

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018, National Aquatic Resources Research and Development Agency Act No. 54 of 1981 and the Finance Act No.38 of 1971. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Agency as at 31 December 2023, and its financial performance and the cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards

1.2 Basis for Qualified Opinion

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

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 audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of the 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 determines 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 stability 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 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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parliament '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
- 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 board'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 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 board 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 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 discussions issued by the governing body 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 Audit Observations on Preparation of the Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
(a) As per section 29 of Sri Lanka Public Sector Accounting Standards 02, the surplus generated from the general activities should be reconciled with the net cash flow of the operating activities in the preparation of the statement of cash flows in direct method and even though it should be shown as a part of the cash flow or as a note in the financial statements, no action had been taken accordingly.	The action should be taken to rectify the error indicated in the preparation of the financial statements in 2024.	As per section of the standard, the necessary disclosures should be made in the statement of cash flow.
(b) The consultancy services income of aggregate Rs. 63,699,742 related to 05 research projects commenced in 2023 and covered 2023 had not been accounted as the project income taking into consideration the end of the project as per section 20 of Sri Lanka Public Sector Accounting Standards 10. A nominal consultation income of Rs. 11,731,747 similar to the expenditure of the year under review of such projects had been identified in the accounts.	The action will be taken to obtain further instructions in relation to adjustment of accounting standard on receipt of royalty and receipt of project income by submitting to Sri Lanka Public Accounting Standards Review Committee of Sri Lanka Institute of Chartered Accountants and if any change should be made in the adjustment which is being carried out by us now, the future action will be taken in that regard. Presently, the adjustment made based on the actual expenditure as per the instructions given earlier is accurate.	The necessary action should be taken as per the section in standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though Rs. 3,626,362 had been shown as purchase of property, plant and equipment under the investing activities in the statement of cash flow of the year under review, the actual purchase value was Rs. 9,197,117. Therefore, the investing activities had been understated by Rs. 5,570,755.	It is accepted as an accounting error occurred in the preparation of the statement of cash flows and the action will be taken to rectify in submission of the comparing information in the financial statements 2024.	The statement of cash flows should be accurately prepared.
(b) Since the research allowance of Rs.1,112,652 related to the previous years had been accounted as the salaries and wages expenses in the year under review, the profit of the year under review had been understated from that amount and the retained earnings had been overstated from that amount in the year under review.	It had been followed up to now that it is accounted related to the current year as a one-off payment after obtaining the approval for the payment of the research allowance. The audit observations are accepted and the action will be taken to adjust as noted in the future.	The expenses of the previous years should be accurately accounted.
(c) The expenses payable in the year under review had been understated by Rs. 1,717,276 and the profit for the year had been overstated by Rs.565,677 and retained earnings by Rs.1,151,599 due to not adjusting the research allowance of Rs.1,717,276 in the financial statements which had not been paid related to 23 December 2021 to 21 June 2023.	The Sri Lanka Agricultural Research Policy Council gives the approval for research allowance for the allowances related to previous years for the relevant year. The research allowance paid to the relevant officers is accounted as an expense in the financial year in which the relevant payment is made.	The accounting of research allowance in the financial statements should be accurately carried out.
(d) An amount of Rs. 2,432,290 which had not been recovered from the advance amount paid for the construction of marine breeding center had been accounted as work in progress without accounting as advance. As a result of that, the current assets had been understated by that amount and non-current assets had been overstated by same amount.	The balance to be shown in the advance account Rs.1, 260,582.11 as at 31 December 2023. It is accurate to depict the other money in work in progress.	The advance payments made for the capital constructions should be accurately accounted.

- (e) The fish food and fish sales income of Rs. 1,443,758 in Panapitiya regional research center had not been accounted under the income receipt of the year under review and accounted under D 5503 project. After adjusting the expenditure of Rs. 514,849 of the year from that account, a balance of Rs. 1,464,456 including the opening balance of Rs. 535,547 had been accounted as the project creditors. As a result of that, the profit of the year and the cash flow generated from the other operating activities in the statement of cash flow had been understated by Rs. 928,909.
- The income received had been utilized for continuously carrying out the preparation of the fish food owing to non-availability of required provisions for manufacturing of fish food in panapitiya regional research center in 2023 and the action had been taken to maintain such money as a separate fund for using again and again.
- The income of the year should be accurately accounted.
- (f) An amount of Rs. 2,080,000 received in the year under review for the naval maps prepared for an international ship in a private shipping company in the year under review had not been accounted under the revenue of the financial statements and accounted under the project creditors.
- Since a creditor was generated at the beginning on the information submitted by the Hydrographic Division and, it had not been reported that the relevant task had been completed, it had been accounted as a creditor.
- The revenue of the year should be accurately accounted.

