

Head 405 – State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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. The summary report containing my comments and observations on the financial statements of the State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports was issued to the Accounting Officer on 21 June 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the State Ministry was issued to the Accounting Officer on 28 June 2022 in terms of Section 11(2) of the Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the State Ministry of Ornamental Fish, Inland Fish and Prawn Farming, Fishery Harbour Development, Multiday Fishing Activities and Fish Exports as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's / Department's / District Secretariat's internal control.
- Evaluate 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Lack of Audit Evidence

Audit Evidence on the following transactions had not been made available.

The recurrent expenditure of Rs.1,395,222,000 and the capital expenditure of Rs.310,280,000 had been spent in the form of Rs.1,705,502,000 for 3 government institutions in the year under review. Due to the fact that the State Ministry did not submit the information related to these expenses of the three government institutions, it was not possible to check whether the following expenses were spent on the respective activities.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The revised estimate was Rs.93,600,000 due to the fact that an additional allocation of Rs.50,000,000 was given for the research activities related to the assessment of the impact of the X-Press Pearl ship fire under the other operating expenses of NARA. Although Rs.77,155,000 had been spent at the end of the year, the details of the success of those research activities were not submitted to the audit by the State Ministry.	That a description of the research activities related to the impact assessment related to the fire of the X-Press Pearl ship has submitted.	The details of the success of the research activities related to the expenditure incurred should be submitted to the audit.
(b) The information about the research and development activities carried out in relation to the Rs.110,000,000 spent on the research and development expenses of the Nara Institute was not submitted to the audit.	That a report has been submitted showing the research and development activities carried out at Nara Institute.	The information about the research and development activities carried out in relation to the expenditure should be submitted to the audit.

- (c) The files related to Rs. 1,283,256,961 spent in the year under review for the 05 development projects assigned to the National Aquaculture Development Authority (NAQDA) to fulfill the functions of the State Ministry were not submitted to the audit and the ledger accounts were maintained only from the summary details of the monthly expenses sent by that institution.
- That the opportunity can be arranged to visit the authority to inspect the necessary documents or the ministry can submit for audit when necessary.
- Information and follow-up should be done regarding the use of the funds spent on the projects.

2. Financial Review

2.1 Management of Imprests

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>According to the cash books of the State Ministry, the imprests balance to be settled to the treasury as at 31 December 2021 is Rs.12,450,550, the amount has not been settled and only Rs.550 has been settled. It was observed that although payment voucher No. 103 has been prepared to give a cash amount of Rs.12,450,000 to the Ceylon Fishery Corporation, instead of paying the said amount to the Ceylon Fishery Corporation, it was arranged to return it to the treasury after 28 days i.e. on 28 January 2022. Further, that amount had been accounted as an expense under the vote object of No. 405-2-3-77-2506 in the year under review.</p>	<p>That the amount was remitted to the Treasury as the Fisheries Corporation did not provide the original documents for the same.</p>	<p>Year-end balances should be remitted to the treasury without issuing cheques.</p>

2.2 Management of Expenditure

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) Out of the amount of Rs.250,000,000 allocated to NARA Institute for research and development expenses numbered 405-2-4-2-2507, the revised estimate was Rs.190,000,000 due to the transfer of Rs.60,000,000 under Transfer of Financial Regulation 66. Rs. 80,000,000 equal to 42 percent of that amount was not utilized.</p>	<p>Due to the difficulty of engaging in field activities for research and development activities, the utilization of the relevant provisions was reduced and the disruption of the supply of related chemicals due to the existing foreign exchange problems also had a great impact on this.</p>	<p>Funds allocated for research should be used for that purpose.</p>

