

## **National Aquatic Resources Research and Development Agency – 2017**

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The audit of financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 2017 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 Standards 01**

Although Assets and Liabilities can't be setoff, in accordance with the paragraph 48 of the Standard, Rs.3,278,097 value of debit balances has been set off against Creditors balance and shown as Rs.50,240,155 after offsetting .

###### **(b) Sri Lanka public sector Accounting Standards 02**

- (i) In accordance with paragraph 25 of the standard Rs.372,865 value of working progress was not included under the Investment Activity in the Cash Flow Statement.
- (ii) Although Net Cash Flows from operating activities in cash flow statement had been shown as Rs. 8,160,942, , that amount should be Rs. 2,816,645 as per correct calculations, hence the net cash flow from operating activities has increased by Rs.5,344,297.
- (iii) Although property, plant and equipment under purchasing activities were shown as Rs. 70,342,795 under Investing activities of the Cash Flow Statement, in ledger accounts verification it was observed that the cash payment made for the year under review for the purchase of such assets was Rs. 42,063,057.

##### **2.2.2 Accounting Deficiencies**

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The following Observations are made.

- (a) Rs 6,002,443 of Chemical material stock issued for research during the year under review, has been debited to the final stock instead of being identified as an expense of the year, hence the final stock value exceeded by Rs. 6,002,443 and the Chemical consumption expense value was below that value.

- (b) Rs. 79,568 of depreciation value has not been reflected in the year 2017 relevant to Rs. 810,000 of capital grant received as equipment in the year 2016 and Rs. 119,000 of computers, hence Non-current Assets and capital grant value exceeded by that amount.
- (c) The revaluation expenditure of Rs. 5,406,380 spent on repairs of buildings and automobiles during the year under review has been debited to buildings motor vehicles accounts as capital expenditure.
- (d) Though Rs. 2,056,756 advance payment has been recommended to pay for the institution that provided consultancy services for the construction of a new laboratory complex with tax at the end of the year , while the accrual expenses are only accounted for sum of Rs.1,843,915, hence Creditors and the work in progress understated by Rs. 212,841 each.
- (e)Rs,469,340 amount of insurance claims receipts had been credited to the motor vehicle account during the year under review. As a result the motor vehicle value in the financial statements was below Rs.469,340, while the deficit was in excess of that value.
- (f) 30 per cent loyalty income of Rs.506,253 which is receivable for providing consultancy services by NARA Institute for research projects, has been accounted as liability under incentive payment on consultancy income distributable profit, instead of accounting as income

### **2.2.3 Non-Evidence for Audit.**

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 The accrual expenses incurred for more than two years amounted to Rs. 5,574,590 and did not provide any supporting documents such as invoices and balance certificates to verify the values.

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

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 The following observations are made.

- (a) Actions had not been taken to recovered a sum of Rs.1,612,898 from an external institution for the preparation of feasibility study report in respect of development of six fisheries harbors for more than 04 years.
- (b) The Agency had been unable to recover a sum of Rs.239,550 due for employees who released to the Presidential Secretariat during the year 2013.
- (c) An amount of Rs. 404,010 had been paid as an advance to an outside institution in 2010 for the establishment of a software system. Though the software has not been installed even at the end of the year under review, actions had not been taken to recover that amount.
- (d) An amount of Rs.125,900 postgraduate course fees which had been paid to two employees as a loan by the institution receivable from three years.
- (e) Even though Rs 3,174,489 has been shown in financial statement as an amount payable to Ceylon Fisheries Harbour Corporation for supply of security service , that amount should be Rs.6481,007 receivable for security service to NARA as per information of Ceylon Fisheries Harbour Corporation, .

## 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.

### Rules, Regulations and Management decisions.

### Non-compliance

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(a) National Aquatic Resources Research and Development Agency Act No 54 of 1981

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(i) Section 17 of the Act

No scientific and management committees have been established in accordance with the provisions of the Act, as it has not been possible to carry out instructions and recommendations on the subject of scientific and technical matters to be submitted to the Committee on the acceptance, evaluation and approval of approved projects.

(ii) Section 34 of the Act

A register, trial and other investigations conducted by the Agency, and a register containing data, reports and details obtained with regard to inquiries and findings, should be maintained by the Director-General, but such a document has not been maintained

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i) Financial Regulations 104

Although Rs.52,000 cost of Computer which included the software purchased for Rs. 411,000 in year 2009, has been missed in the year 2012, No action has been taken in accordance with the financial Regulations.

(ii) Financial Regulations 387 and 395

Bank reconciliation statements were not prepared during the year under review for 03 bank accounts and there was an overdraft balance of Rs.4,352 at one bank account.

