motor vehicle on 11 August 2013.

### **3.16 Management Weaknesses**

-----

The following weaknesses were observed during the cause of audit test check.

**(a) Recruitment for the Post of Technical Assistant**

-----

In the recruitment of an officer for the Post of Technical Assistant of the Ministry, a sum of Rs.324,072 had been spent for the publication of advertisement on 03 newspapers due to selecting a cost effective publicity media in terms of Section 7.2.5 of the Scheme of Recruitment. Although the written test should be held only for the candidates who have satisfied NVQ 05<sup>th</sup> level, that is, the relevant professional qualification for the post at the time of recruitment, all the candidates had been directed to the written test by spending Rs.324,284. The all 05 candidates selected from the written test had not been fulfilled the relevant professional qualification and the post had further remained vacant even by 30 April 2016. Accordingly, the expenditure amounting to Rs.324,284 incurred relating to the recruitment had been fruitless.

**(b) Acting Appointment to the Post of Director (Development and Marine Resources)**

-----

The following observations are made.

- (i) Despite the availability of the officers qualified in terms of the Scheme of Recruitment within the Ministry to recruit to act in the Post of Director (Development and Marine Resources) which had fallen vacant since 13 October 2011, a female Planning Officer in Grade III had been appointed to act in the post on fulltime basis after getting her transferred .
- (ii) Even though the maximum period of acting relating to a post is 03 months, according to Paragraph 02 of the Public Finance Circular No.06/97 dated 03 February 1997, contrary to that provisions, the relevant officer had been employed in the service up to 01 October 2015 for a period of 03 years with the approval of the Public Service Commission.
- (iii) For a training Programme conducted in Chania from 20 August 2015 relating to the development of fresh water fish resources, a female officer of the Planning Service had participated instead of an officer in a Departmental Post of the fisheries sector. The officer had gone on transfer to another institution, 03 weeks after the above training. As such, it had not been possible to obtain a service to the Ministry from the training given to the officer relating to the fisheries sector by spending USD 955.

#### 4.17 Human Resources Management

##### Approved and the Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	21	20	01	-
(ii) Tertiary Level	05	-	05	-
(iii) Secondary Level	116	83	33	-
(iv) Primary Level	54	45	09	-
(v) Others (Contract/ Casual/ Temporary basis)	04	04	02	02
<b>Total</b>	<b>200</b>	<b>152</b>	<b>50</b>	<b>02</b>

The following observations are made in this connection.

There were 45 vacancies by the end of the year under review. As the existence of that vacancies had not impacted on the savings after the utilization of provisions made, it was observed in audit that the above vacancies had occurred due to the overestimation of the approved cadre.