

## **National Aquaculture Development Authority of Sri Lanka - 2017**

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The audit of financial statements of the National Aquaculture Development Authority of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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**

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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 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 Adverse Opinion

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Had the matters described in paragraph 2.2 of this report been adjusted, Many elements in the accompanying financial statements would have been affected.

## 2. Financial Statements

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### 2.1 Adverse Opinion

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In my opinion, because of the matters described in paragraph 2.2 of this report the financial statements do not give a true and fair review of the financial position of the National Aquaculture Development Authority as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments on the financial Statements

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#### 2.2.1 Sri Lanka Public Sector Accounting Standards

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The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard No.02

In the year under review, capital grant of Rs.1,003,000,000 had been received to the Authority under ministry grant and sum of Rs.1,002,985,802 incurred for various investment projects had not been shown in statement of cash flows.

(b) Sri Lanka Public Sector Accounting Standard No.03

As per paragraph 12 of the standard, when there is no public sector accounting standard that specifically applies to a transaction, other event or condition, the management shall apply after developing an accounting policy. However, the accounting policy for accounting of capital grant of Rs.172,350,000, recurrent grant of Rs.343,050,000 and Rs.1,236,510,000 received as grant from Ministry and other government institutions had not been disclosed in financial statements and recurrent grant of Rs.343,050,000 had been presented in financial statements under other comprehensive income instead of recognizing as a direct income.

(c) Sri Lanka Public Sector Accounting Standard No.07

- (i) As per paragraph 14(a) of the standard, when it is probable that future economic benefits or service potentials associated with an item will flow to the entity, those should be recognized as assets of the entity. However capital assets of Rs. 536,091,616 are used by purchasing during the year under review and Rs.238.84 million incurred on the construction of the Sevanapitiya Fish Breeding Center in Pollonnaruwa and corresponding grants had not been accounted.

- (ii) As per the section 47 of the standard, when fair values of property, plant and equipment differ materially from its carrying amount, revaluation is adequate once in 03 or 05 years. However revaluation of all the assets had not been carried out after 1998 which is the beginning year of the authority.
- (iii) 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 become obsolete on the technical reasons.
- (iv) As per the section 90, details in relation to revaluation reserve of Rs.17, 609,995 had not been disclosed in financial statements.

### **2.2.2 Accounting Policies**

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Following Observations are made.

- (a) A policy had not been recognized for accounting brood stock that should be recognized as biological asset of the authority and the loss for the year under review had been overstated by Rs.748,801 since brood stock of Rs.1,730,759 purchased during the year under review and opening and closing stock Rs.6,714,641 and Rs.7,696,600 respectively had been adjusted to cost of sale instead of recognizing as biological asset.
- (b) An accounting policy had not been disclosed in financial statements for accounting of six milk cows that were Rs.309,945.
- (c) Even though valuation of inventories at cost or net realizable value whichever is lower was the accounting policy of the authority, In valuation of stock, closing stock had been presented in financial statements at its cost of Rs.43,506,282 without calculating its net realizable value and comparing with its cost.

### **2.2.3 Accounting Deficiencies**

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Following observations are made.

- (a) Even though adjustment allowance should not be included in calculation of gratuity provision, the gratuity provision for the year under review had been calculated inclusive of adjustment allowance. Hence provision had been allocated more than Rs.12,114,266 and loss for the year under review had been overstated from said amount.
- (b) Actions had not been taken to remove value of Rs.5,000,000 relevant to three lands located in Pitipana, Polonnaruwa and Panapitiya which was transferred to Ministry of Health, Ministry of Fisheries in Western Province and NARA Institute by the Authority in the year 2010, 2015 and 2016 from accounts by the end of the year under review. Because of this, value of lands had been overstated by said amount.

- (c) Actions had not been taken to account after assessing value of 114.6 hectares relevant to 18 lands where the centers of the authority established on 31 December 2017.
- (d) Even though allocation of hundred per cent doubtful debtor provision for debtors who passed over 05 years was the policy of the Authority, a hundred per cent provision had not been made for total value of debtor Rs.3,286,422 passed over 05 years.
- (e) 122 times of direct bank deposits amounting to Rs.937,450 which was stated in bank reconciliation statement as unrecognized deposits from the year 2015 had not been accounted after recognizing them.