(iii) Financial Regulations 757 (2)

The board of survey reports for the year under review had not been submitted for audit.

Treasury Circular No. 842 of 19 December 1978 and Financial Regulations 502 (2)

Fixed assets register had not been maintained.

Treasury circular No: IAI / 2002/02 dated 28 November 2002

A fixed assets register had not been maintained for computers, devices and software.

### 3. Financial Review

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#### 3.1 Financial results

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According to the Financial statements presented financial result of the Agency during the year under review was a deficit of Rs. 34,234,444 compared to with, surplus of , Rs.3,224,167 for the previous year, the deficit for the year under review declined by Rs.37,458,611. Employee remuneration, research and development expenditure and other operating expenses were increased by Rs. 25,655,921, Rs. 31,975,230 andRs. 14,684.171, respectively, despite the government grants increased by Rs.43, 409,230 during the year under review.

Although there was a deficit from 2012 to 2015 in analyzing financial result of six proceeding years, there was a surplus in the year 2016. In 2017 deficit had been arrived again. In the year 2012, the contribution of Rs.123,494,212 continued to increase to Rs. 369,231,183 and Rs. 369,678,999 respectively in 2016 and 2017 respectively due to the readjustment of non-current asset's depreciation and employee remuneration to the financial results.

### 4. Operational review

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#### 4.1 Performance

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- (a) Although the objective of the National Aquatic Resources Research and Development Agency Act No. 54 of 1981 is to provide guidance and expertise for identifying aquatic resources, valuation, management and development, promoting research and coordinating the activities of the institutions involved ,Research Instructions had not been issued regarding promotion of fish crops in fresh water tanks and post promotion of fish harvest.
- (b) In reviewing the action plan and progress reports in the year under review , Rs230 Million had been allocated for 74 research projects and Rs. 108.29 million cost had been incurred for implementation of 68 projects. The physical progress of implementation of the projects ranged from 24 to 98 per cent, and the following weaknesses were observed in 14 out of the 68 projects audited.
  - (i) Rs.1,440,000 has been made for the year 2010 for the creation of environmentally friendly and resource friendly new style generating machines for gathering fishing rods and radio boya and catch skip jack tuna in deep sea. 03 fish gathering gutters had been created incurring cost of Rs. 1,412,535. One of them was installed on Kaluthunai on 29 September 2016 and the remaining gutters were kept as idle by July 2018.
  - (ii) In the Hambantota district Rs.1,130,000 was provided for ornamental fish cultivation and disease management during the last year. Rs. 1,223,300 had been spent for this purpose. The fish had to be deposited in the ponds during the March of the year, but it had begun on July 28 and the project had failed due to the lack of water in reservoirs. There was also insufficient attention to the management of disease and no sufficient follow up actions had been carried out.
  - (iii) The research project for the development of fish feed for seabass fish cultivation in the lagoon floating net cages is scheduled to commence in 2015 and at the end of the year

2017, Rs.2,231,174 had been spent for this purpose. The 12 net cages in the Negombo lagoon had been set up by the end of 2016, but the acquisition of the relevant fingerlings delayed to June 2017. 27 number of net cages in Puttalam lagoon which needed to cover the research project, failed to setup until the end of the year 2017. The supply of seabass fingerlings for net cages in puttalam lagoon was delayed from 2017 to June 2018. Although there are improvements in the organic seabass fish feed formulations, the research has shown that despite the fact that it has taken 2 ½ years for the purpose of quantitative testing for the final review of fish feed formulations, the objective of the experimental study and the improved food composition for the practical use of fish breeding fish, The goal was not reached.

- (iv) Rs. 2,286,197 has been spent during the year under review for the Sri Lanka's Small pelagic and Large pelagic Fish Breed Assessment and Management Research Project. Though The project is primarily driven to data updating and analyzing regarding to small sea fishing and a large sea fishing harvest in the year Assessment of large sea fish resources and small sea fish resources in Sri Lanka has not been carried out and there is no mechanism of providing important observation to fisherman engaged in of small and large sea marine fishing.
- (v) Though Rs. 710,000 has been allocated for Improvement of software package for providing services to customers by online system, via The Fisheries Information Center no activities has been initiated for software upgrading and customer service even as at 31 December 2017.
- (vi) Following observations were made in reviewing physical progress of nautical map creating.
- Although it was planned to carry out water surveying of 4756 square kilometers in the coastal area of 900 sq. Km in the shallow sea area under nautical mapping development in 2017 on the purview of the Colombo - Weligama Naval Shipyard, only 410 sq. Km of shallow water surveys had been carried out on the shallow waters only at the end of the year Deep sea surveys did not take place.
  - Although it was planned to complete water measurements of 21,410 square kilometers out of the total area of 30,000 square kilometers in the year under review of the total nautical chart in Trincomalee up to Point Pedro, only 6,425 square meters had been measured at the end of the year.
  - Although it was planned to create a marine map for the Kalpitiya lagoon during the year, none of the water measurements carried out in the year 2017 had been accomplished.
- (vii) Rs. 3,186,196 had been spent at the end of the year 2017 for the existing and scientifically improved multi-day fishing vessels and the Post Harvestmen Damage Assessment at Peliyagoda Central Fish Market. To investigate the post-harvest damage in the physical performance of this, in the year 2016, the research had been carried out and the post-harvest loss was estimated to be 40 per cent. The research project was carried out with the following objectives during the year under review.
- Introduce an efficient radiant system for existing and new multi-day boats.

