

## **National Aquatic Resources Research and Development Agency – 2016**

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The audit of financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 and Development Agency Act, No.54 of 1981 amended by the National Aquatic Resources Research and Development Agency (Amendment) 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 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 Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub – sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971, give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

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

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **2.2 Comments of financial Statements**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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(a) Sri Lanka Public Sector Accounting Standard No.01

Contrary to the section 48 of the standard, total sum of Rs.891,691 creditors balance had been deducted from debtors in three instance. Hence debtors had been understated by that amount in the year under the review.

(b) Sri Lanka Public Sector Accounting Standard No.08

As per section 22 and 100 of the standard, neither provision nor disclosure had been made for arrears of Rs.5,333,724 and Rs.44,368,612 and surcharge of Rs. 2,626,544 and Rs.22,184,306 in the accounts year under the review due to failure in remitting the contribution respectively to the Employee Trust Fund and the Employee Provident Fund for the period from 2006 to October 2015.

#### **2.3 Accounts receivable and payable**

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Actions had not been taken to recover advance of Rs.404,010 paid for an external institution for purchasing of computer software before 06 years and sum of Rs.1,612,898 receivables from an external institution for preparing a feasibility study report on the development of 06 fishery harbours.

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

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Instances of non- compliance with the following laws, rules, regulations etc. were observed.

### Reference to Laws ,Rules , Regulations and Non – compliance Management Decisions

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| (a) Section 17 of National Aquatic Resources Research and Development Agency Act No.54 of 1981                  | Scientific and Management Committees had not been appointed as per provisions contained in the Act.  |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>(i) Financial Regulation 757 (2) | Board of Survey Reports relating to the year under the review had not been presented to the Audit.   |
| (ii) Financial Regulation 104   | Action had not been taken in term of financial regulations regarding misplacement of computer in the year 2012 valued at Rs.52,000 and which a computer software purchased for Rs.411,000 in the year 2009.                  |
| (c) Public finance circular No.03/2015 of 14 July 2015  | Although the maximum limit of Ad-Hoc - Sub Imprest that can be given to a staff officer is Rs.100,000 in an instance , a sum of Rs.150,000 Ad-Hoc Sub - Imprest had been given by the Agency on 20 <sup>th</sup> April 2016. |

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented , the financial result of the Agency for the year under review had been a surplus of Rs.3,224,167 as against the deficit of Rs.17,330,479 for the preceding year , thus indicating a increase in the financial result by Rs.20,554,646 in the year under review as compared with the preceding year. Even though the contractual services and Research and Development expenditures had increased by Rs.5,021,273 and Rs.23,531,700 respectively in the year under review, increase in government grant by Rs.40,679,900 had mainly attributed to above increase.

In the analysis of financial results for the year under review and 04 preceding years , a deficit had been occurred from the year 2012 to the year 2015. However a surplus had occurred in the year 2016. When readjusting of the employees remuneration and the depreciation on non - current assets to the financial result , the contribution of Rs.123,494,212 in the year 2012 had improved continuously up to Rs.369,231,183 in the year 2016.

## 4. Operating Review

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### 4.1 Performance

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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.

Following observations are made regarding fulfillment of those objectives.

- (a) Even though the provision of consultancy services and expertise knowledge for activities relating to the Identification, Assessment , Management and Development of Aquatic resources , Promotion of Research activities and coordinating activities of the institutions engaged in those activities was an objective of the Agency , advisory had not been issued by conducting surveys and researches regarding fish harvest promotion and post harvest promotion in Inland water Reservoir. It was observed that the consideration which the Agency focused to fulfill relevant objectives was in a minimum level.
- (b) In the Examination of the Action Plan and the progress report relating to the year under review , provision of Rs.95.74 millions had been allocated for 54 research projects and a sum of Rs.91.61 millions had been spent. The physical progress of the implementation of 25 Projects / Researches ranged from 52 per cent to 98 per cent and following weaknesses were observed in the examined projects.
  - (i) A sum of Rs.3,585,496 was under the United Nations Food and Agriculture Organization and Treasury Grant of Rs.1,600,000 had been received for production of fish feed for sea bass culture with low cost , highly nutritious . Even though out of Rs.2,262,926 had been spent up to the year under review. Fish feed with lower cost had not been introduced to the farmers by producing. Hence the objectives such as upgrading the annual income condition of small scale farmers engaged in sea bass farming industry and eradication of poverty of fishermen through introducing nutritious fish feed had not been fulfilled through this project.

