

## **National Aquatic Resources Research and Development Agency -2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 the Financial Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Agency as at 31 December 2020 and of 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 Qualified Opinion**

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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 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 qualified opinion.

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

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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.

#### **1.4 Audit Scope (Auditor's Responsibility on the Audit of Financial Statements)**

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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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluated the 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 body of the Agency;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on Preparation of Financial Statement

### 1.5.1 Non – compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Even though the error in accounting for the value of the property, plant and equipment purchased by the Agency during the preceding year from the income of consulting services amounting to Rs. 3,374,470 as receipts of foreign grants had been corrected during the year under review, the comparative information related to the corrections of the previous year was not given in the financial statements as per the Paragraph 53 of Sri Lanka	Comparative information will be provided in presentation of financial statements of the year 2021 .	Comparative information should be shown in the financial statements by adjusting previous year adjustments retrospectively in accordance with the Accounting Standard.

Public Sector Accounting Standards No. 03 . Further the comparative figures of previous years in relation with assets and liabilities such as projects and other creditors, work - in-progress, debtors shown in the financial statements had also not been stated .

(b) Even though the income and expenditure should not be set off in terms of Section 48 of Sri Lanka Public Sector Accounting Standard 01 , the expenditure amounting to Rs. 102,804 had been shown deducted from other income and the debit balance remained within the project creditors totalled to Rs. 432,448 had been so setoff.

(c) Although the motor vehicles which were entirely depreciated cost at Rs. 99,663,068 were still in use, in accordance with Sri Lanka Public Sector Accounting Standards No. 07 , those assets were not disclosed in the financial statements. Similarly, actions had not been taken to correct again and adjust the estimated error related to effective life time of these assets in the financial statements in terms of Sri Lanka Public Sector Accounting Standards 03 .

This error is accepted and because of this identification in the accounting package, the accounts have been thus accounted for. Actions will be taken not to happen this in future.

Since the revaluation has not been taken place, actions will be taken to correct in future.

The income and expenditure should be shown separately in the financial statements without setting off one to another in terms of the Standard.

The assets which were entirely depreciated should be disclosed in the financial statements and actions should be taken to adjust in the financial statements correcting the estimated error of effective life of those assets again in terms of the Standard .

(d) Although it has been stated in the financial statements that the service transaction income is identified as per the completion status of the service provides in terms of the Paragraph 19 of the Sri Lanka Public Sector Accounting Standards 10 , a consultancy income of Rs. 93,848,483 received during the year under review had been brought to accounts under project creditors and the expenses incurred under that had been deducted from the project creditors. Nevertheless, the revenue that should be identified as per the level of completion of the projects had not been calculated and stated in the financial statements.

The consulting project methodology of the institute is a method of recognizing projects as a liability after undertaking and converting them into revenue only after completion of the relevant work.

Actions should be taken to identify the service income as per the completed stages of service contracts in terms of the Standard.

## 1.5.2 Accounting Policies

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### Audit Observation

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Although the vehicles should be depreciated by 20 per cent each , the depreciation of Rs.6,707,000 pertaining to 05 motor vehicles purchased on 15 March 2016 cost at Rs. 33,535,000 had not been adjusted in the financial statements of the year under review .Therefore, the deficit in the year under review was understated by the same amount Similarly, the value of motor vehicles amounted to Rs. 1,676,750 had also been understated in the financial statements in the year under review.

### Comments of the Management

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Actions will be taken to correct in future.

### Recommendation

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Vehicles should be depreciated in accordance with the depreciation policy of the institution and all the assets should also be accounted for.

### 1.5.3 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) Arrangements had not been made to take over the ownership and assess and account for the 02 lands in extent of 3.416 hectares and 1.025 hectares respectively in Panapitiya and Kapparathota that are being used by the Agency. Similarly, the value of lands in Rekawa and Kalpitiya areas had been shown in the financial statements as Rs. 268,750,000 and actions had not been taken to acquire the ownership of those lands</p>	<p>The lands at Kalpitiya and Panapitiya Regional Research Centres have also been referred to the Land Commissioner's Department by now on the grounds of granting the consent of the Divisional Secretary to provide on long term lease basis .</p> <p>The acquisition activities of part of Kapparathota land has been completed and since that part has been released to the Ministry of Fisheries,it has been transferred to us by a Grant. We have also paid the compensation required to take over the balance area therein and many works on that process has also been completed .</p>	<p>Arrangements should be made to take actions to take over the ownership of the lands and evaluate those lands and appear them in the financial statements.</p>
<p>(b) Even though the adjustments had been made to the Treasury Grant Account for the motor vehicle valued at Rs. 9,390,000 and received as a grant in the year 2014 and had not been accounted for as a prior year adjustment, the amortization value of the vehicle had not been adjust</p>	<p>This is acknowledged and actions will be taken to correct in preparation of final accounts for the year 2021.</p>	<p>The amortization value related to the assets received as grants should be adjusted back to that grant account.</p>