- Assessment of fishery damage in existing multi day vessels and improved multi-day fishing vessels.
- Consultancy report on creation of multi-day boats with refrigeration system has obtained from Moratuwa University with the payment of Rs.950,130 in the year 2017. However, there was no research to ensure the technical and financial fitness of the refrigeration system mentioned in that consultation report. Due to this Agency failed to achieve the objective of creating effective refrigeration systems for multi-day boats during the year under review. Further, the evaluation of the fishery damage in the existing and the improved fishing vessels was a prime objective of this research, but due to the impossibility of introducing multi-day vessels with a refrigeration system, this objective was not achieved. There was no emphasis on research on minimizing post-harvest damage.
- (viii) Rs. 14,500,000 has been allocated for the year under review with the assistance of Norway with an independent survey for assessing the fisheries resources of Sri Lanka. , only 2,111,621 had been spent by the 31st December 2017. Accordingly, it was observed that Rs.12,383,379 had been overcharged. Furthermore, detailed action plans and detailed budget forecasts were not prepared for this project.
- (ix) Rs.1,362,371 and Rs. 1,955,463 had been spent during the year under review for the change of the space of the heavy metal particles in the selected large marine fish, the change of the space of the particles and the toxic and nutritive monitoring of the bivalvemolluscsin the large marine fish. However, the performance reports relevant to these projects were not submitted.
- (x) The research work on the research around the Sri Lankan coastal land around the Mineral Deposits combinations was abundant due to the suspension of the research officer's service involved in the said research work and no proper replacement of another suitable research officer. For this purpose, only Rs.180,242 has been used equaling to 56 per cent from the revised estimate of Rs.320,700.
- (xi) Rs. 790,794 had been spent in the year under review for the establishment of the sea observation Center and the Sea Level monitoring Center. Despite the initial objective of setting up these centers to provide technical assistance to the relevant agencies on marine warnings , providing technical assistance via this center was halted from February 2017.
- (xii) Rs. 159,042 had been spent for the Kadolkale park management program in Negambo scheduled to be implemented in the year 2017 by the internal Aquatic Resources and Aquaculture Development division. Even though this project includes The construction of three name boards and a cafeteria, installation of a toilet system and preparation of lanes, the construction of the cafeteria, soil filled and lane processing including several activities had not been completed.
- (xiii) Rs. 1 million had been allocated for the development of a Marine Database which was a project to be implemented in 2017 by the National Marine and Marine Science Division and Rs.153,171 has been spent. The development of a marine data system was not completed in 2017, and only 15 per cent financial utilization was exists.

#### **4.2 Management activities**

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The agency's lands worth of Rs.53,400,900 located at the Kalpitiya Research Station, Kapparatota Nara Regional Center and Rekhwa Regional Center were not taken over by the agency.

#### **4.3 Transactions on Contentious Nature**

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Out of the objectives of the agency, Rs. 15,245,000 was spent on the sale of the fish stalls at Beruwala which were ineffective without being used for any purpose from March 2014. Further, the land for these constructions had not been properly taken over to the agency.

#### **4.4 Idle and underutilized Assets**

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The following observations are made.

- (a) The Thandoori Burner of Rs.120,000 and the plate washing machine of 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 2018, the date of Audit.
- (b) A computer software purchased for Rs.76,800 in April 2014 had not been made use of up to September 2018 the date of audit
- (c) Rs. 675 in 2002 on three bank accounts maintained at regional offices and Rs. 97,768 in a bank account were inactive since 2015.

#### **4.5 Uneconomic Transaction**

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Even though Rs. 4,493,052 has been spent for the purchase of two engine boats for the production of 02 boats and Rs 2, 902,938 cost incurred for the production of 02 boats. the production had been stopped halfway.

#### **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 06 officers to the Line Ministry and other government institutions and paid a sum of Rs.2,125,777 to those officers as salaries and allowances in the year under review.



