

National Institute of Fisheries and Nautical Engineering - 2015

The audit of Financial Statements of the National Institute of Fisheries and Nautical Engineering for the period ended 17 June 2015 comprising the statement of financial position as at 17 June 2015 and the statement of financial performance, and cash flow statement for the period 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, No.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

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

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 judgment, 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 Dissolution of activity of the Institute

In terms of Sections 01 and 71 of the Sri Lanka Ocean University Act No.31 dated 07 September 2014, since the date of 17 June 2015 published in the gazette by the relevant Minister the National Institute of Fisheries and Nautical Engineering Act No.36 of 1999 had been rescinded and all movable and immovable properties and all liabilities as at that date had been transferred as assets and liabilities of the Ocean University.

1.5 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 the National Institute of Fisheries and Nautical Engineering as at 17 June 2015 and its financial performance and cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

- (i) A statement of changes in equity/ net assets had not been presented along with the financial statements in terms Paragraph 21 (c) of the Standard.
- (ii) Even though the financial statements had been prepared by indicating information relating to the year 2014 comparatively along with the information relating to the accounting period under review ended as at 17 June 2015, the fact that the comparative amounts shown in the financial statements were not entirely comparable had not been disclosed in terms of Paragraph 66 of the Standard.

(b) Sri Lanka Public Sector Accounting Standard 07

In terms of Paragraph 47 of the standard, some items of property plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation such frequent revaluations are unnecessary for items of Property, Plant and Equipment with only in significant changes in fair value. Instead, it may be necessary to reevaluate the items only every three or five years. However, the Property, Plant and Equipment the net value of which amounted to Rs.421,275,044 of the Institute shown in the accounts had not been revaluated since the inception of the Institute in the year 1999.

(c) Sri Lanka Public Sector Accounting Standard 09

Even though the closing stock should be valued at cost or net realizable value whichever is lower and shown in the financial statements in terms of Paragraph 15 of the standard, without being so valued, the value of closing stock as at 31 December of the previous year amounting to Rs.1,330,395 had been shown as the closing stock as at the end of the period under review.

2.2.2 Accounting Policies

The following observations are made.

- (a) The value of government capital grants and the capital grants received from the Sector Skilled Development Program by the end of the period under review amounted to Rs.608,764,884 and Rs.132,721,471 respectively and the value of net assets represented thereby amounted to Rs.421,275,043. However, those assets had not been amortized and an accounting policy therefor had not been recognized as well.
- (b) Instances of non-compliances with the accounting policies disclosed in the financial statements are given below.
 - (i) Even though, it was stated in the accounting policy that the provision for gratuity be made for employees who had completed the service period of 5 years, the provision for gratuity had been made since the service period of 01 year.
 - (ii) The classification of assets had not been shown under Note 9 to accounts in accordance with assets classification stated under accounting policy 1.8 in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Provision for depreciation had been made only on fixed assets acquired during the accounting period and the depreciation for other assets had not been made. As a result, depreciation for the period had been understated by Rs.23,540,737 and the net value of fixed assets had been overstated by that amount.

- (b) Provision for employees gratuity relating to the period under review had not been made.
- (c) Provision for audit fees payable for the period from 2013 to 2015 had not been made in the financial statements.
- (d) Balances of festival advances and distress loans totalling Rs.8,217,153 had been shown under investment in the statement of financial position instead of showing it under current assets.
- (e) Instead of showing the value of work-in progress as at 17 June 2015 amounting to Rs.85,267,921 as works-in-progress in the statement of Financial Position, it had been shown under Property, Plant and Equipment.

2.2.4 Suspense Accounts

Action had not been taken to identify and settle the balance of Rs.85,433 in the Suspense Account shown under current assets in the financial statements since the year 2011, even by the end of the period under review.

2.2.5 Lack of Evidence for audit

Evidence indicated against the following items of accounts was not made available for audit.

Item of Account	Value	Evidence not made available
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	Rs.	
(i) Deposit Account	2,106,936	} Register of Deposits, Advance Registers
(ii) Advances	3,740,168	
(iii) Retentions Payable	2,118,644	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Without being recovered the course fees totalling Rs.10,688,673 due from students from the year 2011 to 2014, degree certificates had been issued. As this money was impossible to recover, it was decided to write off those course fees by the Board of Control at the meeting held on 06 October 2016.
- (b) Action had not been taken to recover the hostel fees of Rs.798,671 recoverable for the period 2003 to 2006 and it was impossible to recover this money as the students had left the Institute after being completed the courses. In addition, students hostel fees of Rs.2,861,183 from 2009 to the end of the period under review in 2015, had also been not recovered.