- (b) A total of Rs.120,000,000 was transferred under the transfer of Financial Regulations and a total of Rs. 195,000,000 was allocated as Rs.30,000,000 for the rehabilitation of capital assets of Nara Institute, Rs.105,000,000 for the acquisition of capital assets and Rs.60,000,000 for the modernization of laboratories. As only Rs.65,500,000 had been spent out of it, Rs.129,500,000 equal to 66 percent of the total allocation remained, so the entire amount transferred under the Financial Regulations had not been utilized.
- Further, as the State Ministry had not obtained the information regarding the incurred amount of Rs.65,500,000, it could not be checked during the audit.
- That the Secretary of the State Ministry decided not to approve the grant due to the restrictions imposed by the government on capital expenditure as well as the problems arising in meeting the expenses for the related work in the year 2022, the project of Phase II, of the Infrastructure Development of the Chilow Fishing Harbor (Green Harbor Development) was stopped due to a policy decision of the government.
- That there is no recording in the Ministry and that the related physical and financial progress is reported in the related progress reviews and progress reports.
- Estimates should be made realistically.

2.3 Non- compliance of Prescribed Limits

The observation on Excesses and Shortfalls of Prescribed Limits authorized by Parliament for Government advance account activities is given below.

Audit Observation

Although the Department of National Budget had notified that it would make a recommendation to the Minister of Finance to change the limits of the maximum expenditure limit, minimum credit limit and maximum debit balance limit of the government officials' advance "B" accounts under the head number 40501 of the State Ministry in the year under review as Rs.2,500,000, Rs.300,000 and Rs.3,200,000 respectively, as of the date of this report, the State Ministry had not submitted the information to the audit that the limits had been approved. Further, instead of showing the revised limits in the ACA-5 form of the financial statement submitted to the audit, as the limits approved by the Appropriation Act of Rs.3,000,000, Rs.750,000 and Rs.5,000,000 respectively had been shown, thus the minimum credit limit was not reached.

Comments of the Accounting Officer

That the Treasury has not informed the State Ministry about the approvals and that the Treasury has verbally informed that it has been presented to the Parliament and that the revised approved limits have not been recorded in the account due to an error by mistake and that the minimum credit limit of Rs.300,000 has been reached.

Information about the revised approved limits should be obtained from the Treasury by the State Ministry and submitted for audit.

2.4 Certification of Chief Accounting Officer

Audit Observation

The Chief Accounting Officer should ensure that an effective internal control system for the financial control exists in the Ministry, and carry out periodic reviews to monitor the effectiveness of such systems, and accordingly make any alterations as required for such systems to be effectively carried out in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.

Comments of the Accounting Officer

That the effectiveness of the internal control system has been reviewed from time to time and no changes have been made to the internal control system for the year 2021.

Recommendation

Action should be taken in accordance with Provisions.

3. Operating Review

3.1 Planning

Audit Observation

Although the estimate for the year 2021 of the State Ministry has introduced 8 special priority tasks, according to the action plan for the year 2021 and the progress report prepared accordingly, plans were not prepared and implemented focusing on the following tasks except for the formulating necessary strategies to promote inland fisheries in lakes, lagoons and lands and developing fishery harbours for the efficient operation of large-scale.

Comments of the Accounting Officer

Recommendation

(a) Providing necessary facilities to establish ornamental fish industries targeting at export markets.

That three main programs were implemented under this.

Progress should be presented as per the action plan and the progress report prepared accordingly.

(b) Development of refrigeration systems using sea water for multi-day fishing vessels and encouraging use of solar power.

Under this, two main activities are being planned and implemented.

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(c) Improvement of all fishing harbours, anchorages with modern communication facilities, refrigeration, fuel supply and sanitary facilities.

That three programs are planned and implemented under this.