back to the Treasury grant account. As a result, government grants for the year under review were overstated in the financial statements by the same amount.

(c) The prior year adjustments which do not impact to the cash flow generated from operations amounting to Rs. 2,500,157 had been adjusted to the cash flow statement and the amount invested for the purchase of fixed assets in the year 2020 had been understated in the cash flow statement by Rs 2,230,389 . Similarly, a sum of Rs. 6,351,443 paid as building construction advance had been adjusted to the cash flow statement twice under changes in working capital and investment activities.

(d) Although the value of annual depreciation for fixed assets had been accounted for as Rs. 110,908,171, as a result of non-submission of the details of depreciation calculations for the asset type, the accuracy of the depreciation expense stated in the financial statements could not be verified during the audit. Similarly, since the primary documents related to 03 items of work-in-progress amounting to Rs. 8,928,589 stated in the financial statements were not furnished to audit, it was impossible to satisfactorily vouch the accuracy of those

It is ensured that such mistakes would not happen in future.

This has been properly accounted for.

It is acknowledged that the depreciation calculation model could not be provided as requested by the auditors and the main reason for this was that the auditors have not given enough time.

The work -in –progress Preparation of a Boat Rs. 2,902,938 -This file has been submitted to the Commission to Investigate Allegations of Bribery or Corruption. Construction of Kalpitiya RRC

The cash flow statement should be accurately prepared.

The information requested by the auditors should be submitted to the audit.

balances during the audit.

Boundary for Rs.2,124,979 and Construction of Laboratory Complex for Rs. 3,900,672 – Relevant files have been submitted to audit.

- (e) Even though a difference of Rs. 16,263,138 was observed in between the value of 09 items shown in the financial statements and the corresponding values in the financial statements, those differences were not explained to the audit.

The Building balance- Rs. 768,985  
When recording the opening balance in the year 2017, a sum of Rs. 595,000 has been overstated. The amount of Rs. 173,985 adjusted for the year 2016 should be found.

The differences need to be looked into and corrected.

- It has been adjusted a sum of Rs.1,720,300 identified in the year 2016 and the Register of Assets has been updated and the facts are being looked for to adjust a sum of Rs.119,545.49 furthermore.

- The items such as a sum of Rs. 2,153,399 under fish tanks, a sum of Rs. 433,080 under boats and vessels and a sum of Rs. 2,206,499 under computer software have been corrected in the Register of Assets.



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| (f) | Instead of showing a sum of Rs. 2,630,159 credited as 5 per cent of net income receipts from the consulting services of the institution to the Own Income Medical Scheme Fund Account as a fund in the financial statements, it had been stated under other creditors in the financial statements. | Although it has been mentioned in the names of the creditors, actions will be taken to mention as a credit in the name of the Medical Fund in future. | Fund accounts should be adjusted in the financial statements as Funds. |
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**1.6 Accounts Receivable and Payable**  
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**1.6.1 Accounts Payable**  
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**Audit Observation**  
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**Comments of the Management**  
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**Recommendation**  
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Even though more than 2 years period had elapsed, actions had not been taken to settle a statutory payment that should be settled to the General Treasury amounting to Rs. 39,930,000 .

This settlement has been delayed due to lack of sufficient earnings in previous years.

Since it is a statutory payment, actions should be taken to discuss and settle with the Treasury

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

**Non-compliance to the Laws, Rules, Regulations etc.**  
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**Non-compliance**  
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**Comments of the Management**  
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**Recommendation**  
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) F. R 384 (3)

Although every cheque book received should be recorded in a formal register,

Steps have been taken to maintain it in future.