- (ii) A sum of Rs.1,440,000 had been allocated in the year under review for the project of development of effective fishing gear to harvest deep sea skip jack Tuna with the help of fish aggregating devices and radio buoys and a sum of Rs.1,412,535 had been spent out of it. 03 Fish aggregating devices had been constructed and one device had been established on 29 September year under review in the area of Kalmunai. The remaining 02 devices was remained idle even by July 2017 and the established Fish aggregating device had been removed by fisherman in the year 2017.
- (iii) Even though Research had been conducted by spending a sum of Rs.1.02 millions out of the allocation of Rs.1.07 millions for the project of development of technology for breeding two ornamental fish species which have high value in the market, the fulfillment of the expected objectives such as improving export fish quantity by reducing imported fish quantity, promoting inland farmers and increasing their income had not been assessed by doing follow up activities.
- (iv) Even though it has been spent sum of Rs.399,000, Rs.591,094 and Rs.341,100 as total of Rs.1,331,194 respectively in the year 2014,2015 and 2016 with the objective of improving the quality of shrimp harvest and reducing the post harvest loss by introducing efficient fishing method for shrimp species, A suitable fishing method had not been introduced for shrimps.
- (v) Provision of Rs.1,130,000 had been allocated in the year under review for ornamental fish culture and disease management through community participation in Hambanthota District and a sum of Rs.1,223,300 had been spent thereon. Although deposit of the brood stock in Mud ponds should be done in the month of March of the year under review, it had been commenced on 28 July and the project had been unsuccessful due to the death of brood stock. Further an adequate consideration had not been focused on diseases management.
- (vi) A sum of Rs.750,000 had been spent out of the provision of Rs.740,000 making for promoting fish and prawns culture in small water bodies in Hambanthota and Matara Districts. The prawn culture had been tested only in Hamabanthota District and this project had been also conducted in those area in last two preceding years. Accordingly the objective such as promoting fish and prawn culture had not been fulfilled through this project.
- (vii) Provisions of Rs.2,320,000 had been received in the year under review for the project of livelihood development of ornamental fish farmers in Kalutara District and a sum of Rs.1,973,700 had been spent. Even though the actions such as production of fish feed using Knife fish and distribution of technical knowledge to community, identification of fish diseases and making aware fishing community regarding basic treatment methods, improving the fish quality of two fish species had been planned under this project. The consideration had been focused only on quality improvement of one ornamental fish species. No other plans whatsoever had been fulfilled.

- (viii) Even though research had been conducted by spending a sum of Rs.679,000 out of the provision of Rs.770,000 for usage of pro - bio tics that is relating to improvement of production of shrimp in different culture zone and testing water quality management. According to the results of that research actions had not been taken to give knowledge that is relating to correct usage techniques to the relevant parties during the year under review.
- (ix) Even though sum of Rs.400,000 had been spent by making provision of Rs.380,000 for the project such study of water quality , feeding ecology and community participated management on production of brush parks in Negombo estuary which was conducted on usage of mangrove twigs used as a traditional fishing method in Negombo Lagoon and those of results , The actions had not been taken to give benefits of that Research out comes to the fishing community.
- (x) Provision of Rs.1,420,000 had been allocated in the year under review for management of White Spot Diseases and a sum of Rs.1,411,800 had been incurred thereon . Even though this study had been conducted based on 07 objectives only out of 02 objectives had been fulfilled it. The objectives such as reducing virus diseases for shrimp farmers and methodology to hold disease free brooders and introducing safety test kits with low cost and the way of expanding white – spot virus diseases in shrimp industry and identification of strain variation had not been fulfilled.
- (xi) A sum of Rs.1,020,000 had been allocated for the project such introducing tissue culture for aquatic plants and seaweeds quantity with the objective of conducting researches to extract seaweeds in a good tissue composition and giving those benefits to farmers. Even though to the research had been conducted spending Rs.943,000, the outcomes of that had not been given to the farmers.
- (xii) Provision of Rs.370,000 had been made for the project such Micro Algae Culture and Breeding and Culturing of high economically valuable marine ornamental fish species and sum of Rs.296,000 had been spent. The objective of this project was such as study of growth and culturing methods of seahorse fry and conducting researches for Algae species which are most suitable and most helpful to environmental conditions of Sri Lanka and issuing culture sample of Essential Algae species to farmers . The reason to select this project was that exportation of marine ornamental fish currently take place through collection of fish which are in natural environment . Hence this is a damage to the environment as well as there is a threat to vanish those species from Natural Environment. Hence this project had been commenced and those benefits had not been given to the farmers in the year under review.

