

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the National Aquatic Resource Research and Development Agency for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the matters described in paragraph 1.5 of this report the accompanying financial statement do not give a true and fair review of the financial position of the Agency as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Adverse Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs).

My responsibilities, under those standards are further described in the Auditor’s Responsibilities 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 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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agency’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 Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Agency 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 Agency.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 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 judgment and maintain professional skepticism 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 Agency'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 Agency'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 auditor's report. However, future events or conditions may cause the Agency 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 the audit also 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 Agency and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Agency has complied with applicable written law, or other general or special directions issued by the governing board of the Agency;
- Whether the Agency has performed according to its powers, functions and duties; and
- Whether the resources of the Agency 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.

Entities are 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
-----	-----	-----
(i) Contrary to the paragraph 21 of Sri Lanka Public Sector Accounting Standards No. 07, Rs.904,956 spent during the year under review for repair and maintenance of motor vehicles had been capitalized and depreciation of Rs. 133,523 had been adjusted in relations to this. Due to this, value of motor vehicles and deficit of the year had been over stated by	The matter that you point out here will be taken into account when presenting future financial statements.	Assets must be accounted in compliance with public sector accounting standards and disclosures must be made.

Rs. 904,956 and Rs. 771,433 respectively. Also, as per the paragraph 90 of the standard, necessary disclosures had not been made in the financial statements regarding Rs. 4,088 millions of revaluation reserve.

- (ii) Disclosures had not been made as per paragraph 100 of the Sri Lanka Public Sector Accounting Standard No. 08 regarding 02 cases filed against the Agency in the Labor Court and 06 cases filed in the Human Right Commission and actions had not been taken to assess possible contingent liabilities in this regards.
- Before preparing the financial statements for 2019, they were informed to send to the finance division all matters that need to be disclosed in the financial statements pertaining to their division, but we were not be able to disclose them in the financial statements as we have not been informed in this regards.
- According to the Sri Lanka Public Sector Accounting Standards, contingent liabilities should be disclosed.
- (iii) As per the paragraph 39 of the Sri Lanka Public Sector Accounting Standard No.10, accounting policy that apply for recognition of service revenue had not been disclosed. Also, consultancy service income of Rs.102,108,067 that had received during the year under review for rendering of consultancy services to external parties had been accounted as creditors instead of accounting as revenue. Also, expenditure of Rs.86,974,317 that had been spent for rendering services by utilizing money received from service customers had been offset against creditor balances rather than accounting as service cost. Accordingly, the Agency's service revenue and expenditure were not shown in the financial statements.
- The method that has been based when preparation of accounts for many years is as illustrated in the 2019 financial statements. As indicated, actions will be taken when preparing 2020 financial statements. s
- Consultancy service income should be accounted for in accordance with Sri Lanka Public Sector Accounting Standards.

- | | | |
|--|---|---|
| <p>(iv) Rs.15,249,004 foreign grants, that had been received to the Agency during the year 2016-2019 for construction of sea wave observation stations had been accounted as creditors rather than accounting as foreign grants. Out of this, actions had not been taken to amortize capital assets built by spending Rs.2,777,917. Also, total recurrent and capital expenditure amounting to Rs.8,361,371 incurred from these grants up to the end of the year under review had been stated in the financial statements by deducting from relevant creditor account.</p> | <p>This matter is accepted and actions will be taken to correct this error in future financial statement.</p> | <p>Government grants should be accounted in accordance with Sri Lanka Public Sector Accounting Standards.</p> |
|--|---|---|

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(i) A total difference of Rs.3,562,506 was observed between assets balances such as land and buildings, office equipment, motor vehicles and vessel and boats mentioned in the financial statements for the year under review and corresponding balances mentioned in the fixed asset register.</p>	<p>Lands and buildings, office equipment and computers had not been entered in fixed assets register and fish tanks, boat and vessels and motor vehicles had been capitalized incorrectly.</p>	<p>Fixed assets register should be updated and it should be reconciled with financial statements.</p>
<p>(ii) The value of a car worth of Rs.9,390,000 received as a grant to the Agency in the year 2014 and corresponding government grant had not been accounted and stated in the financial statements. Also, the value of 02 lands of 3.416 hectares and 1.025 hectares located respectively in Panapitiya and Kapparathota used by the Agency had not been assessed</p>	<p>Kapparathota and Panapitiya lands used by the Agency will be assessed and accounted for in the future and obtaining the ownership of Rekawa, Kalpitiya and Kadolkele lands which are currently being accounted is in progress.</p>	<p>Assets belonging to the Agency should be properly acquired and accounted for.</p>

and accounted. Further no actions had been taken to take over the ownership of Rekawa, Kalpitiya and Kadolkele lands valued at Rs.268,750,000.

