

National Aquaculture Development Authority of Sri Lanka - 2015

The audit of financial statements of the National Aquaculture Development Authority of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the income statement, 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 Aquaculture Development Authority of Sri Lanka Act, No. 53 of 1998 as amended by the National Aquaculture Development Authority of Sri Lanka (Amendment) Act, No. 23 of 2006. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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

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 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 Aquaculture Development Authority of Sri Lanka as at 31 December 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard – 03

In the absence of a Sri Lanka Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, the management should develop and apply an accounting policy. Nevertheless, action had not been taken in respect of accounting the milk cows relevant to biological assets purchased by the Authority for a sum of Rs.91,700 in the year 2009. Moreover, the accounting policy so developed and applied in respect of Government grants had not been disclosed by financial statements.

(b) Sri Lanka Public Sector Accounting Standard – 07

When the fair values of property, plant and equipment differ materially from its carrying amount, annual revaluation is necessary. Even though frequent revaluation is unnecessary for property, plant and equipment which are not material and revaluation is adequate once in 03 or 05 years, revaluation of assets had not been carried out by the Authority after the year 2012.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The stock of fish seed had been over computed by Rs.131,907 as at the end of the year under review. As such, the value of the closing stock and the profit had been overstated by that amount.

(b) Direct bank credits amounting to Rs.2,865,680 had not been identified and brought to account during the two preceding years and the year under review.

2.2.3 Unexplained Differences

A difference of Rs.412,560 was observed in the comparison of the balance of accrued expenses according to the financial statements with the relevant subsidiary records.

2.2.4 Lack of Evidence for Audit

Detailed schedules for adjustments of Rs.6,644,148 made through Journal Number 57 were not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The debtors' balance receivable from sale of finger lings amounting to Rs.12,772,747 included a balance of Rs.1,543,928 exceeding 05 years and the balance Rs.1,749,745 exceeding 03 years and the recovery process of these loans had been at a sluggish level.
- (b) Action had not been taken to settle the balance of Withholding Tax (WHT) of Rs.363,329 included in the financial statements for over a period of 05 years.
- (c) Action had not been taken to settle 03 cancelled cheques valued at Rs.78,892 brought forward for a period of three years.

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

- | Reference to Laws, Rules, Regulations etc. | Non-compliance |
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| ----- | ----- |
| (a) Treasury Circular No. IAI/2002/02 of 28 November 2002 | A Register of Fixed Assets had not been maintained in respect of Computer Accessories and Software. |
| (b) Paragraph 3.6 and Paragraph 4 of the Public Finance Circular No.02/2014 of 17 October 2014 | Action had not been taken to conduct the Board of Survey relating to the year under review, forward the relevant reports to the Auditor General with copies to the Chief Accounting Officer and to notify it to the Director of Public Finance. |

- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 571

Action had not been taken to credit to the state revenue or to settle the retention money totalling Rs.8,711,679 existing since the year 2001, retained in making payments to the contractors.

2.5 Transactions not supported by Adequate Authority

A balance of Rs.1,207,278 receivable for the supply of fish seed to external persons and institutions in the year 2009 had been written off in the year under review on the approval of the Board of Directors and without the approval of the Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had been a surplus of Rs.11,443,032 as against the deficit of Rs. 26,327,842 for the preceding year, thus indicating an improvement of Rs.37,770,874 in the financial result of the year under review as compared with the preceding year. Even though the administrative expenditure had increased by Rs.92,437,735, the increase in the gross profit, Government grants and deferred income by Rs.15,753,710, Rs.97,890,250 and Rs.12,791,483 respectively had mainly attributed to this improvement.

In the analysis of the financial results of the year under review and 4 preceding years, the deficit of the Authority amounting to Rs.25,754,103 in the year 2011 had decreased to Rs.9,099,309 by the year 2013 and it had increased up to Rs.26,327,842 again by the year 2014. However, it had been a surplus of Rs.11,443,032 in the year 2015. Nevertheless, in considering the depreciation for non-current assets and employees' remuneration, the contribution of the Authority which had been Rs.178,006,091 in the year 2011 had gradually improved up to Rs.372,125,864 at the end of the year 2015.

