

National Aquaculture Development Authority of Sri Lanka - 2016

The audit of financial statements of the National Aquaculture Development Authority of Sri Lanka for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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 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 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

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

As per the Section 70 and 71 of the Standard the assets should be classified as current and non - current on expected to be recovered before 12 months and after 12 months from the date of financial reporting , the distress loan balance of Rs.44,549,328 had not been categorized accordingly.

(b) **Sri Lanka Public Sector Accounting Standard No.07**

(i) As per the Section 47 of the Standard, when the fair value 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.

(ii) As per the Section 64 of the Standard the depreciation rates should be decided with considering useful life of the assets. However contradictory to it, the Authority had granted ten years useful life time for the Computer Software and Laboratory Equipment which rapidly becomes obsolete on the technical reasons.

(c) **Sri Lanka Public Sector Accounting Standard No.08**

As a result of a case filed by the external parties against the Authority in the 2011, the Authority had to be paid as compensation Rs.12, 734,000 in the year under review. As per Section 22 of the standard, due to not making provisions for it in previous years, this year's expenses and the loss had been increased by that amount.

2.2.2 Accounting Policies

Even though the six milk cows had been valued at Rs.309, 945 of the year under review, the accounting policy which was applied to this valuation had not been disclosed as per Section 132 (c) of Sri Lanka Accounting Standard No. 01 and the surplus arisen due to increasing the fair value of Rs.209, 995 had been transferred to Revaluation Reserve.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) When calculating the final stock, the fishing net stock value of Rs.361, 958 had not been considered, and as a result of that the final stock had been understated by that amount.
- (b) The sum of Rs.1, 543,141 of direct bank credits at 175 events existing over last few years had been adjusted to the monthly bank reconciliation statement instead of identify it and accounted.
- (c) Even though the motor vehicle amounting to Rs.6, 500,000 had been used from 30 March of the year under review, the depreciation value of Rs.975, 000 of that vehicle had not been adjusted for the year under review.
- (d) Even though the constructed mud ponds at Udawalawa Tilapia Center amounting to Rs.1, 967,756 had been used at 12 January 2016, which relevant assets had been accounted under the Work-in Progress without capitalizing under the assets. Due to that Rs.114, 183 depreciation values had omitted from accounts.
- (e) The paid amount for the site supervision fees of Authority's Engineer, committee member fees and advertisement charges of total Rs.387, 051 had been accounted under the work-in progress instead of showing under the administrative expenses.

2.2.4 Lack of Evidence for audit

The evidence indicated against the following items at account had not been furnished for audit.

Item	Value	Evidence not made available
Divi Neguma – Revolving Fund	32,679,030	(i) Detailed recovery schedule. (ii) Debtors Age analysis
Divi Neguma – fish fingerlings stock	1,258,960	Supporting schedules of fingerlings categorization

2.3 Accounts receivable and payable

The following observations are made.

- (a) The debtors' balance from sale of fry /fingerlings amounting to Rs.13,739,176 included a balance of Rs.3,041,702 exceeding 05 years and the balance of Rs.1,779,992 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 five years.
- (c) The action had not been taken even during the year under review for the recognition and settlement of contractors' retention money amounting to Rs.8,377,714 existing from the years 2001 to 2011.

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

Instances of non- compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws ,Rules, Regulations and Management Decisions	Non – compliance
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(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

Financial Regulation 751

Even though the books received to library should be included in the Accession Register, the all books of the library as at 31 December 2016 had not been included in the Accession Register.

(b) Treasury Circular No IAI/2002/02 of 28 November 2002	
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A Register of Fixed Assets had not been maintained in respect of computer accessories and software.

(c) Paragraphs 3.1.6 and 3.1.7 of the Public Finance Circular No.05/2016 of 31 March 2016	
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The relevant reports had not been furnished to the Auditor General after conducting the survey on inventory relating to the year under review.

(d) Paragraph 6.5.1 of the Public Enterprise Circular No.PED/12 of June 2003	
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The Draft Annual Report had not been furnished with the financial statements.