- | | | |
|---|--|--|
| (iii) A sum of Rs.44,708,465 adjusted for cumulative loss when correcting prior year errors had been adjusted to cash flows generated from operating activities when calculating the cash flow. | It would like to inform that cash flow statement will be prepared in a way that these problems will not cause in the future. | Cash flow statement should be prepared correctly. |
| (iv) Government grant amortization relating to an asset value of Rs. 27,640,331 that was capitalized under local grant for construction of a hatchery had been deducted from Treasury grants without deducting from that account. | Action will be taken to rectify this in future accounting statement. | Government grants should be accounted in accordance with Sri Lanka Public Sector Accounting Standards. |

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs.			
Accrued expenses.	4,281,761	No evidence was presented for verification and it had not been settled for a period of 3 to 4 years.	Documents relating to this Rs. 4,281,761 could not be found. Actions are being under taken to resolve these issues.	Confirmation for accrual expenditure should be furnished and action should be taken to settle.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Issue	Management Comment	Recommendation
Even though Rs.1,612,898 had been over paid to an outside institute for the preparation of a feasibility study report for the development of 06 fishery harbours, action had not been taken to recover it for a period more than 06 years and no legal actions had been taken against those officers after identifying the officers who responsible for overpayment.	Further actions in this regards are being discussed with the Ministry.	Actions should be taken to recover from the officer who is responsible for overpayment.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Financial Regulation 104	Even though a computer software purchased during the year 2009 for Rs.411,000 and a computer value of Rs.52,000 had been misplaced during the year 2012, actions had not been taken in this regards as per this financial regulation.	A preliminary investigation has been conducted in this regards in accordance with financial regulation 104 and actions will be taken as per the instructions given therein.	Actions should be taken as per the financial regulations.
Financial Regulation 387	Although it is prohibited for any government institution to withdraw over drafts from its official bank account, temporary overdraft facilities had been obtained up to Rs.6,151,631 in the month of December 2019 through the Agency's bank account	This situation arose due to receipt of cash from General Treasury on day after due date without receipt on due date for the payment of employees salary for the month of December. The General Treasury has agreed to	Financial regulations should be followed.

		No.214-1-001-3-3629680 and Rs.5,000 temporary overdraft chargers and Rs.12,163 Interest expenses had been paid thereon.	redeposit the fees charged by the bank to the account.	
Financial Regulation 757(2)		The board of survey reports for the year under review had not been presented for audit.	Even though it is mandatory to complete board of survey on 31 March 2020 and send those reports to the Auditor General, these reports could be sent in August 2020 due to prevailed Covid 19 pandemic.	Financial regulations should be followed.
Ministry Of Finance And Planning Circular No.MOFP/ERD/2011/1of 21 April 2011		Although the approval and consent of the External Recourses Department should be obtained when obtaining foreign grants for projects, Rs.22,487,492 foreign grants had been obtained directly to the Agency in 2 instances during the year under review without obtaining the approval and the consent.	Actions will be taken in future in his regards.	Circular instructions should be followed.
Paragraph 7.4.1 of Public Enterprises Circular No. PED/12 of 02 June 2003		Although, at least 4 meetings of the Audit Committee should be held annually, only 3 meetings had been held during the year under review.	On several occasions, this situation arose due to delay in appointment of board of directors on prevailed situation in the country.	Circular instructions should be followed.
National Resources Research and Development Agency Act No. 54 of 1981 and Section 18 of the Amended Act No. 32 of 1996.	Aquatic	A scientific and technical committee should be appointed to accept and evaluate proposals for research and development and make recommendations to the Board on the annual work program and budget of the	The Secretary to the Ministry has been informed to appoint members to this committee for several years but no appointments have been made. Awareness has also been made	Provisions of the Act should be followed.

Agency, to receive and evaluate reports submitted to it and monitor the progress of approved projects and make recommendations to the Board on such projects and to tender advice on such scientific or technical matters to the Board or the Council, as the case may be referred to it. Although the Scientific and Technical Committee had been appointed in the year 2014 by the Agency, performance of researches had not been evaluated and the committee remained inactive position. New members had not been appointed to the Scientific and Technical Evaluation Committee by July 2020, when the Audit took place.

through letters dated on 03 March 2019 and September 2019.

Section 34 of the National Aquatic Resources Research and Development Agency Act No. 54 of 1981

The Director General had not maintained a register that contain data, reports and details obtained in relation to the researches, studies, tests, experiments and other investigations and explorations and findings conducted by the Agency.

The task of maintaining relevant functions in this regards has been assigned to the library and all relevant research reports and journals has been stored in its data base.