3.2 Legal Actions Instituted against the Authority

Three cases had been filed against the Authority claiming compensations totalling Rs.105,316,000 in respect of reacquisition of the Fresh Water Fisheries Centre due to failure in the payment of tax by an external institution, obtaining re-employment by an employee and a vehicle accident by an external party.

4. Operating Review

4.1 Performance

In terms of Section 11 of the National Aquaculture Development Authority of Sri Lanka Act, No. 53 of 1998 as amended by the National Aquaculture Development Authority of Sri Lanka (Amendment) Act, No. 23 of 2006, its functions are as follows.

- Development of fresh water aquaculture, brackish water aquaculture, coastal aquaculture and mariculture with a view to increasing fish production and fish consumption in the country and promote the creation of employment opportunities.
- Promote the farming of high valued fish species including ornamental fish for export and promote, facilitate and develop small, medium and large scale private sector investment in aquaculture.
- Preparation and implementation of environment friendly plans and programmes to manage, conserve and develop, having regard to the need to conserve biodiversity, aquaculture, aquatic resources used for aquaculture and the aquaculture operations and culture based fisheries in perennial reservoirs and seasonal reservoirs.
- To carry on business as an importer, exporter, seller, supplier and distributor of aquatic resources and to assist persons engaged in such activities etc.

The following observations are made in the examination carried out in respect of fulfilling the above objectives during the year under review.

- (a) Plans and environment friendly programmes to manage, conserve and develop, having regard to the need to conserve biodiversity, aquaculture, aquatic resources used for aquaculture and the aquaculture operations and culture based fisheries in perennial reservoirs and seasonal reservoirs which is one of the main functions of the Authority, had not been prepared and implemented.
- (b) Activities had been planned under four main topics instead of including the above functions separately in the Action Plan of the Authority. According to the Performance Report of the year under review, the following observations are made in respect of the progress in fulfilling the activities included in the Action Plan.
 - (i) Even though a sum of Rs.100,000 had been allocated for the implementation of exhibitions and educational training programmes for fresh water aquatic culture development, out of that, a sum of Rs.90,000 had been saved. Moreover, the targeted officers for the training programmes and the number of programmes had not been planned.
 - (ii) Even though a sum of Rs.4,500,000 had been allocated for the development of fish breeding centres, out of that, only constructions relating to a sum of Rs.2,460,000 or 55 per cent had been carried out.

- (iii) Even though a sum of Rs.2,000,000 had been allocated for the establishment of a water base related breeding centre of the Aquaculture Development Centre (Thilapiya) at Udawalawa, only a sum of Rs.1,250,000 had been spent and as such, the progress of constructions had been 62.5 per cent.
- (iv) Even though a sum of Rs.250,000 had been allocated for the constructions of the structure around the Laboratory of the Aquaculture Development Centre at Rambadagalla, out of that, only a sum of Rs.140,000 had been spent. As such, the progress of the financial performance had been 56 per cent.
- (v) Even though a sum of Rs.4,000,000 had been allocated for the construction of the Prawn Farming Follow up Centre at Baticcaloa, only the functions of Rs.1,520,000 had been fulfilled in the year under review. As such, functions of 62 per cent had not been fulfilled.

4.2 Management Activities

The following observations are made.

- (a) The Chairman of the Authority had confirmed in writing that suitable nets could not be obtained for activities of catching fish fry since the past several years and as a result, there had been obstacles in the production of fish seed in the centres. Nevertheless, the Management had failed to find a resolution therefor.
- (b) The Management had not taken appropriate measures in respect of irregularities valued at Rs.1,068,380 identified in the examination carried out by the Internal Audit Unit in several instances relating to the District Aquaculture Project Office at Anuradhapura and non-engagement of Aquaculture Extension Officers in the field and other related duties.

4.3 Underutilization of Funds

The following observations are made.