2.5 Transactions not supported by Adequate Authority

A balance of Rs.403, 594 receivable for the rentals and a balance of cancelled cheque account of Rs.149, 203 which were continuously reported in the financial statements had been written off respectively from the legal expenses account and from the other income account in the year under review without obtaining a formal approval from the relevant authorities.

3. Financial Review

3.1 Financial Results

According to the financial statements presented , the financial result of the Authority for the year under review had been a deficit of Rs.36,533,378 as against the surplus of Rs.11,443,032 for the preceding year , thus indicating a deterioration of Rs. 47,976,410 in the financial result for the year under review as compared with the preceding year. Despite the grants received from the treasury had increased by a sum of Rs.26,509,750 and the increase of contingency income by a sum of Rs.21,270,580 , increase of the administrative expenditure and the distribution cost by Rs. 63,475,658 and Rs.26,957,218 respectively , had been the main reasons for the above deterioration.

In the analysis of the financial results for the year under review and 04 preceding years , the deficit of the authority amounting to Rs.20,364,390 in the year 2012. However it had been a surplus of Rs.11, 443,032 in the year 2015 and it had been a deficit of Rs.36, 533,378 again by the year 2016. Nevertheless , in considering the depreciation for non- current assets and employees' remuneration , the contribution of the Authority which had been Rs.208,579,857 in the year 2012 had gradually improved up to Rs.377,818,292 at the end of the year 2016.

3.2 Legal Actions instituted against the Authority

A case was filed by an employee against the Authority on 22 June 2015 to obtain the job again.

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 amended by the National Aquaculture Development Authority of Sri Lanka (Amendment) Act, No.23 of 2006, and its functions are as follows.

- (a) Development of freshwater aquaculture, brackish water aquaculture, coastal aquaculture and sea farming with a view to increasing fish production and fish consumption in the country and promote the creation of employment opportunities.

- (b) 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.
- (c) Preparation and implementation of environment friendly plans and programmes to manage, conserve and develop, having regard to the need to conserve bio – diversity, aquaculture, aquatic resources used for aquaculture and the aquaculture operations and culture based fisheries in perennial tank and seasonal tank.
- (d) To carry on business as an importer, exporter, seller, supplier and distribution 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 bio- diversity aquaculture , aquatic resources used for aquaculture and the aquaculture operations and culture based fisheries in perennial tank and seasonal tank which is one of the main functions of the Authority had not been prepared and implemented.
- (b) Although the deposit of fish fingerlings in freshwater tanks had been increased by 12.6 million in 2016 rather than 2015 year , the researches and experiments had not been done to measure and improve the post harvest of fish fingerlings stock. The required surveys and researches to improve the fish production had not been taken by the Authority from the National Aquatic Resources Research and Development Agency of the government.
- (c) The following observations are made on the production of fish fries and fish fingerlings from the year 2011 to 2016.
 - (i) In the year 2014 the fish fingerlings production had been 40.98 millions and the aquatic harvest had been 70,600 metric Tons. Even though the fish fingerlings had been grown by 66.47 millions in the year under review, when comparing with 2014 year, the total fish production had been decreased by 67,480 metric tons.
 - (ii) Even though the Fry fish production had been increased by 29.17 million from 83.10 million to 112.27 millions in 2011 to 2016 years, the fish fingerlings production had not been increased against the growth of Fry fish.
 - (iii) In relation to the year 2014, fresh water aquaculture production in the years of 2015 and 2016 had been decreased by 10,390 metric tons and 3,120 metric tons respectively.
 - (iv) It has been observed on the information of 2015 and 2016 years the targets of Fish Fingerlings stock had not been achieved from 25 per cent to 73 percent range from 11 districts and 23.5 per cent to 75 per cent ranges in 06 districts. The management had not focused on this and hence the basic objective of establishing the National Aquaculture Development Authority had not been achieved adequately.