1.5.3 Lack of Documentary Evidence for Audit

Subject	Amount Rs.	Audit Evidence not Provided	Comments of the Management	Recommendation
No any source document had been submitted related to the settlement of advances, accrued expenses, rectifications and 65 journal vouchers of Rs. 83,675,867, it couldn't be verified the accuracy of such journal vouchers.	83,675,867	Source documents related to 65 journal vouchers	At this occasion, a deficiency had occurred and the action will be taken to rectify it in the future.	The documents of verification related to the accuracy of the balances should be submitted to the audit.

1.6 Non-compliance with laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations 395 of Democratic Socialist Republic of Sri Lanka	Even though the bank reconciliation should be prepared before 15 of following month and certified by the paying officer and be ready for the examination of Auditor General as per Financial Regulations 395, the action had not been taken like that for 03 accounts maintained for regional offices.	The bank reconciliation had not been prepared for regional offices. It had been informed to take action in this regard by Audit and Management committee 133 having paid attention on this matter. The preparations are being made.	The action should be taken as per Financial Regulations 395.
(b) Cabinet Decisions No. 17/2512/725/037 dated 22 November 2017	It had been given the instructions by the cabinet decision to settle the outstanding balance of Employee's Provident Fund contribution of Rs. 39.93 million from 2006 to October 2015 from its earnings within 2 years and even though fixed deposit interest income of Rs. 36,389,679 in the year under review had been received, payable Employees' Provident Fund contribution of Rs. 17,237,045 had not been settled.	As per the cabinet decision, adequate money for settlement of this amount had not existed with the institute in 2018 and 2019. Owing to the Covid pandemic situation in 2019, 2021 and the economic recession had severely prevailed and because of that, it had become to this situation. After that, the governing council had paid attention to this, the necessary action had been taken to settle this amount and a program had been prepared to settle within 03 years. The cabinet of ministers will be made aware on this situation in due course.	It should be complied with the cabinet decisions.

2. Financial Review

2.1 Financial Results

The financial result of the year under review was a surplus of Rs. 50,541,096 and correspondingly, the surplus of the preceding year was Rs. 38,087,808. Accordingly, it was observed a growth of Rs. 12,453,288 in the financial result. The increase of other income and the government grants by Rs.46, 585,939 and Rs. 13,896,759 respectively and decrease of the personal emoluments and research and development expenditure by Rs. 34,148,925 and Rs.12,238,853 respectively had caused for this.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The advance, other debtors and employee loans of Rs. 3,083,897 exceeding 05 years among trade and other receipts of Rs. 29,636,894 under the current assets in the financial statements as at 31 December 2023 had existed in suspense situation.	The action is being taken to recover.	The action should be taken to immediately recover the balance receivables.
(b) The fish foods manufacturing machine with an assessment value of Rs.16,868,610 had been leased to a private company on 15 March 2016 and it had been taken over to the agency again in 2021. The outstanding lease amount of Rs. 4,650,000 had not been recovered from such institute from 05 June 2020 to 31 months. Again this machine had been leased to a company in May 2023 and said lease agreement had not been submitted to the audit and such lessee had reported the faults of the machine and its monthly lease rentals had not been paid. However, no measure had been taken by the management to terminate the agreement related to this machine or recover the lease rentals as per the agreement.	This had been paid attention to the audit and management committee 133 and at this committee; it had been recommended that if it is not practical to further maintain this machine, it should be removed by using an appropriate method.	A step should be taken to terminate the agreement related to this machine or recover the rentals as per the agreement.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of rs. 1,590,592 had been incurred from 2021 to 2023 for the research project on introduction of short eat special and dried fish allied production methods allied with the aquatic resources commenced in 2021 and even though 03 years had elapsed from the commencement of such project at the date of audit, such activities had not been completed. Owing to that the basic objectives of such research project of manufacturing and introduction of aquatic resources short food special with fish protein had not been fulfilled.	Agree.	The action should be taken to fulfill the expected objectives of the project.
(b) Samurdika vessel are used for research and surveying purposes and the institute had not taken action to achieve such expected objectives and targets and Rs.37,816,050 had been incurred for the repairs and maintenance activities of the vessel in the year under review. Since the memorandum of understanding entered into with Sri Lanka Navy had ended from February 2023, it had to be stopped the operating activities of the vessel also.	The discussions are being held with the relevant institutions by the management for finding a suitable service supplier for operating the vessel at this time.	The actions should be taken to use the vessel for research and surveying purposes.
(c) The collection hydrographic data and relevant National Charting Program had been indicated as the basic functions of the Agency by NARA Amendment Act No. 32 of 1996 and an amount of Rs. 1,995,152 had been incurred for that. The only collection of data of the charting program based on hydrographic scientific data due to be carried out from Colombo to Negombo	A huge amount of money is required for the data collection of naval shipping of the National Charting Program of the year and an amount of Rs.2 million had been allocated for this National Charting Program amidst the economic crisis. The charting activities in the field activities of the inland charting specially	The plans should be prepared enabling to fulfil the basic functions of the Agency.