**2.2.4 Unexplained Differences**

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Even though loss of the authority for the year under review was Rs.34,740,968 . In the equity statement, Loss for the year under review had been stated as Rs.38,979,530. Accordingly reasons for the difference of Rs.4,238,562 had not been presented to the audit.

**2.2.5 Lack of Evidence for audit**

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Because of not maintaining a register with opening balances, Number of monthly installments , recovered installments and balances on arrears installments related to the distress loan balance, the distress loan balance of Rs.52,557,438 could not be vouched or accepted.

**2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions**

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

<b>Reference to Laws ,Rules and Regulations</b>	<b>Non – compliance</b>
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(a) Financial Regulation 751 of the Democratic Socialist Republic of Sri Lanka	Even though the books received to library should be entered in the Accession Register, 406 books in the authority’s library had not been entered in the Accession Register as at 31 December 2017.
(b) Paragraph 3.1.6 and 3.1.7 of the Public Finance Circular No 05/2016 of 31 March 2016	The relevant reports had not been furnished to the Auditor General after conducting the board of survey relevant to the assets of the year under review amounted to Rs.310,235,285

(c) Financial Regulation 371(2)(b) and public finance circular No 03/2015 of 14 July 2015

- (i) In 07 instants, Rs.1,106,785 of Ad – hoc sub imprest had been provided exceeding Rs.100,000 for same purpose in same day.
- (ii) Total amount of Rs.385,780 Ad-hoc sub imprest given by the Authority in 12 instants had been settled by delaying more than 06 month from the date of given.
- (iii) Total amount of Rs.1,670,005 Ad- hoc sub imprest given in 68 instants shall be settled immediately after finishing the due work .However it was not settled by the 31 December in the year under review.
- (iv) when purchasing of goods and services from external institutions since the year 2015, Purchase Advance of Rs.9,950,836 which had been paid by the Authority in 77 instants prior to receipt of goods had not been settled even end of the year under review.

(d) Paragraph 6.5.1 of the Public Enterprise circular No.PED/12 of 02 June 2003

The Draft Annual Report had not been furnished with the Financial statements.

(e) Paragraph 9.1 of the Management Services Circular No.02/2016 of 25 April 2016

Over payment of Rs.351,291 had been paid by the authority to 07 officers who retired during the year under review due to calculation of gratuity payment including Adjustment Allowance.

### 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 Authority for the year under review had been a deficit of Rs.34,740,968 as compared with the corresponding deficit of Rs. 36,533,378 for the preceding year, thus indicating a growth of Rs. 1,792,410 in the financial result for the year under review as compared with the preceding year. Despite the increase of administrative expenditure by Rs.8,424,237 increase of government grant and differed income by Rs.8,730,921 and Rs.3,450,000 had been the main reason for the above growth.

In the analysis of the financial results for the year under review and 04 preceding years , the deficit of the authority amounting to Rs.9,099,308 in the year 2013. However it had been a surplus of Rs.11, 443,032 in the year 2015 and it had been a deficit of Rs.34,740,968 again by the year 2017. Nevertheless , after adjusting the depreciation for non- current assets and employees’ remuneration, the contribution of the Authority which had been Rs.244,794,745 in the year 2013 had gradually improved up to Rs.388,555,255 at the end of the year 2017.

#### **4. Operating Review**

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##### **4.1 Performance**

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##### **4.1.1 Activity and Review**

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Following observations are made regarding fulfillment of objectives of the Authority in the year under review.