- (c) Employees Provident Fund contributions of Rs.6,624,699 payable as at the end of the period under review had not been settled.
- (d) Action had not been taken to recover Tsunami loan balances totalling Rs.191,464 recoverable from 6 officers, remained outstanding for more than 10 years even during the period under review.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to laws, rules, regulations etc.	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulations 570, 571 (3)	Action had not been taken to settle or to credit to government revenue the deposits totalling Rs.2,056,844 and students hostel deposits of Rs.58,000 lapsed for more than 2 years from the date of deposit in terms of Financial Regulation.
(ii) Financial Regulation 394	Action in terms of Financial Regulation had not been taken in respect of 55 cancelled cheques totalling Rs.697,854 brought forward since 2012.
(iii) Financial Regulation 835 (1)(c) and 2(d)	Without the authority of the Secretary to the Ministry concerned in terms of Financial Regulations, the valuation of the Department of Valuation or if not, without referring it for a decision to the Secretary to the Ministry in charge of Department, rent agreements had been entered into for renting of 3 students' hostels on lease basis and refundable advances of Rs.1,708,500 had been paid.
(b) Treasury Circular No.842 of 19 December 1978.	A register of fixed assets in respect of fixed assets the net valued of which amounted to Rs.421,275,044 had not been maintained.
(c) Treasury Circular No.IAI/2002/02 of 28 November 2002.	A register of fixed assets in respect of Computers, Accessories and Software costing at Rs.31,211,625 had not been maintained.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Institute for the period ended 17 June of the year under review had been a deficit of Rs.6,173,788 as compared with the deficit of Rs.71,013,054 for the preceding year. However, as a result of indifferences of the periods based on the preparation of accounts, the financial performance relating to that could not be evaluated.

4. Operating Review

4.1 Performance

According to the National Institute of Fisheries and Nautical Engineering Act No.36 of 1999, this Institute had been established for the purpose of improving the technological and Management Skills of Persons engaged or expected to be engaged in the fisheries industry. Apart from conducting training courses, it was observed in audit that activities to achieve, the following functions stated in the Act had not been performed.

- (i) Conducting discussions and seminars, group discussions and arranging such programs on the education of Fisheries and Nautical Engineering field with the assistance of National and International Organizations.
- (ii) Promotion for conducting tests, surveys and investigations in respect of Fisheries and Nautical Engineering Technology Education and project training.
- (iii) Exchange of teachers and students with institutions in Sri Lanka or Foreign Countries having similar objectives of the Institute and Co-operate with them through other methods.
 - (a) As the information in respect of the action plan of the Institute and the actual performance had been presented for the entire year of 2015, the performance relating to the period under review could not be evaluated. However, according to the action plan prepared for the year 2015, the particulars of number of courses being conducted by 8 colleges belonged to the Institute and the member of students enrolled for Diploma Courses and Certificate Courses are given below.

Name of College -----	Targets		Actual		Percentage	
	No.of courses	No.of Students	No.of courses	No.of Students	No.of courses	No.of Students
Tangalle	23	529	6	158	26	30
Negambo	14	420	4	66	28	15
Mattakkuliya	9	194	6	111	67	57
Batticalow	16	807	3	49	19	06
Galle	12	255	3	42	25	16
Jaffna	08	275	3	36	38	13
Kalutara	09	140	2	20	33	14
Trincomalee	10	105	3	54	30	51
Total	101	2,725	30	536	30	20

The following observations are made.

- (i) It was planned to conduct 06 Diploma Courses and 26 Certificates, Mobile and Other Courses during the year under review and targeted to enroll 367 students, 2,358 students respectively, 2,725 in total, but only 536 students consisting of 76 students and 460 students respectively had been enrolled during the period under review.
Accordingly, the enrollment of students for courses had been as low level as 21 per cent and 20 per cent respectively. Furthermore, in considering the percentage of enrollements to each College, it was 57 per cent, 51 per cent and 30 per cent to Mattakkuliya, Trincomalee and Tangalle respectively but all other colleges had enrolled students less than 20 per cent.
- (ii) Of the above 536 students enrolled for courses, 459 students were proposed to complete the courses but 120 students or 26 per cent had dropped out from the courses.
- (iii) Even though, it was planned to commence 32 courses by 8 colleges belonging to the Institute, taken as a whole, 14 of them and 3 courses, not planned had been conducted. Further, it was observed that seven colleges had planned to commence Diploma courses but courses had been commenced only in the Mattakkuliya and Kalutara Colleges. Accordingly, except the Mattakkuliya College, the percentage of courses actually commenced in each college had been less than 40 per cent as compared with the number of courses planned to be commenced.