Provisions of the Act should be followed.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 16,444,930 and the corresponding deficit in the preceding year amounted to Rs. 32,954,047. Accordingly an improvement amounting to Rs. 16,509,117 in the financial result was observed. This growth was mainly due to the reduction of Rs. 27 million in maintenance expenditure, Rs. 14 million in research and development expenditure and Rs. 62 million in other operating expenses.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(i) As found by the Agency prior to 2017, post-harvest loss of non-refrigerated multi day boats was found to be about 40 percent and it was observed that the management had not act to utilize the research outcome for the benefit of the public by conducting research incurring sum of Rs.7,490,550 during the year 2018 and 2019 to further assess post-harvest loss instead of taking actions to reduced post-harvest loss.</p>	<p>Funds have been spent additionally under this project for several other relevant studies (functions) that should be carried out by the Post-Harvest Technology Division in 2018 and 2019. Those other studies are listed below.</p> <p>Project No 4.1.1 in the year 2018</p> <ul style="list-style-type: none">• Collecting samples from selected Economic Centers (03) and testing whether are contaminated with fecal matters and pathogenic bacteria.• Testing of ice samples at ice factories established in selected areas in Sri Lanka that supply ice for fishing industry.• Collecting and analyzing fish samples for radioactive residue testing.• Provision of technical knowledge and conducting an awareness program. <p>Project No. 4.1 in the year 2019</p> <ul style="list-style-type: none">• Investigation of the quality of ice produced in ice factories.• Assessing the hygienic quality and quality of fish stalls at dedicated economic centers.• Investigation of toxic radioactive contaminants (radio nuclides) of imported fisheries products in Sri Lanka.	<p>Actions should be taken to achieve objectives of the research projects and actions should be taken to utilize research outcomes for the benefits of the public.</p>

- (ii) Although a consultancy report had been obtained from University of Moratuwa by incurring Rs.950,130 in the year 2017 for designing a multi-day boat with a refrigerator system with the objective of minimizing the post-harvest loss in the multi day boats, necessary actions had not been taken to design a multi-day boat by using that report effectively.
- The main objective was to obtain this consultancy report to the Agency in 2017 because the Agency does not have scientist with technical knowledge to design fishing boats. Accordingly, after obtaining the consultancy report to the Agency, actions have been taken to give technical knowledge to boat manufacturers and boat owners on how to manufacture the fish cooling chambers that should be in their fishing boats on the specified technologies in order to minimize post-harvest loss in multi day boats through technical awareness program. The consultancy report was also submitted to use in the technical committees established in the Financial Assistance Project launched in the year 2017 by the Ministry of Fisheries for the production of new large fishing boats (Fishing boats more than 55 feet with cold water tanks) with the prescribed technology.
- Actions should be taken to achieve the utilization, control and management of aquatic resources which is one of the main objectives of the establishment of the Agency.

3.2 Underutilization of funds

Audit Issue	Management Comment	Recommendation
-----	-----	-----
In a land which has not been duly acquired by the Agency, a fish stall had been built in Beruwala area by incurring Rs.15,245,000 in the year 2014 contrary to the objectives of the Agency.	Only an attachment has been presented.	Required rules and regulations should be formulated not to carry out construction works by incurring government funds on lands that have not been formally acquired.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Even though 02 high powered boat engines were purchased in the year 2011 for Rs. 4,493,052 each for production of two boats and Rs. 2,902,938 had been spent additionally thereon after commencing the construction of 02 boats, the two engines and unfinished 02 boats had kept idle in the storage.	A letter has been sent to seek advices from the Bribery and Corruption Commission to take further actions in this regards, as a complaint is being investigated by the Bribery and Corruption Commission when action was taken to use this for the benefit of another government agency	Actions should be taken to use idle assets and management should pay attention in this regard.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(i) Even though the basic qualifications have not been full filled as per the recruitment scheme approved by the Department of Management Services for the posts of Director Finance and Research Assistant, two officers were recruited for the posts of Director Finance and Research Assistant and sum of salaries and allowances Rs.5,436,226 and Rs. 2,898,393 had been paid from May 2017 to 31 December 2019 and from May 2014 to 31 December 2019 respectively.	Only an attachment has been presented.	Actions should be taken to improve the performance of the Agency by recruiting qualified officers.
(ii) 119 vacancies existed in 22 posts that are directly connected to the research activities of the Agency as at end of the year under review. It was observed during the Audit that continuation of vacancies in these posts had adversely affected to achieve main objectives of the Agency.	Only an attachment has been presented.	Staff should be properly planned and actions should be taken to increase performance through filling vacancies.

(iii)The Socio Economics and Marketing Division had obtained the approval for an estimate of Rs 1,000,000 by presenting it to the governing board in the year 2019 for conducting 10 courses and 5 workshops to improve the socio economic status of the fishing community and to implement training programs on engine repair and maintenance. Only 04 programs were conducted during that year and Rs 1,205,402 had been spent thereon.

Socio Economic Division conducted 04 training programs and 01 workshop. The total amount spent for this is nearly to 08 lakhs. Accordingly, the estimated amount has not been exceeded.

Human resources should be properly managed and management should pay attention in this regard.