- (a) In the year under review, a sum of Rs.25 million for establishing a fish breeding center and sum of Rs.25 million for construction of Paraw fish breeding center at Kusalabangadeniya area in Puttalam District had been allocated. However out of Rs.6.17 million and Rs.9.6 million or 15 per cent and 05 per cent had been spent respectively. Thus the project had not been implemented as it was planned.
- (b) Even though Rs.500 million had been allocated for establishment of aquaculture industrial parks in Mannar, Hambanthota and Batticaloa with an intention of increasing fresh water fish production and aquaculture production, generating employment opportunities , increasing foreign exchange , raising fishermen income and increasing per capita fish consumption, only Rs.68.16 million or 13.6 per cent had been spent for thereon. This project could not be carried out due to non settlement of proposed lands located in wild life zone.
- (c) Even though in coastal area establishment of crabs breeding cities, sum of Rs.100 million had been allocated for establishment of fishing industrial zones in cities such as Galmulla, Rekawa and Marakkerni, only Rs.31.90 million or 31 per cent had been incurred. Construction works had been commenced after incurring out of Rs.23.31 million for Rekawa project and Rs.8.59 million had been incurred for other 02 projects. However construction works had not been commenced due to delay in obtaining environmental impact Assessment report.
- (d) (i) Even though with the objective of improving fish production and consumption in the country, Rs.229,035,250 had been given for 6450 of beneficiaries via Divi Naguma loan scheme in the year 2011, 2012, 2013 and 2014 for achieving objective such improvement of fresh water aquaculture, brackish water aquaculture, coastal aquaculture and marine aquaculture. That programme had been unsuccessful due to following reasons.
  - None existence of situational details for reaching easily to places where beneficiaries’ projects were located.

- When selecting beneficiaries, not considering about lack of water in those areas.
- Not training beneficiaries properly.
- Even though a rural organization or District organization of “Divinaguma” projects owners shall be established according to the general instructions given at the beginning of the project, such a rural or district organization had not been functioned.
- Failure to do follow up activities by aquaculture officers.
- None existence of formal programme for giving consultancy and technical knowledge on problems which arise in implementing the projects.

(ii) Although Rs.3,055,375 shall be recovered by 31 December 2017 from sum of Rs.7,561,000 which had been paid to 140 beneficiaries for 04 types of projects in Anuradhapura District, any funds had been recovered so far. In physical examination of sample of 39 projects out of 139 projects, 28 projects that had been paid Rs.1,259,500 from Divi Naguma loan scheme were observed as inactive over period of 02 to 05 years observed in Audit.

(e) Even though sum of Rs.19.16 million had been incurred after allocating ministry grant of Rs.50 million for Sundara Thotupola Development Project Proposal. However issues had been arise in practical implementation as a result there was no formal feasibility study. The cumulative physical performance of Sundara Thotupola Project was below 10 per cent by the date of audit and only temporary port constructions in 03 reservoir such Kandalama, Dambulu Oya and Minneriya had been completed.

(f) In the year 2017, target of fish fingerlings deposit in 24 Districts was Rs.94.36 million. However the amount deposited during the year was Rs.79.55 million. Accordingly, Rs.14.81 million Fish Fingerlings deposit targets had not been achieved. Unrealized targets in Districts such, Kegalle, Mannar, Nuwara Eliya and Puttalam were 40 per cent, 70 per cent, 48 per cent and 69 per cent respectively.

(g) On 19 May 2017, the contract had been awarded for sum of Rs.20,032,180 for the project for improvement of fresh water shrimp farming in Pambala and sum of Rs.13,382,238 had been paid on 08 December 2017 for work completed. A further one month time extension had been called on 09 January 2018. However the physical and Financial Performance of this project had been stated as 100 per cent in the Action Plan.

#### **4.2 Management Activities**

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The following observations are made.

- (a) The ownership of 38.7526 hectares of lands used by the Authority had not been vested to the Authority on the date of 10 April 2018.

- (b) Plans had been prepared for constructing aquaculture industrial zone in Mannar District with the objective of creating suitable environment to attract potential investors for this sector for enhancing coastal aquaculture eco- friendly with targeting economic development and sustainable food security of Sri Lanka and enhancing the production and quality of coastal and marine aquaculture species through eco – friendly cultivation. Rs. 290 million had been allocated for this purpose and it was expected to complete construction on August 2018 after commencing in August 2016. Rs.8 million had been spent for land surveying, water supply, fuel and foreign training by March 2018. Following observations had been made in this regard.
- (i) A feasibility study had not been conducted prior to the commencement of the project and approval for Environmental Impact Assessment Report and Initial Environmental Examination Report had not been obtained from the Irrigation Department and Coast Conservation Department.
  - (ii) As a result, the land identified in Mannar for Aquaculture Industrial Zone was situated in the custody of the Wedikalathive Nature Reserve, Even though on 21 July 2017, the secretary to the Ministry of sustainable Development and wild life had informed that the relevant lands need to be disposed from Nature Reserve lawfully prior to the establishment of proposed industrial zone and so that an Environmental Assessment shall be carried out for proposed land to dispose in accordance with the section 2(4) and 2(5) of the fauna and flora protection ordinance, the approval for the project had not been obtained by March 2018. Accordingly, the above mentioned objective which was aimed to achieve through constructing a aquaculture industrial zone had not been achieved by March 2018.
- (c) Even though the possibility to misuse money collecting due to delay in banking Rs.1,499,541 of income related to 08 aquaculture centers had been pointed out to the Management through 31 Internal Audit Reports relating to the year 2017, the management had not carried out any work to overcome these shortcomings.