- (iv) Even though, the newspaper advertisements for the enrolment of students had been published in November and December 2014, enrollment of students by 8 colleges had been done in various durations of the year. As the enrollment of students for the same course had been carried out on various dates, it was observed in audit that there were inconsistencies in the enrollments and holding examinations by 8 colleges.

The Vice Chancellor had informed the audit that the following reasons had affected not to commence courses and enroll students as planned.

- * Minimal and lack of facilities required to students.
- * Non-receipt of adequate applications for courses by students.
- * Lack of instructors and University lecturers required for the commencement of courses.
- * Certain courses could not be completed within the expected periods. (due to rudeness of sea, postponement of diving and dearth of instructors)
- * Even though, it was planned to commence Marine Engineering and Deck Officers Diploma Courses, they could not be commenced since the year 2015 as non-availability of ISO 9001:2008 quality Certificate for centres and the registrations of the Ministry of Shipping.
- * Due to insufficient human resources required, courses had been conducted by employing same instructors/ lecturers in several centres, and as such courses could not be commenced outright in all centres.

(b) Degree Courses

The following matters were observed in respect of students enrolled for degree courses during the period under review.

- (i) During the period under review, 87 students for 4 degree courses had been enrolled and as compared with 107 students for 3 degree courses enrolled in the preceding year, a decrease of 23.4 per cent was observed.
- (ii) According to the action plan for the year under review, it was anticipated to enroll 175 students for 05 courses, only 87 students could be able to enrolled, representing only 50 per cent. The Vice Chancellor had informed the audit that out of 250 applications received approximately, 150 selected students had participated in the interview and only 87 thereof had been registered for study courses and as such the targeted number of students could not be enrolled.

(c) Accreditation of courses

The following observations are made.

- (i) Accreditation of courses are carried out by each University and only 4 courses out of 14 courses conducted during the period under review had been accredited.
- (ii) According to the information made available by the Mattakkuliya College, 32 NVQ Certificates had been awarded for students enrolled during the period 2013 to 2015. However, instead of NVQ 4 and 5 stated in the enrollment of those students, NVQ 2 and 3 had been awarded for those courses at the examination held by the Tertiary and Vocational Education Commission and as such it was observed in audit that the quality of those courses had been at a minimal level. The Vice Chancellor had informed the audit that due to dearth of infrastructure facilities and instructors required to obtain NVQ level, accreditation was delayed and conducting courses at NVQ 4, 5 levels had been started by now.

(d) Publicity expenses incurred on enrollment of students to courses

Even though a sum of Rs.3,669,132 had been spent for newspaper advertisements and Television Programs for the enrollment of students for various courses during the year under review, only 87 students for degree courses and 536 students for other courses had been enrolled during the period under review. As such, it was observed in audit that sufficient number of students had not applied for those courses, as compared with the publicity expenses incurred.

4.2 Management Activities

The following observations are made.

- (i) Lease agreements relating to the period from 15 March 2015 to 14 March 2016 for 2 hostels situated in Tangalle had not been registered and the particulars of fittings had not been included in all other agreements entered into for the leasing of hostels.
- (ii) The hostel at Mattakkuliya had been handed back on 18 March 2015. According to the Section 3 of the lease agreement, it was stated that if the arrears of water bills existed and any damage caused to the lease property at the end of the lease period, it should be estimated by a valuer and after deducting this money from the initial deposit, the balance money should be refunded by the lesser to the lessee. However, the assessments of the lessor and the Engineer of the College for repairs amounted to Rs.743,000 and Rs.162,250 respectively and as such the management had not taken proper action to recover the deposit money of Rs.840,000 even by 31 March 2017, the date of audit.

4.3 Idle and Under utilized Assets

The following observations are made.

