

## **National Aquatic Resources Research and Development Agency - 2015**

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The audit of financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 32(3) of the National Aquatic Resources Research Development Authority of Sri Lanka 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 misstatement 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. Subsections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971, give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

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

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Aquatic Resources Research and Development Agency 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standard - 07**

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The following observations are made.

- (a) Even though the useful life of assets should be reviewed in the revaluation of assets, their useful life had not been valued in the revaluation of assets in the year 2014.
- (b) Even though the depreciation of fixed assets should begin when it is available for use in terms of the Standard, the Agency had followed the policy of making provisions for depreciation for the entire year in which the asset is disposed of, without making provisions for the year in which it had been purchased.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) In the adjustment of amortization relating to assets purchased using Capital grants received in the preceding years, amortization of Rs.111,606,435 relevant to domestic and foreign grants adjusted already in the financial statements had been adjusted again.
- (b) Even though the Fisheries Trade Complex and the Tsunami Centre at Beruwala had become suitable for use since March 2014, provisions for depreciation had not been made since that date. As such, depreciation for the years 2014 and 2015 had been understated by Rs.1,193,373 and Rs.1,591,165 respectively.
- (c) Even though the Kadolkale Research Centre revalued at Rs.14,220,234 transferred to the Agency under a 99 year lease agreement had been revalued again for a sum of Rs.198,000,000 in the preceding year, relevant adjustments thereon had not been made in the financial statements.
- (d) Overprovisions for depreciation amounting to Rs.225,778 had been made in the year under review due to computation of provisions for depreciation without specifically identifying the class of the asset.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Even though the advance of Rs.272,160 paid for an external institution for a computer software system not in compliance with the requirements of the Agency, had elapsed for 05 years, action had not been taken to recover same.
- (b) Steps had not been taken to recover a sum of Rs.1,612,898 receivable from an external institution for preparing a feasible study report on the development of 06 fishery harbours.

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

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Non-compliances with the following laws, rules, regulations etc. were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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(a) Treasury Circular No.842 of 19 December 1978 and Treasury Circular No. IAI/2002/02 of 28 November 2002.	The Register of Fixed Assets and the Register relating to Computer and Software had not been maintained in an updated manner.
(b) Public Enterprises Circular No. PED/95 of 14 June 1994	A sum of Rs.456,533 had been paid as allowances for the Divisional Heads for 19 officers of the top management of the Agency in the year under review without obtaining the approval of the Treasury.
(c) Public Finance Circular No.434 of 31 December 2008	The assessment services required for state corporations depending on financial aid of the General Treasury should be obtained from the Government Valuer without making a payment. Nevertheless, a sum of Rs.775,000 had been paid by the Agency in the year under review to a private party for obtaining assessment services.

### 2.5 Transactions not supported by Adequate Authority

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Despite having informed by the Transport Officer that the repairs of the motor vehicle had not been carried out satisfactorily, a sum of Rs.501,619 had been paid in the year under review to a private institution for repairs of the motor vehicle.

### **3. Financial Review**

#### **3.1 Financial Results**

According to the financial statements presented, the financial result of the Agency for the year under review had been a deficit of Rs.20,480,455 as compared with the corresponding deficit of Rs.74,938,175 for the preceding year, thus indicating a decrease in the deficit by Rs.54,457,720 in the year under review as compared with the preceding year. Even though the staff remuneration had increased by Rs.72,575,776 in the year under review, the increase in Government grants by Rs.70,297,526 and the decrease in revaluation loss by Rs.46,097,693 had mainly attributed to this decrease.

In the analysis of financial results for the year under review and 04 preceding years, the deficit had increased continuously from the year 2011 to the year 2013. However, a decrease in the deficit was observed in the years 2014 and 2015. In considering the depreciation for non-current assets and employees' remuneration, the contribution of the Agency which had been Rs.152,754,450 in the year 2011 had decreased to Rs.123,494,212 in the year 2012. Nevertheless, the contribution had improved gradually during the period from the year 2013 up to the year 2015 and it had been Rs.336,240,797 in 2015.

### **4. Operating Review**

#### **4.1 Performance**

The objectives and functions of the Agency in terms of the National Aquatic Resources Research Development Agency Act, No.54 of 1981 are ;

- Ensure the application and utilization of scientific and technological expertise for the implementation of the national development programme on the subject of aquatic resources.
- Promote and conduct research activities directed towards the identification, assessment, management, conservation and development of aquatic resources; Provide advisory and consultancy services on technological and legal matters relating to aquatic resources; Co-ordinate the affairs of institutions engaged in those activities; Collection, dissemination, publication and taking over of data useful; Provide the training required and exercise, discharge and perform all the powers, functions and duties conferred or imposed on the Agency.

According to the Performance Report for the year under review, the following observations are made in respect of fulfilment of activities of the Agency.