- (xiii) Out of the provision of Rs.4,360,000 had been made for the project such scientific study about remedial measures that could be taken to prevent quality losses in fish harvest, a sum of Rs.3,568,600 had been spent. A study had been conducted at the end of year 2016 on quality assessment of fish that are collected from Multi day boats in Foreshore area Such as Negambo, Kudawella, Puranawella, Mannar, Dikkowita and Imported Fish. Even though it has been identified that quality of fish which are taken to eat in tested 05 Foreshore areas was in a lower level and required facilities for protecting fish quality were not in Multi Day boats, A methodology whatsoever had not been prepared to minimize those weaknesses.
- (xiv) A sum of Rs.2,470,000 had been allocated for the project of introducing value added products using Aquatic Resources for introducing Nutritious Food and sum of Rs.2,234,800 had been spent. conducting researches to produce canned food using fish, Extraction of collagen using waste of Catla fish species, Extraction and purification of oil using Sardinella Longiceps, Manufacturing fish biscuits had been planned. Even though the relevant project had been finished, outcomes of research findings had not been given to the parties who are interested in that regard.
- (xv) The project that was commenced to study on fish and fish production quality, Nutritional and safety and a sum of Rs.3,568,600 had been spent in the year under review thereon under the provision of Rs.4,360,000. Toxic trace that enter into consumers body through consumption of fish meals had been analyzed through this project in the year under review and it had been concluded that trace metals are highly in specific fish. However actions had not been taken to aware consumers in this regard.
- (xvi) Even though a sum of Rs.9,679,000 had been spent out of provision Rs.8,340,000 in the year under review for the project of Designing National Nautical charts, The activities which had been planned such as Nautical chart to approach Kankasanthurei Harbour, Nautical chart from Colombo to Weligama, Nautical chart to approach Norochcholai Coal power plant, Nautical chart to approach Oluvil harbour and updating Bathymetric Survey Data had not been fulfilled.
- (xvii) Even though a sum of Rs.877,500 had been spent out of the provision of Rs.920,000 made for the project of collecting shallow water Bathymetric data using satellite technology, the expected outcome of this project such floor classification map had not been designed.
- (xviii) A provision of Rs.230,000 had been made of project of ecological study about coral reefs and species diversity in Hikkaduwa marine sanctuary and a sum of Rs.207,800 had been spent. The planned activities such as maintaining a data base about Coral species and eco diversity and identification of bad impact, Identification of diversity in coral species and Identification of changes in eco system, Determination of water quality had not been fulfilled in the year under review.

- (xix) A Provision of Rs.200,000 had been allocated for the project such studying on seasonality , diversity and spatial distribution of small pelagic fish and water quality parameters in the Weligama Bay and sum of Rs. 181,300 had been spent. However considerable changes in water had been found , the definite reasons thereon had not been found.
- (c) According to the progress report for preceding year , out of Rs.1,000,000 allocated for the project of identification of Bio logical Matters and valuation in respect of persistence fish on the area of Mannar and Nilaweli. A sum of Rs.884,292 had been spent thereon. However , designing a map in respect of the eco system and presentation of proposals on the bio diversity which are the main activities of that project had not been fulfilled. Further a sum of Rs.600,000 had been allocated for the project of Identification of special instances on Breeding of sea Turtle and their dispersal in the Kalpitiya area only timely collection of data had been done by spending a sum of Rs.250,131. No activities whatsoever such as the Management of dispersal of turtles scientifically , establishment of breeding centers for turtles and giving publicity so as to attract tourists in an environmental friendly manner , had been fulfilled and the project had been discontinued halfway. The management attention had not been focused in this regard.