#### **4.8 Staff Administration**

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The following observations are made

- (a) The two senior level post in the Administration division, the Director (Administration and Human Resources) and the Assistant Director (Administration) were vacant from 30<sup>th</sup> April 2016 and actions has not been taken to fill the said post until July 25 2018.
- (b) By the 31 December 2017, there were 95 vacancies in 27 posts directly related to research. It was observed that the continuation of vacancies in these positions would adversely affect the key objectives of the Agency. Moreover, on 31<sup>st</sup> December 2017, there were 42 vacancies on 25 supporting posts.

#### **5. Sustainable development**

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##### **5.1 Achievement sustainable development Goals**

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The questionnaire has stated that each State Institution should act on the basis of the United Nations " Agenda for Sustainable Development in the year 2030 " and the questionnaire states that the National Aquatic Resources Research and Development Agency (NARA) has been involved in matters relating to the year under review. However, actions had not identified the targets for achieving the development goals, targets and targets for achieving the targets and indicators on how to achieve targets.

#### **6. Accountability and Good governance**

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##### **6.1 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 the review to audit after a delay of 49 days that is on 18 April 2018. Further the Draft Annual Report which should be presented along with the financial statements had not been presented.

##### **6.2 Internal Audit**

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The following observations are made.

- (a) The internal auditing of the Agency had issued 21 internal reports in the year under review, out of which only 05 reports had been answered. The response had not been included in the corrective actions taken in the observations in the internal audit reports.
- (b) The Agency's Internal Audit scope, procurement process, system controls, general ledger and monthly accounts, loans and advances, research project progress and a limited internal auditing staff were confined to four officers, including the Chief Internal Auditor.

### **6.3 Audit Committees**

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In the year under review, only 3 meetings of the Audit & Management Committee were held.

### **6.4 Unresolved Audit paragraphs**

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The “ Tharanee ” 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 31 December 2017. However , a cost of Rs.9,758,290 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 vessel security officers who was engaged in the activities of the vessel.

### **6.5 Procurement and contract process**

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#### **6.5.1 Procurement**

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Following observations were made regarding the Contract for the establishment of the Naval Research Building

- I. Upon approval of the Procurement Committee decisions of the Ministry of Ports and Highways, the approval of the Procurement Committee on ICTAD registration was received on November 02, 2017, to call for bids from contractors, but only two committee members were participated.
- II. In The contract awarded to the Institute of Creative Arts , the contract period had been specified and as to the contract agreement with the private institute 63 days has been allowed to complete the repair work. However, the final bills of the contract had been submitted in May 2018 and had a delay of 2 ½ months over the expected period.
- III. It was observed that the Agency is expected to complete the air conditioning and internal electrical systems of the building by their own which already incurred Rs.5,519,645 cost for other renovation activities .Eventhough It took almost a year to complete the repair work for the period from July 2017 to June 2018, and no repairs had been completed to the extent possible until 19<sup>th</sup> September 2018.
- IV. Although, the contract packaging should be used as a method of procurement which can be achieved economy and efficiency, as per procurement guidelines 4.1, it was observed that the benefits of the contract package did not materialize.

## 7. 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)	Internal Audit	- Sufficient Internal Audit had not been conducted and adequate staff had not been attached.
(b)	Staff Administration	-Actions had not been taken to fill vacancies.
©	Board of Survey	-Delay in conducting annual board of survey.
(d)	Debtors	-Balance confirmations has not been furnished as at 31 December 2017.
(e)	Operational Control	<p>-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.</p> <p>-Not having an adequate programme for promotion of the conducted researches among fishing community , development of those researches, properly giving instruction thereon.</p> <p>-Failure in conducting required researches regarding testing timely water in Inland water reservoirs and promotion of Inland water fish farming.</p> <p>-Failure in conducting surveys in regarding Inland water fish harvest.</p> <p>-Failure in collecting data relating to the researches and acting as an information center.</p> <p>-Opportunity has not been given for using research reports to the interested parties.</p>
(f)	Accounting System Control	-Duties of entering payment vouchers, receipts and journal vouchers to the accounting system and certification and entering to the ledger has been assigned to the same officer of the Agency

-Financial Director, who is a senior officer in the financial division is not acting as an administrator of the accounting system.

-Without any prior knowledge of the Chief Financial Officer, the accounting system has been able to modify data, deletes data and include false data.

-Not having facilitated the Agency's internal auditor and government audit officers to access the accounting system.

-Access to the general ledger and access to the Trial Balance is complicated due to the unwanted account creation in the accounting ledger's general ledger.

-Due to the lack of coding of ledger accounts in the accounting system, comparison and examination of the Trial balance and ledger accounts have become very complicated.

-Not using the accounting system in such a way that budgetary control can be maintained comparing the actual costs to the annual budget for a specific day.