- (a) (i) Out of the provisions of Rs.1,000,000 made for the Project of Identification of Biological Matters and valuation in respect of persistence of fish in the areas of Mannar and Nilaweli, a sum of Rs.884,292 had been spent thereon. However, designing a map in respect of the ecosystem and presentation of proposals on the biodiversity which are the main activities of that project had not been fulfilled.

- (ii) Even though a sum of Rs.600,000 had been allocated for the Project of Identification of Breeding Centres for Sea Turtles and their dispersal in the Kalpitiya Area, only the collection of data had been done by spending a sum of Rs.250,131. No activities whatsoever such as the management of the dispersal of turtles scientifically, establishment of breeding centres for turtles and giving publicity so as to attract tourists in an environmental friendly manner, had been fulfilled and the implementation of the project had been discontinued halfway. However, it had been notified that 96 per cent of the physical progress of the Progress Review Reports had been completed.
- (b) In the examination of the Action Plan and the Progress Reports relating to the year under review, the physical progress of the implementation of main programmes and 05 projects ranged from 70 per cent to 85 per cent and as such, it was observed that the targets had not been achieved up to the maximum level.
- (c) The percentage of the self-generated income of the Agency which had been 09 per cent in the year 2011 had decreased up to 02 per cent by the year under review. The Management had not taken adequate action to increase the self-generated income.

#### **4.2 Management Activities**

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Action had not been taken even by July 2016 to transfer the ownership of the lands to the Agency, valued at Rs.53,400,900 shown under the non-current assets.

#### **4.3 Operating Activities**

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The “Tharane” vessel constructed by spending Rs.15,685,632 in the year 2012 for the research activities of the coastal zone had not been used for the relevant purpose up to now. Even though directives had been given at the Committee on Public Enterprises held on 12 November 2014 that action should be taken to sell the relevant ship, it had not been sold even by 04 August 2016. Further, a cost of Rs.7,663,375 had to be incurred from the date on which this vessel had been constructed up to the end of the year under review for salaries, overtime and security purposes of the officers who were engaged in the activities of the vessel.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) The fish stall constructed by spending Rs.15,245,000 contrary to the objectives of the Agency, had remained idle without using for any purpose since 21 March 2014. Further, action had not been taken to properly vest the land relevant to these constructions in the Agency.
- (b) Even though a sum of Rs.4,493,052 had been spent in the year 2011 for the purchase of two engines for production of 02 boats, a sum of Rs.2,902,938 by the end of the year under review for production activities, those production activities had been ceased halfway.

#### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) The Tandoori Burner valued at Rs.120,000, the Plate Washing Machine valued at Rs.352,800 and the Alluminium Ladder valued at Rs.100,000 purchased without identifying the requirement had remained idle without using from the year 2011 up to 31 August 2016, the date of audit.
- (b) A computer software purchased for Rs.76,800 in April 2014 had not been made use of up to April 2015, the date of audit.

#### **4.6 Identified Losses**

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A computer valued at Rs.52,000 in which a computer software purchased for Rs.411,000 in the year 2009 had been installed, had been misplaced in the year 2012 and the Management had not taken action to recover the relevant loss from the responsible parties.

#### **4.7 Commencement of Projects on Lands not Properly Vested**

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Constructions had been carried out by spending Rs.552,906 in the year under review without vesting the ownership of a land located at Panapitiya area belonging to the National Aquatic Resources Research and Development Agency.

#### **4.8 Resources of the Agency Given to other Public Institutions**

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The Agency had released four officers to the Line Ministry and other Government Institutions and paid a sum of Rs.1,142,846 as allowances in the year under review.

#### **4.9 Staff Administration**

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The following observations are made.

- (a) Out of 132 vacancies of the Agency as at 31 December of the year under review, existence of 96 vacancies relating to research activities had affected the implementation of research activities considerably which was the main function of the Agency. Nevertheless, action had not been taken to fill those vacancies.
- (b) Duties of the post of Director (Human Resources) had been covered by an acting officer since November 2014 and action had not been taken to appoint a permanent officer for that post.
- (c) Two officers had been placed on a high salary scale contrary to the approved salary scale and as such, a sum of Rs.1,741,540 had been over paid from the year 2009 to the year 2015.

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

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

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Even though the financial statements should be presented to audit within 60 days after closure of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, the Agency had presented financial statements for the year under review to audit after a delay of 119 days that is, on 28 June 2016. Further, the Draft Annual Report which should be presented along with the financial statements had not been presented to the Auditor General.

### **5.2 Internal Audit**

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The Management of the Agency had not taken proper action on recommendations submitted by the Internal Audit Unit in respect of the minimization of the cost of the vessel per hour, constructed for research and survey activities and the loss of Rs.2,204,727 due to accident occurred on 08 December 2013.

### **5.3 Budgetary Control**

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Variances ranging from 26 per cent to 76 per cent were observed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## **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 existence of main functions in the process of preparation of salaries under the control of the same officer and non-comparison of information of the Accounts Division timely with the information of the Human Resources Division.