- (v) Although the targets set for fish fingerlings stock in freshwater reservoirs in Gampaha , Kalutara , Matara , Kegalle districts in the years of 2015 and 2016 were millions 0.334 , 0.345,0.349 and 0.054 respectively , any fish fingerlings had not been stocked with covering that districts. As a result of that, the objectives of the development of fresh fish production and the consumption as well as the creation and improvement of employment opportunities had not been achieved.
- (d) Even though the Rs.229,035,250 amounts had been granted to the 6450 beneficiaries via Divi Neguma loan scheme in 2011 , 2012 , 2013 and 2014 years to achieve the objective of development of freshwater aquaculture , brackish water aquaculture , coastal aquaculture and sea farming with a view to increasing the fish production and fish consumption in the country and promote the creation of employment opportunities, this programme had been failed due to the reasons , listed in below.
- When selecting the beneficiaries, had not been considered about the water shortage in the areas.
 - Beneficiaries had not been trained properly.
 - Even though the rural organization or a district organization should be established by the Divi Neguma project owners according to the common guidelines given at the beginning of the project, such a rural or district organization had not been functioned.
 - Follow-up activities had not done by the Aquaculture farming officers.
- (e) 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.12.62 millions had been allocated for the construction of resource person's quarter at National Inland Fisheries and Aquaculture Training Institute at Kalawewa and as per the progress reports, only Rs.10.96 million had been spent for it. Out of that, a sum of Rs.2.24 millions had been spent for the construction of Twin Quarters which was not included in the Action Plan.
- (ii) Even though a sum of Rs.2.51 million had been allocated for the renovation of labour quarter at Inginiyagala Aquaculture Development Center, without completing that activity out of that the Gravity Hatchery's works had been completed by using that allocated money. But the physical progress for labour quarter's renovation had been shown as 100 per cent.
- (iii) Even though a sum of Rs.1.16 million had been spent for the management of fish stock and development of fisheries and aquaculture activities, out of that Rs.0.79 millions or 32 per cent had not been spent. As expected targets of this were not planned, the physical progress of it had not been evaluated.

4.2 Management Activities

The following observations are made.

- (a) Even though to maintain the Divi Neguma programmed as a revolving fund there had been identified the methods via entering an agreement with the beneficiaries to recovery 50 per cent of given money that methods had not been implemented.
- (b) In terms of the agreements, the financial and technical advices should be given to the beneficiaries and that beneficiaries need to complete projects in accordance with those technical advices. However, the follow – up activities had not been carried out by Districts Aquaculture Development Extension officers to verify that projects were implemented in accordance with those technical advices. Further observed that, there had not been followed the common guidelines issued by the National Aquaculture Development Authority and had not been implemented the proper methods to charge premiums regularly. Further Authority has not keep the survey data on growth of fish harvest and had not been conducted the follow - up activities relating to the projects by the National Aquaculture Development Authority.
- (c) Lands in extent of 38.7526 hectares used by the Authority without getting actions to vesting until 30 September 2017.

4.3 Operational Activities

- (a) With a Private Company the National Aquaculture Development Authority had started the project on 28 September 2005 for the development of technology for breeding milk fish with investing a sum of Rs.3,874,592 which was received from the Asian Development Bank , and as per the agreement between the Authority and the Private Company , the total amount should be paid to the Authority by the Private Company after the two years grace period commencing from the operational activities .Even though the operational activities had been started from the 24 December 2008 , Only Rs.692,726 had been recovered at 31 December 2016. The Authority had not taken actions to recover the outstanding amount of Rs.3, 181,866 on that date.

4.4 Transactions on Contentious Nature

Even though the ministry had granted a sum of Rs.30 million to the Authority for the purpose of stocking fish fingerlings in fresh water reservoirs to improve the fresh water fish production, out of that only Rs.26.1 million had been spent and only 13 million fish fingerlings had been stocked. The balance amount of Rs.3.9 million had been spent to purchase fish foods. However, the incorrect information had been presented to the Ministry with showing the settlement of total sum of Rs.30 million that was used only for stocking 15 million fish fingerlings.

4.5 Staff Administration

Following observations are made.

- (a) Out of the two approved posts of Engineers, one post had been vacant since the year 2008. As such , it was observed that there had been delays in performing functions of constructions resource persons quarter , construction of mud ponds , other reconstruction activities and obtain the Engineer Certificate to release of retention money Rs.27.38 million.
- (b) 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 permanent posts even by the end of the year under review.