Actions should be taken in terms of this Regulation.

actions had not been so taken.

(ii) F. R. 395

Although the bank reconciliation statement of the previous month should be prepared on or before the 15th day of the next month and certified by the responsible payroll officer and forwarded to the Auditor General for examining, the Agency had not so done.

Arrangements have been made to adjust the bank reconciliation statements properly. Steps will be taken to submit from the year 2022.

Bank reconciliation statements should be prepared in a timely manner in terms of the Regulations and submitted to the Auditor General.

(iii) F. R. 570 and 571

Actions had not been taken to enter the tender deposits that had lapsed the warranty period and remained from the year 2014 to 2018 amounting to Rs. 1,312,000 to income.

An attachment for the balances have been submitted.

Actions should be taken in accordance with the Regulation.

(b) Public Administration Circular No. 2016 /30 dated 29 December 2016

(i) Section 3.1

Although the fuel combustion test should be done for existing vehicles in government agencies, fuel combustion test had not been carried out on 25 vehicles

Fuel combustion test could not be carried out due to the irregular reporting of officers on duty.

Steps should be taken to carry out fuel combustion tests in accordance with the circular.

belonging to the Agency.

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| <p><b>(ii)</b> Section 3.3</p>  | <p>The vehicle log books including vehicle registration number, number of liters burnt, mileage driven, mileage driven per liter, repair charges had not been maintained.</p>  | <p>Not Agreed. A quarterly report is submitted for Internal Audit using data such as expenses on all vehicles, mileage driven, mileage driven per litre and relevant data has been computerized and reports have been prepared accordingly.</p> | <p>Log books should be maintained for the vehicles in accordance with the Circular.</p>   |
| <p><b>(iii)</b> Section 4.3</p>   | <p>Although the spare parts which are removed from the vehicle during the repair of the vehicle should be handed over to the warehouse of the Agency along with a relevant bill, the spare parts had not been handed over to the warehouse along with the bill .</p> | <p>At present, all NARA vehicles (except motor cycles) are serviced and repaired by the agents of the vehicles.</p>   | <p>Arrangements should be made to obtain the spare parts which are removed to the Agency as per the Circular.</p>                                     |
| <p><b>(iv)</b> Section 34 of the National Aquatic Resources and Development Agency Act No. 54 of 1981</p> | <p>A register containing data, reports and details obtained pertaining to the study researches, experiments and other investigations and explorations and discoveries made by the Agency had not been maintained by the Director General.</p>                        | <p>A central computer database has been set up for this matter. There is also a policy for data exchange. Research reports have been included in this.</p>  | <p>In addition to the computerized data, at least a summary report should be maintained indicating the file of computer data in terms of the Act.</p> |

(v) National Aquatic Resources Research and Development Agency Act No. 54 of 1981 and Section 18 of the Amendment Act No. 32 of 1996

Even though a Scientific or Technical Committee should be appointed, new members had not been appointed to the currently inactive Scientific and Technical Evaluation Committee.

These Committees have been appointed in 2020 and Project Evaluation Committees have been conducted through this Committee.

Members for the Committees should be appointed in accordance with the Act .

## 2. Financial Review

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### 2.1 Financial Results

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The operating result for the year under review was a deficit of Rs. 5,852,531 and the corresponding deficit for the preceding year was Rs. 16,444,930. Accordingly, a growth of Rs. 10,592,399 was observed in the financial result. The decrease in maintenance costs by 37 Million, research and development costs by 35 Million and other operating expenses by Rs. 87 Million had mainly attributed to this improvement .

## 3. Operating Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) Although a number of 27 projects valued at Rs. 20,420,827 included in the project creditor balance list had remained inactive for 4-7 years, actions had not been taken to look into those projects and settle the relevant liabilities. Similarly, it could not be ascertained in audit that the Project Reports for 54 projects valued at Rs. 70,554,695 as per the project schedule and tender deposit list have been submitted to the	Project No. 01 has been completed and the procurement activities are being carried out for the purchase of equipment. The Projects No. 08 and 09 in the balance list are the two projects that are in process and should be removed from that document. Project No.	Actions should be taken to look into the projects inactive and to settle the relevant liabilities.

relevant clientas scheduled.

12 has been repaid to the Ministry of Finance. Although the Projects from No. 14 to 26 have been identified as non-operational projects and submitted to the Board for approval for the write off, it has been kept to re-submit due to failure to discuss.