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| (d) | Initiation of programs for expanded breeding of marine and freshwater fishes jointly with Fisheries Community Associations and National Aquaculture Development Authority. | Of the total production of 111.59 million fish fingers in 2021, 17.45 million (15.63%) have been produced by community-based fish seed production units and 25.24 million (22.61%) in cages and cages by fishing societies in reservoirs. | do- |
| (e) | Taking actions to increase the fish harvest using environmentally friendly modern hi-technological techniques. | That project proposals have been submitted to the World Food Organization seeking technical assistance to improve fishing efficiency by predicting high fish stocks. | do- |
| (f) | Professional training and knowledge development of fishermen and those involved in the industry. | That the training programs are conducted by the Fisheries Department, Aquaculture Development Authority and Vocational Training Authority. | do- |

3.2 Non- performance of Functions

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Although Rs. 194,613,000 was spent out of the capital funds of Rs. 250,000,000 reserved for the civil engineering work and mechanical engineering work of the Ceylon Fishery Harbor Corporation, the cost as per progress report was Rs. 287,260,000. Furthermore, under the mechanical engineering work, the planned cost of Rs. 23,000,000 for the repair of the	Though the approved capital allocation amount for the year 2021 is Rs.250,000,000, that the total amount of Rs.194,613,000.00 received by the institution during that year has been spent.	Progress should be presented as per the action plan and the progress report prepared accordingly.

Sayuri ship was only for the tendering of Rs. 14,640,000, so no physical progress was made regarding that repair.

- (b) Although Rs.150,000,000 was allocated for the development of Suduwella fishing harbor for the year 2021 by the initial cost estimate and after transferring made by the Financial Regulation 66, the savings was Rs.73,000,000, the entire amount was not utilized and the work was cancelled. Since the construction of Gandara, a large fishing port near the Suduwella fishing port, was started, it was decided not to proceed as there was no urgent need to build a fishing port and the local political authority as well as the fishermen agreed with this decision and there was no objection to this decision from the Suduwella fishermen. Proper feasibility studies should be done and plans prepared before construction of fishing ports.
- (c) The physical progress of the related work was at a low level as an expenditure of Rs.7,625,468 had been incurred only for the works of Rs.25,000,000 targeted for the development of Dodanduwa fishing harbor with the allocation amount of Rs.100,000,000. As planned by the Ministry, the commencement of the construction work was to be done in the last quarter of the year 2021, but the work could not be carried out as per the plan. The project should be completed as planned.
- (d) Although an allocation of Rs. 20,000,000 has been made for the development of Hambantota fishing harbor for the year 2021, only an activity for Rs. 9,000,000 had been planned and Rs. 1,054,749 had been spent. That the related provisions it was not unable to spend in the year 2021. -do-
- (e) Although Rs.18,000,000 has been allocated for the development of 8 landing sites and anchorages, Rs.1,900,000 only being expended for initial expenses, the financial progress was only 11 per cent. Due to the difficulty of holding discussions with the stakeholders due to the existing Covid situation, the construction work could not be started and the relevant amount has been spent for carrying out geological surveys in connection with several piers. -do-

3.3 Management Weaknesses

Audit Observation

Since the State Ministry did not request for a supplementary provision with sufficient time to complete the restructuring of Ceylon Fisheries Corporation, the imprests had requested from the Treasury on 29 December 2021 delayed by another 07 days for the supplementary provision of Rs.40,350,000 received by the State Ministry on 22 December 2021. The imprest of Rs.40,000,000 was received on 31 December 2021. Due to lack of sufficient time by the end of the year under review, the supplementary provision could not be utilized and as at 31 December of the year under review, and it was observed that out of that imprest, Rs. 27,550,000 had been paid by the State Ministry to the National Aquaculture Development Authority (NAQDA) for expensing to the development votes. Thus, it was not confirmed whether the intended tasks have been accomplished with that money.

Comments of the Accounting Officer

That this provision was received by the Ministry of State on 27.12.2021 and received by the accounts division on 28.12.2021, according to the amount of vouchers received, the funds were utilized to utilize the money in the most effective way and the supplementary provision could not be utilized, because the Fishery Corporation did not have the source documents.

Recommendation

It is necessary to request supplementary allocations with sufficient time, obtain information regarding the use of the funds spent on the projects and follow-up activities.