5. Accounting and Good governance

5.1 Action Plan

Following observations are made.

- (a) The plans for special projects had not been included in to the Action Plan.
- (b) The physical targeted data had not been indicated in the Action Plan.

5.2 Internal Audit

Following observations are made.

- (a) Even though the authority had been expanded up to head office , 15 centers and 22 district offices at the end of the year under review, the staff of the internal audit division had been limited to one internal auditor and two management assistant (non – technical) officers. Even though the existing approved cadre hat not been sufficient with the expansion of the authority’s activities. , the authority had not taken action to approve and recruit sufficient number of staff to the authority.
- (b) From the value of Rs.198.94 millions transactions of the Internal Audit Plan, 10 per cent to 15 per cent transactions included in the risk limit had not been checked.
- (c) An internal audit tests had not been carried out for the special projects as the audit plan for special projects had not been included in the Annual Internal Audit program.
- (d) Even though the six internal audit reports had been submitted by the internal audit division during the year under review, the reports on the management actions for it and the implementation of the recommendations had not been submitted to the Auditor General. In addition, the quarterly audit summery reports had not been prepared.

- (e) The independence of the Internal Audit division had not been sustained through granting the power to internal Auditor for signing the cheques as the first signatory.

5.3 Procurement Plan

Following observations are made.

- (a) As per the Section of 4.2.1(e) of procurement guideline, the Master Procurement Plan had not updated within not older than six months.
- (b) Deviating from the procurement plan, the sum of Rs.3, 356,972 had been spent for purchasing 144,000 meters of covering nets. Even though there should be a given minimum of seven days for submitting bids under the shopping method in accordance with the 6.2.2 clause of the Procurement Guideline, only two days had been allocated for this activity.

5.4 Budgetary Control

When comparing the estimated income and expenses with the actual income and expenses at the year under review, some income components had not been estimated and the variances had been increased from 46 per cent to 156 per cent, hence it was observed that the budget had not been used as the financial management tool.

5.5 Audit Committee

Even though the at least four audit and management committee meetings should be held per year according to the clause 7.4.1 of the Public Enterprise Circular, No. PED /12 of 02 June 2003, only 03 meetings in 2015 and 02 meetings in 2016 had been held by the Authority.

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

- | | |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Financial Control | (i) Failure in taking actions to identify the direct bank deposits, not maintaining the debtor control accounts when granting loans and follow – up activities had not been done. |
| | (ii) Not approved limitations to officers who sign the cheques. |

- (b) Advance Control
- (i) Non inclusion of voucher numbers relating to settlement of advances in the register.
 - (ii) Failure in taking action to settle advances immediately after the completion of the relevant purpose, and failure in mentioning the posts of the officers who obtained advances in the Register of Advances.
 - (iii) Failure to maintaining the advance Register of Ginigathhena Ornamental fish Breeding Center and non – maintenance of the Special Advance Register.
- (c) Procurement Control
- (i) In 41 times, failure to issue orders to suppliers for a total value of Rs.10, 398,567 worth during the year under review.
 - (ii) Failure to delegate the works to do the internal check between the procurement and payments.
- (d) Staff Administration
- Failure to fill the vacancies of staff
- (e) Internal Audit
- (i) Failure to maintain adequate and qualified staff team.
 - (ii) Failure to conduct the Internal Audit Inspection for Ginigathhena Ornamental Fish Breeding Center since 2008 year.
- (f) Books and records maintenance
- Failure to properly maintain the Stores ' Registers and the formal register for dead fish fingerlings at Ginigathhena Ornamental Fish Breeding Center.
- (g) Divi Neguma Revolving Fund
- (i) Failure to recover the due balances and failure to update Debt Registers and files.
 - (ii) Procedures of selection and trainings of beneficiaries are poor.
 - (iii) Failure to do the follow – up activities by farming officers.
 - (iv) Failure to act in accordance with the common guidelines.
 - (v) Failure to strengthen the economy of fishing community and the project had been failed.