(b) Even though a sum of Rs. 1,612,898 had been overpaid to an external institution for the preparation of a Feasibility Study Report for the development of 06 Ports, actions had not been taken to recover it for more than 07 years and actions had not been taken to identify the officials responsible for the overpayment and to take legal action against those officers as well.

The Cabinet of Ministers has decided to write off the amount pertaining to therecovery of this amount. Similarly, further discussions in this regard are still being carried out at the Ministry Audit and Management Meeting .

The responsible officers should be identified and legal actions should be taken against those officers.

(c) A sum of Rs. 8,338,757 had been paid from self-generated income during the year under review for the medical leave saved by the officers and although only the approval of the Board of Directors has been obtained to pay the allowances the approval of the Treasury had not been obtained.

This is a payment made based on self earnings for employee improvement for a long period.

Formal approval should be obtained for the payment of allowances.

(d) As a result of non- submission of local and foreign grants related to additions of assets a during the year under review amounting to Rs.40,269,931 separately,the accuracy of the amortization calculations for the year under review could not be ascertained .

This will be corrected in the future.

Arrangements should be made to present the information accurately.

### 3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>(a) As a result of the completely ceasing of the installation of Fish Aggregating Devices (FADs) and Fish Enhancing Devices (FEDs) in the year 2020 to enhance fish production in coastal waters, the amount of Rs. 3.90 Million spent on this project had become a futile expenditure.</p>	<p>A number of 50 FADs have been established in Sinnapaduwa and Weligama areas in the year 2018 and its Trial fishing follow ups have been conducted on 3 occasions and necessary data and recommendations have been given. Similarly, the FADs that can be submerged in the ocean in Weligama, Rumassala, Polhena and Unawatuna areas have been located in 2019 as well. As a result of the COVID 19 epidemic situation and the lack of human resources required for follow-up action on the Project, the Physical progress has not been at the expected level and the required objectives have been achieved in 2018 and 2019. Therefore, the Ministry has taken practical steps to increase the fish population by making use of those research results. Therefore, the money spent cannot be considered as a futile expenditure.</p>	<p>Alternative actions should be considered and implemented so that the money spent on the project is not a futile expense .</p>

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| <p>(b) A fish market had been constructed in Beruwala by incurring a sum of Rs. 15,245,000 in the year 2014 on a land which was not formally acquired by the Agency in contrary to the objectives of the Agency and the market had remained inactive even by the end of 2021.</p>  | <p>Since the fish vendors in the area are reluctant to carry out their businesses in this market , they are in idle.</p>   | <p>Arrangements should be made in accordance with the objectives and actions should be taken to optimally utilize the assets.</p> |
| <p>(c) It had purchased two high powered boat engines and commenced production of 02 boats incurring a sum of Rs. 4,493,052 in the year 2011 to manufacture 02 boats and an additional expenditure of Rs. 2,902,938 had been made for that. Never the less, both engines and two uncompleted boats had remained in the warehouse even by the end of the year 2021.</p> | <p>Further matters are being implemented to transfer it to another government agency as decided after several rounds of discussions made in the Ministry Audit and Management Committee.</p> | <p>Arrangements should be made so as the money spent on the project would not be a futile expenditure.</p>                        |

### 3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>An officer who had not fulfilled the basic qualifications as per the Scheme of Recruitment approved by the Department of Management Services for the post of Director Finance had been recruited for the post of Director Finance and a total of Rs. 7,666,842 had been paid as salaries and allowances from May 2017 to 31 December 2020 .Even though this had been pointed out in the previous 02</p>	<p>The Director Finance has been appointed with the approval of the Governing Council, by selecting through a formal interview board and the Governing Council of NARA has extended the probation period to meet his</p>	<p>The regular recruitments should be made according to the stipulated recruitment procedure.</p>

years, actions had not been taken to rectify it.

qualifications in respect of the difference in his qualifications. He is involved in the relevant matter. It is observed that if it follows the instructions given by the audit, the institution will face a legal problem. Further, an investigation in respect of this recruitment is being carried out by the Bribery and Corruption Unit as well and it is further informed that the relevant activities are being done to take actions in future as per the answer which will be received and the Sub-section 11.9 of Chapter II of the Establishments Code.