

Fisheries Reward Fund – 2018

1.1 Qualified Opinion

The audit of financial statements of the Fisheries Reward Fund for the year ended 31 December 2018, comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended and notes to the financial statements including a summary of significant accounting policies 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 provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be published in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility under those auditing standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional Judgement and maintain professional scepticism throughout the audit; I also;

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of audit also had extended to examine as far as possible and as far as necessary the following

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties,
- Whether the resources of the Fund's had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is required to "devise and maintain" a system of internal accounting controls, sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Policies

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
<p>The policies had not been identified for valuing and accounting the machinery and equipment which were in the custody of District Fisheries Offices, Courts and Navy relating to the law suits of which the legal actions completed during the preceding years and during the year under review.</p>	<p>These machinery and equipment are not belonging to the Department until they confiscated and handed over to us after finalising the legal actions and as such the value of above articles could not be brought to account by the Department. According to the request made by audit from the year 2016 this was presented as a note.</p>	<p>The accounting policies needed to recognize all assets belonging to the Fisheries Reward Fund should be prepared.</p>

1.5.3 Accounting Deficiencies

The following observations are made.

Audit observation	Comments of the Management	Recommendation
-----	-----	-----
(a) A sum of Rs.433,200 received in the year 2014 had been paid as reward allowances during January 2019. But action had not been taken to compute the payable amount of rewards allowances and the portion of payable amount to Consolidated Fund.	The reward payments are made after finalising the law suits instituted and received the reports including final decision to the Department. The law suits which pointed out by audit were not finalised. As such the payments had not been paid for the previous year. The respective amount of Rs.433,200 was received in the year 2014. But the judgment relating to this amount was received in January 2019. It was credited to the Government revenue until receiving the decision and action will be taken to make payments after receiving the decision. However, action will be taken to account total accrued amount.	The required provisions for the allowances payable to the officers who participated for raids in each year should be computed and to be brought to account as an expenditure in the statement of financial performance in each year and should be disclosed the correct position of the year in the financial statements.
(b) According to the Performance Report for the year 2018, a sum of Rs.113,470 which should be credited to the Reward Fund relating to 3 law suits not completed in the year 2018 had been brought to account as receivable revenue. A sum of Rs.27,740 relating to 11 law suits completed had not been brought to account as receivable revenue.	The details of the final accounts furnished by the Department were correct and this was a deficiency in the Performance Report.	Action should be taken to compute and account the receivable revenue for each year accurately and to take required action to disclose the correct position of the Fund in the financial statements.

1.6 Accounts Receivable

The following observation is made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
Out of the receivable amount from fish sales amounting to Rs.2,046,993 brought forward from the year 2013 shown in the financial statements of the year under review a sum of Rs.1,528,073 or 75 per cent had been the revenue of fish sales receivable prior to the year 2017. A sum of Rs.12,000 only had been recovered from the arrears of revenue of the year 2017 and as such the recovery of arrears had remained in a poor position.	This position arised due to the delays in sending revenue from the courts to the Departments.	Recovery of arrears of revenue should be made.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with laws, rules and regulations are given below.

Reference to Laws, Rules and Regulations -----	Non-compliance -----	Comments of the Management -----	Recommendation -----
(a) Sub-section 59(4) of the Fisheries and Aquatic Resources Act No.02 of 1996.	A methodology had not been prepared to grant any amount of money as rewards money considered by the Director as suitable from time to time for the officers and to information providers.	Noted down to discuss with all relevant officers and to prepare a methodology in respect of payable amounts and payable time.	Preparing methodologies is a responsibility of the management to encourage the officers who involved for raids and information providers and to provide sufficient rewards money, and action should be taken accordingly.

- (b) Financial Regulation 133(i) of the Financial Regulations of Democratic Socialist Republic of Sri Lanka and Management Audit Circular No.D/M/A/06 dated 23 December 2011. An internal audit had not been carried out in respect of the Reward Fund from the year 2013. All other officers except Chief Management Assistant in the Internal Audit Unit are newly appointed officers with less experience and as such it was difficult to carry out the work of that section. An internal audit should be carried out in respect of the Reward Fund.