### **4.3 Operational Activities**

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The aquaculture Development Authority had entered in to an agreement with a private company on 28 September 2005 with the financial support of Rs.3,874,592 received from Asian Development Bank for commencing a project to develop technology for Milk Fish breeding. Whereas actions had not been taken to recover Rs.2,581,867 which should be paid to the Authority by the private company due to works had not been done as per the agreement.

### **4.4 Transactions on Contentious Nature**

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Gem deposits had been arise when removing soil in proposed sites for construction of fish ponds in Udawalawa Fresh Water Fish Breeding Center with extent of 104 acres. Contradictory to the established objective of the Authority an agreement signed with Gem and Jewelry Authority to extract Gem for a period of one year from 07 December 2016 without the approval of secretary of the relevant Ministry. According to the agreement, one year period had been ended on 05 December 2017. Even though as per section 06 of the Agreement, after deducting cost incurred from selling price which collected through selling Gem in Public auction a 10 per cent of profit shall be received to the Authority, that money had not been received by the date of Audit May 2018.



## **5 Sustainable Development**

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### **5.1 Achievement of sustainable Development goals**

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Every Government Institutions should work as per the United Nations' year 2030 Agenda for sustainable Development and the relevant questionnaire had stated that the Sri Lanka National Aquaculture Development Authority has implemented the work under its purview with regards to the year under review. However actions had not been taken by the National Aquaculture Development Authority to identify the sustainable development goals, targets and targets for achieving targets and indicators for measuring the achievement of targets.

## **6. Accounting and Good governance**

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### **6.1 Internal Audit**

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Following observations are made.

- (a) Even though internal Audit Plan had been prepared, required Internal Audit plans had not been prepared to implement for Rs.750 million of four activities included in action plan.
- (b) Trained staff had not been provided to the internal audit division to carry out proper evaluation regarding the required process for achieving planned objectives, mission and vision of the authority and maintain it at optimum level. As a result an internal audit had not been carried out regarding the constructions of the Authority and programs which is relating to the achieving objects of the Authority.

### **6.2 Audit Committee**

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Even though Audit committee meeting shall be held once every three months in terms of section 7.4.1 of public enterprises circular No.PED/12 of 02 June 2003. It had not been held accordingly. Further implementation of committee decisions and follow up activities were at poor level.

## **6.3 Procurement and contract process**

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### **6.3.1 Procurements**

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In examination on stage II and stage III of contract for construction of fresh water Prawn Hatchery in Kahandamodara, instances of non – compliance with Government procurement guidelines 2006 were observed and these are as follows.

- (a) As per paragraph 4.3.2, the Engineering estimate had not been approved by the chairman of the Authority and secretary to the ministry.

- (b) As per paragraph 8.9, service agreements shall be signed for more than Rs.500,000 of installations. However there were no service agreements for installation of two items worth of Rs.1,200,000 in the Kahandamodara center.
- (c) As per paragraph 8.14.1, no confirmation had been obtained to satisfy the procurement entity to extend the contract period.
- (d) As per section 6.7 of the paragraph 8.13.4, In examination on construction of Fresh water prawn hatchery in Kahandamodara, the responsible officer had not explained reasons for increasing Rs.3,339,443 of extra works value.

### **6.3.2 Weaknesses in contract Administration**

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Following observations are made.