## **4.2 Management Activities**

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The following observations are made.

- (a) Actions had not been taken to vest the agency land located at Kalpitiya research center , Kapparathota NARA regional center and Rekawa regional center of the Agency which are valued respectively at Rs.31,885,000, Rs.3,597,700 and Rs.17,918,200 as total of Rs.53,400,900.
- (b) Action had not been taken by the management to reply 15 Audit reports issued in the year under review and apply recommendations contained in those reports.
- (c) Even though in term of section 34 of National Aquatic Resource Research and Development Agency Act a registry which is contained data, reports and descriptions obtained relating to the study research, testing and other investigation and exploration conducted by the Agency should be maintained by the Director General, such a registry had not been maintained. Hence, the ability to use data collected annually for similar research has been deprived. The management's attention had not been focused in this regard.

## **4.3 Transactions on Contentious Nature**

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A 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 actions had not been taken to properly vest the land relevant to these construction in the Agency.

#### **4.4 Uneconomic Transaction**

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Even though a sum of Rs.4,493,052 had been spent in the year 2011 for the purchase of two powerful engines for production of 02 boats and sum of Rs.2,902,938 for production activities of 02 boats, those production activities had been ceased halfway.

#### **4.5 Idle and underutilized Assets**

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The following observations are made.

- (a) The Thandoori Burner valued at Rs.120,000 and the plate washing machine valued at Rs.352,800 purchased for canteen and the Aluminum Ladder purchased valued at Rs.100,000 had remained idle without using from the year 2011 up to 31 July 2017, the date of Audit.
  
- (b) A computer software purchased for Rs.76,800 in April 2014 had not been made use of up to July 2017 the date of audit.

#### **4.6 Commencement of projects on lands not properly vested**

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The Agency had carried out construction by spending Rs.552,906 in the preceding year without vesting the ownership of land located at Panapitiya area belonging to the National Aquaculture Development Authority, even the ownership of the land had not been vested at the end of the year under review.

#### **4.7 Resource of the Agency given to other public institutions**

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The Agency had released 04 officers to the Line Ministry and other government institutions and paid a sum of Rs.1,736,502 to those officers as allowances in the year under review.

#### **4.8 Staff Administration**

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The following observations are made.

- (a) It was observed that existence of vacancies in the post of Director Admin, Assistant Director Human Resources and Assistant Director (Admin) and 88 vacancies in 27 posts directly connected to the research activities was badly affected to carryout activities of the Agency. Further 03 excess of scientists had been recruited without approving the posts.
  
- (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.

## 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 98 days that is on 06 June 2017. Further the Draft Annual Report which should be presented along with the financial statements had not been presented.

### 5.2 Internal Audit

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An Internal Audit Test had not been carried out as per Internal Audit Programme regarding 10 areas including, monthly accounts, Inventory controls, Granting Advances, Implementation of projects and procurement procedures.

### 5.3 Unresolved Audit paragraphs

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The “ Tharane ” vessel constructed by spending Rs.15,685,632 in the year 2012 for the research activities of coastal Zone had not been used for the relevant purpose up to end of the year under review. 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 2017. However, a cost of Rs.8,068,524 had been spent from the date in 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.

## 6. Systems and Controls

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

<b>Areas of systems and controls</b>	<b>Observations</b>
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(a) Presentation of Financial Statements	Failure in presenting financial statements on the relevant dates in terms of circulars.
(b) Internal Audit	Failure in conducting a Internal Audit as per Audit Programme.
(c) Staff Administration	Actions had not been taken to fill vacancies.
(d) Board of Survey	Delay in conducting annual board of survey.

(e) Operational Control

- (i) Failure in planning for required surveys, research and giving instructions by identifying issues of the institution which are connected to Fishery Industry and established to development of Fishing community and promotion.
- (ii) Not having an adequate programme for promotion of the conducted researches among fishing community, development of those researches, properly giving instruction thereon.
- (iii) Failure in conducting required researches regarding testing timely water in Inland water reservoirs and promotion of Inland water fish farming.
- (iv) Failure in conducting surveys in regarding Inland water fish harvest.
- (v) Failure in collecting data relating to the researches and acting as an information center.
- (vi) Failure to furnishing research reports to the interested parties.