2. Financial Review

2.1 Financial Results

The financial results of the year under review had been a surplus of Rs.610,145 as compared with the surplus amounting to Rs.344,465 of the preceding year. Accordingly, an improvement in the financial results amounting to Rs.265,680 was observed. Increase of revenue from the goods confiscated and sale of fish by Rs.265,680 had been mainly attributed for this improvement.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) Rewards money payments to the officers participated for the raids should be made without a delay but no reward money whatsoever had been paid for the years 2014, 2015, 2017 and 2018 even though the law suits had been instituted as 271, 348, 488, 427 and 327 in the years 2014, 2015, 2016, 2017 and 2018 respectively. As specific methodology had not been made for providing reward money for the officers it was observed that no motivation had been made for the officers to carry out raids of unauthorized fisheries activities.	As pointed out by audit number of years were spent to complete the law suits even though the law suits had been instituted. As such the payments could not be made in same year for the law suits instituted in same year. The payments had not been made as the final decisions of all lawsuits not received as favourable to the Department. But the raids are made continuously. In view of the overall raids, the raids had been carried out in the years 2017 and 2018 as well. Fifty two raids in the year 2017 and	The rewards money should be paid without any delay for the officers participated for raids.

41 raids in the year 2018 had been carried out. Accordingly, it was not shown a discouragement of officers.

(b) A sum of Rs.2,232,000 had been recovered by the courts from the accused as fines during the year under review through the cases instituted by the District Fisheries Offices against the persons who carried out unauthorized fisheries activities. As action not taken to revise the conditions of the Fisheries and Aquatic Resources Act, to obtain a percentage for the Fisheries Reward Fund from the fines recovered a portion of the revenue of fines could not be obtained to the Fisheries Reward Fund.

In the cases instituted by the Fisheries Offices, the fines charged by the courts to be credited to the Fisheries Reward Fund was included to the Draft Act. The foremost objective of this Draft Act was to obtain the enforcement for the International Regional Agreements signed by Sri Lanka. The approval of all Provincial Councils should be obtained in revising Section 59 to include fines and as such a long period required to pass the draft Act. It was required to give priority to the other Sections of the draft to avoid depriving of foreign exchange received by Sri Lanka from exports of fish to the countries of the European Commission.

The attention of the top management should be paid to prepare required methodologies to pay a sufficient allowance to the officers carrying out raids by strengthening the Fisheries Reward Fund to achieve the objectives shown in the Fisheries and Aquatic Resources Act.

(c) The Department of Fisheries and Aquatic Resources had not taken action to obtain the reports of law suits in respect of the law suits instituted by the Department against the persons who involved unauthorized fisheries activities. Even though, it was pointed out by the audit reports in respect of above from the year 2014 the attention had not been paid thereon.

The District Assistant Directors had regularly taken steps to obtain relevant reports of law suits.

Action should be taken by the Department to obtain reports of the law suits.

(d) The Sri Lanka Navy had informed the Ministry of Fisheries and Aquatic Resources Development, that the Fisheries Officers had released the fishermen who carried out illegal fisheries activities using banned net tools. The relevant

As a new section of investigation had been established in the Department action has been taken to investigate this type of complaints in every possible instance from the year 2019.

The management should pay allowances adequately and to prepare methodologies to encourage the

District Fisheries Offices had been informed by the Navy deploying in the duty regularly, relating to the fisheries boats taken into custody. Nevertheless, the Navy had reported about the weaknesses of them such as they are not attending even though they are informed or attending with a delay, or releasing of fisheries boats. But no action or investigation whatsoever had been taken thereon. The comment of the audit can be cited as the releasing of boats which taken into custody due to the illegal actions without any court order is a support for the illegal activities and as well as depriving of the Government revenue.

officers participated for the raids to minimize the parties who used irregularly the fisheries and aquatic resources which is a valued resource of Sri Lanka.

4. Accountability and Good Governance

4.1 Annual Action Plan

The following observation is made.

Audit observation

In terms of Section 59(3) and the Sub-section 51(4) of Fisheries and Aquatic Resources Act No.2 of 1996, the Director is responsible in respect of the administration of the Reward Fund. Nevertheless, the Department had not prepared the plans to identify and to execute effectively the functions of Reward Fund in the action plans prepared for the years 2017 and 2018.

Comments of the Management

Instructions were given to the relevant officers to include the functions of this Fund to the Action Plan of the year 2019.

Recommendation

According to the Section 59(3) and the Sub-section 51(4) of the Fisheries and Aquatic Resources Act the functions of the Reward Fund should be identified, and the plans should be prepared to execute it effectively.