and from Colombo to Weligama had been performed and only 50 percent physical progress had been acquired.

related to the naval charts had been completed within the allocated provision and the hydrologic data in the areas where such charts are covered had been prepared. The field charting activities had been carried out maximally within the allocated provision and the money had to be utilized for the activities mentioned. covered

3.3 Idle or Underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
(a) 04 laboratory equipment used for the tests in Analytical Chemistry Laboratory had not been utilized for any sample test in the year only 58 samples had been tested by other 02 equipment. Accordingly, 04 laboratory equipment worth of Rs. 27,536,564 and 02 equipment on which the value couldn't be identified couldn't be achieved a proper efficiency level.	The number of samples received to the laboratory related to 2023 had been analyzed by HPLC (High Performance Liquid Chromatography) equipment for Histamine test. Since the equipment with the brand name of Bomb Calorimeter does not manufacture, it had been recommended by a service supplier that it couldn't be repaired. Therefore, the action is being taken to hand over this equipment to the store as a waste. It is expected to that the repair and training requested for the remaining equipment could have been obtained.	The action should be taken to reach the laboratory equipment into the efficiency level.
(b) Even though a land in extent of 03 acres had been leased for period of 30 years since 16 February 2022 for the construction of multi special fish breeding center in kalpitiya Kudawa area, an expense of Rs.1,631,963 had been incurred for the development of the land in 2020 i.e. before taking over the ownership. This land had been underutilized so far without using the relevant purposes.	As per the request made for transferring the ownership of this land to us, the concurrence had been given to provide it on long-term lease and the necessary action had been taken for that. Accordingly, it had been observed that it was suitable to take over through a grant through our ministry than transferring the land on long-term lease and it had been requested by the letter dated 26.05.2023 to take action to transfer the land in which the this center is located with the Ministry	The underutilized assets should be converted to the utilized level.

of Fisheries through a special grant with the approval of the cabinet of ministers. Accordingly, the action is being taken.

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| (c) The “Tharani” vessel manufactured with a cost of Rs. 12 million in 2011 had been idle more than 10 years without utilization due to the technical errors. | This is a vessel manufactured for experimenting as an innovation for research activities. Presently, this vessel had been handed over to Director Services Operations of institute enabling to prepare it for the studies. The relevant activities are being carried out. | It should be utilized for suitable research activity. |
| (d) A stock of 9391 oysters structures worth of Rs. 7,512,800 had been idle since long time without utilization. | This oyster structure stock had been used for a research with the NARA by a Korean investor and handed over to institute without bringing it. The attention had been paid to the audit queries in this regard and the action is being taken to carry out new research activities related to this in the next year. | It should be utilized for suitable research activity. |

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
In accordance with the details of the approved cadre of the Agency by the Department of Management Services as at 31 December 2023, 87 posts in the secondary level including 03 senior posts in the higher management level and 50 tertiary scientists posts, 09 posts in tertiary level in management level, 12 posts in secondary level in management level and 36 Management Services Research Assistants and 57 laborer posts in primary level had been vacant. Due to that reason, it was observed that existence of vacancies in majority of posts in Research Technology Division can be directly affected to the research project performance.	The approval of the Department of Management Services had been requested through the line ministry in 2022 and 2023 for filling the vacancies of NARA. Since the approval had not been given for that in such years, no recruitments had been made.	The staff required for the relevant divisions and the performance should be attached.