- (a) The sum of Rs.2,000,000 allocated for the importation of fish for cultivation of ornamental fish in the year under review had not been utilized therefor and out of that, only a sum of Rs.183,082 had been spent for the purchase of local breeders and to obtain chemicals required for the tissue culture laboratory.
- (b) Out of the Capital Grants received for the year under review for the construction of a Fish Breeding Centre at Iranamadu in Kilinochchi, a sum of Rs.8,903,800 had been spent for the purchase of consumables such as hormones, chemicals and oxygen and a sum of Rs.1,091,302 for aquaculture development activities without spending for targeted functions. Moreover, consumables purchased had not been utilized even up to the end of the year under review as well.

4.4 Commencement of Projects on lands/properties not formally vested

Lands in extent of 38.7526 hectares not belonging to the Authority had been utilized for the development activities without vesting in the Authority.

4.5 Personnel Administration

The following observations are made.

- (a) Out of the two approved posts of Engineer, one post had been vacant since the year 2008. As such, it was observed that there had been delays in performing functions such as constructions of 11 Fish Breeding Centres, reconstruction activities and release of retention money.
- (b) The authority had not taken action even by June 2016 to fill the post of Director and 04 posts of Deputy Directors vacant since the establishment of the Authority in the year 1999. Arrangements had been made to cover the duties and functions relevant to these 05 posts by subordinates without assigning them in writing.
- (c) A female officer had been appointed for the post of Director- Finance of the Authority on the contract basis of annual extension from 06 May 2014 and the Authority had not taken action to appoint the permanent posts even by the end of the year under review.
- (d) Forty three posts of Aquaculture Extension Officers had been vacant as at 31 December 2015. As a result, there had been hindrance in carrying out duties such as raiding illegal fishing activities spread in 20 District Offices and earning penalties to the Authority therefrom, expansion of promotion of fish and collection of data on fishing activities at optimum level.
- (e) Four labourers had to be deployed for posts of Management Assistant (Non-technical) due to getting approval for the recruitment of employees without identifying the requirements of the Authority by the Management.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) The plans for special projects had been prepared separately, outside from the Master Action Plan.
- (b) The physical targeted data had not been indicated in the Action Plan

5.2 Internal Audit

The following observations are made.

- (a) The internal audit had not covered an adequate area of the activities of the Authority due to the limitation of staff to three persons.
- (b) The Audit Plan relating to audit of special projects had not been included in the Annual Internal Audit Programme. As such, an internal audit had not been carried out thereon.
- (c) Maintenance of Project Documents and issuance of Circular instructions had not been carried out by the Internal Audit Unit to fulfil the responsibility assigned to the Accounting Officer properly for the effective completion of Development Projects on time by use of public resources effectively, fruitfully and economically according to Management Audit Circular No. 1 of 26 July 2010.

5.3 Budgetary Control

Significant variances ranging from 12 per cent to 370 per cent were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Unresolved Audit Paragraphs

The following directives given at the Committee on Public Enterprises held on 19 November 2014 had not been fulfilled up to the end of the year under review.

- (a) Taking action to fill 10 Staff Grade vacancies including Director – Human Resources, 03 posts of Deputy Director, post of Caretaker of Circuit Bungalows, post of Translator, Aquaculture Economist and the Civil Engineer.
- (b) Arbitration process in respect of the case filed, claiming compensation by the private company which had leased out the Aquaculture Centre at Polonnaruwa.
- (c) Failure in submitting details in respect of recovery of a sum of Rs.11,094,329 spent for the construction of 25 Fish Seed Units in the year 2006.
- (d) Reimbursement of salaries amounting to Rs.755,973 paid from 19 November 2009 up to 31 May 2015 to a female officer released to the Presidential Secretariat without the approval of the Cabinet of Ministers.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

**Areas of Systems and
Controls**

Observations

- | ----- | ----- |
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| (a) Contract Administration | <ul style="list-style-type: none">- Preparation of overestimates- Failure in submitting time frames of plans relevant to constructions and periodic changes in plans. |
| (b) Control of Advances and maintenance of Registers | <ul style="list-style-type: none">- Non-inclusion of voucher numbers relating to settlement of advances in the Register.- Failure in taking action to settle advances immediately after the completion of the relevant purpose.- Failure in mentioning the posts of the officers who obtained advances in the Register of Advances. |