- (a) A new 3 storied building had been constructed in the Jaffna College by incurring an expenditure of Rs.45 million in the year 2014 under the Asian Development Bank aids and it was planned to conduct 08 certificate courses during the year under review and targeted to enroll 275 students. Nevertheless, only 3 courses had been conducted and the lesser number of students as 36 had been admitted. Furthermore, the enrollment of students had been less than 30 per cent, except Mattakkuliya and Trincomale Colleges and as such physical resources of those colleges had been under utilized.
- (b) Out of equipment purchased under the Sector Skill Development Program in the previous year for regional colleges, 56 items of equipment valued at Rs.2,178,150 had not been distributed to the relevant regional colleges even up to April 2016 and remained idle.
- (c) Eight Motor Vehicles belonged to the Institute were not in running condition for several years. Action had not taken to get them repaired or to dispose of them.

4.4 Land and Properties not formally acquired

The following observations are made.

- (a) The ownership of land and buildings in 8 colleges, including the Head Office being utilised by the Institute from the beginning of the Institute had not been acquired in the name of the Institute and a sum of Rs.309,335,589 had been spent for the improvement of those properties by the end of the period under review.
- (b) Even though, a sum of Rs.11,750,593 had been spent for the improvement of 7 vessels used by the Institute up to the end of the period under review, the ownership of 6 of them and ownership of 4 motor vehicles included in the vehicle fleet of the Institute had not been acquired to the Institute even by the end of the year 2016.

4.5 Personnel Administration

The following observations are made.

- (a) According to the information made available to audit, the approved cadre of the Institute as at 17 June 2015 amounted to 286 and the actual cadre and vacancies were 210 and 89 respectively. There were 20 vacancies in the executive levels, including 4 directors posts which were top management posts and 8 lecturers posts and the lower grade officers had covered the day today works of the Institute. Further, 3 watchers and 10 labourers had been recruited in excess of the approved cadre.

- (b) A captain not within the approved cadre had been recruited in the year 2014 without the approval of the Department of Management Services and salaries of Rs.525,000 at a monthly salary of Rs.100,000 had been paid for the period January to June 2015. Even though, it was decided at the 144th meeting of the Board of Control that a suitable officer for this post to be selected by publishing newspaper advertisement, action had not been taken accordingly.

It was obligatory that the ISO 9001/ 2008 quality certificate should be obtained by the Institute to ascertain the CDC certificate for merchant vessels for the students who study courses in the Vocational and Higher Education Divisions. In that connection, the Vice Chancellor had informed the audit stating that, it was inevitable that a first class navigation officer in the navigation field should have been recruited but the then Board of Control had taken action to recruit a captain on work assignment basis on the verbal instructions of the Department of Trade and Shipping.

- (c) Without taking action to fill the vacancies existed in the approved cadre, 14 officers had been recruited on contract and temporary basis without the formal approval of the Department of Management Services and a sum of Rs.2,674,313 had been paid as salaries of them during the period from January to 17 June 2015.
- (d) Even though, 08 Management Assistants, 06 Office Assistants and a driver had been recruited on 15 June 2015 by the Institute, calling for applications had not been done through the Government Gazette or a newspaper advertisement in terms of the scheme of recruitments. Furthermore, the recruitment for the Post of Management Assistant should be done on a result of a written test and through an interview Board, contrary to that, they had been appointed without holding a written test.
- In the examination of the selected officers' addresses, it was observed that all those officers had been recruited from a same province and as such, it was further observed that those recruitments had been carried out contrary to the approved scheme of recruitment informally and without transparency.
- (e) Even though, the dates of appointments of the officers of the National Institute of Fisheries and Nautical Engineering had been post-dated since 2009 with the approval of the Board of Control, the approval of the Secretary to the relevant Ministry had not been obtained therefor in terms of Paragraph 1.10 of chapter 11 of the Establishments Code.
- (f) According to the Scheme of recruitments, it was stated that the external applicants applied for the Post of Assistant Registrar (Students Affairs) should have 3 years service experience in the relevant field or 5 years administrative experience internally. However, the officer recruited to that post on 16 October 2012 had no such a service experience.

6. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of systems and controls.

Areas of Systems and Control

Observations

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| (a) Procurements | Non-compliance with procurement guidelines in getting buildings for hostels on lease basis. |
| (b) Assets Management | Assets not legally vested.
As equipment not distributed, they had become idle. |
| (c) Personnel Administration | Non-filling vacancies and recruitment made informally and without transparency. |