- (a) According to the Bid evaluation criteria relating to the Rs.54,869,808 of contract for construction of 10 fish ponds in Iginiyagala Aquaculture Center, It had been stated that completion of contracts for last 05 year will be considered. However only one contract completed in the year 2012 had only been considered. Accordingly following observations were made.
  - (i) The contract that had to be completed by 180 days namely 23 February 2017 after starting on 23 August 2016, a lower level of performance such as 32 per cent had been recorded by 30 March 2017 due to poor contract administration of contractor and time extensions had been granted improperly passing 4 ½ months after ending the contract period. However the contract was abandoned on 08 November 2017 due to failures of the contractor to resume the construction works and Rs.18,706,835 had been paid.
  - (ii) Rs.4,800,000 worth of fish fry production and Rs.2,400,000 worth of fish fingerling production which were targeted from 10 fish ponds had been lost to the Authority due to not completing contract works as per agreement.
- (b) Rs.2.8 million had to be incurred approximately on a ferry with temporary containerized mobile fishermen rest room which is being constructed under the project of Sundara Thotupola Concept launched by Rs.50 million of ministry grant, because of the Authority is bound to remove unconditionally in an urgency of Irrigation Department or Wild Life conservation Department. If this temporary constructions which was constructed in reservation zones had to be removed in some reason, there is an unavoidable risk that the cost incurred thereon will be become ideal. An advance payment of Rs.7,573,730 had been made by the end of year 2017 for installation of containers.
- (c) Rs.430 million had been allocated for construction of Sewanapitiya fish breeding center in Polonnaruwa under the Pibidemu Polonnaruwa District Development Project included in the Rajarata Navodaya President Programme 2016 – 2018. Construction works had been carried out without preparing a feasibility study to verify the suitability of the land for establishment a fully - fledged breeding center including office buildings, officer quarters, water sump and water supply system.

- (d) Estimates had been prepared for value of Rs.29,641,017 for construction of fresh water Prawn breeding center in Kahandamodara under 03 stage .Accordingly a construction contract had been entered in to with selected private engineering firm for Rs.24,201,680. However value of work completed amounting to Rs.33,804,849 had been paid for 03 stages. Because of payment for uncompleted works and non compliance to the specification was included in said payment, an over payment of Rs.2,815,123 had been made.
- (e) Even though Rs.84.5 million and Rs.7.27 million had been estimated to incur respectively on construction of a new fish breeding center and Thilapiya Breeding Center in Udawalawa, outside the procurement plan , construction had been done after entering into agreement for Rs.150.3 million and Rs.17.8 million respectively.

### 6.3.3 Delayed Projects

Rs.50 million of capital allocation had been allocated for the construction of Dambulla fish Genetic Development Center in the year 2017 and sum of Rs.47,153,130 had been received under that. Contracts had been awarded on 02 June 2017 to construct a fish genetic Laboratory for the contract value of Rs.17 million. Even though the construction was due to be completed by 31 December 2017, It was under construction by the end of the year under review.

### 6.4 Fulfillment of Environment and social responsibility

As per Section 2.1 of the Environmental protection license granted by the Central Environmental Authority for the Kahandamodara fresh water prawn breeding center from 14 March 2017 to 13 March 2020, the waste water generated through this process should be cleaned and released to the environment. Accordingly Even though a waste water cleaning station had been set up in this center, during the Audit Inspection waste water discharged from the breeding center number B was released to the lagoon through a separate pipe line without going through cleaning station.

## 7. 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 Management	Failure in taking action to identify direct bank deposits, not maintaining debtor control accounts when granting loans and not taken follow- up actions.
(b) Operational Control	(i) A supporting register had not been maintained in granting loan advances to public officers according to Financial Regulation 485

- (ii) Purchase Advances had not been settled since 2015
- (iii) Failure to delegate the works to be done internal check between the procurement and payment.
- (iv) Failure to recover the due installments and failure to update debt registers and files.
- (v) Selection and training of beneficiaries in a poor condition.
- (vi) Failure to do follow up activities by farming officers.
- (vii) Not acting in accordance with the general instructions.
- (viii) Failure to achieve the project objective of strengthen the economy of fishing community and failure of the project.

(c) Staff Administration

Not taking actions to fill vacancies in the staff.

(d) Internal Audit

Not taking actions to maintain adequate and qualified staff.

(e) Contract Administration

(i) Failure to comply with procurement guidelines when extending the time period and absence of evidences.

(ii) Not entering necessary information when maintaining files and not updating files.

(iii) Not including necessary approvals in the files.