

**1. Financial Statements**

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**1.1 Adverse Opinion**

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The audit of the financial statements of the National Aquaculture Development Authority of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the income statement, 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 reported to Parliament appear in this report.

In my opinion, because of the matters described in paragraph 1.5 of this report the accompanying financial statements do not give a true and fair review of the financial position of the Authority 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**

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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**

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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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Auditor's Responsibilities for the Audit of the 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.
- 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 Authority'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 Authority'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 Authority 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 Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing board of the Authority;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority 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**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although a summary of significant accounting policies should be presented as per the paragraph no 132 of the Sri Lanka Public Sector Accounting standard 01, the accounting policy had not been disclosed for recognition of Rs.199,793,706 sales revenue of the Authority.	Revenue is measured on the basis of fair value of the revenue received and receivable. Actions will be taken to disclose this accounting policy through the accounts for the year 2020. The Authority prepares its accounts on accrual basis as stated in the accounting policy no 2.2 of the financial statements for the year 2019. Accordingly cash sales and credit sales are recognized.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

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| <p>(b) As per the paragraph 47 of the Sri Lanka Public Sector Accounting Standard No. 07, when the fair value of the property, plant and equipment differ materially from its carrying amount a revaluation should be done once in every 03 or 05 years. Nevertheless a revaluation had not been done for all the assets after 1998 which is the commencement year of the Authority.</p>   | <p>Our Authority can give Assets revaluation task to the Valuation Department. The department did not act properly with regards to the previous revaluations. This task is very complex according to the nature of the assets of the Authority. But consideration will be given to deal with this.</p> | <p>In accordance with Sri Lanka Public Sector Accounting Standards, actions should be taken to revalue assets as showing their fair value.</p> |
| <p>(c) The accuracy of the cash flow statement could not be acceptable to the Audit because of the, presentation of prior year error corrections amounting to Rs.1,751,100 and Rs.507,649,300 which spent on acquisition of assets during the previous year under operating and investment activities respectively, mis presentation of Rs.222,871,670 which spent on constructions during the year under review as a cash inflow under investment activities and Rs.82,498,182 grants received to the Authority had not been shown under financing activities and mis presentation of Rs.21,661,135 received as a grant for issuing fish twice under sales and financing activities when preparing the cash flow statement.</p> | <p>This will be taken into consideration in the preparation of the cash flow statement in future.</p>  | <p>Financial statements should be prepared in accordance with the Sri Lanka Public Sector Accounting standards.</p>                            |
| <p>(d) Although 06 cases had been filed against the Authority as 03 cases filed by demanding compensation and 03 arbitration cases, the impact of those cases had not been</p>   | <p>Management had not comment on this.</p>   | <p>Contingent liabilities should be disclosed in financial statements in accordance with Sri Lanka Public Sector Accounting Standard 08.</p>   |

disclosed in the financial statements as per the paragraph 97 of the Sri Lanka Public Sector Accounting Standard 08.

### 1.5.3 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Actions had not been taken to adjust in accounts identifying Rs.3,766,745 bank deposits which were directly deposited to a bank account in 324 instances.	The identification of direct bank deposits is a fairly complex process and the Authority has achieved great strides in identifying and accounting these direct receipts over past years. All direct receipts have been identified and accounted by 31 December 2019 and except several direct receipts received from January to present in this year, other direct receipts have been accounted after identifying not exceeding one month period. It is planned to use Google Spread Sheets to further formalize this process.	It should be put into action after preparing a methodology for identifying direct bank deposits.
(b) After introducing an accounting policy for accounting bio logical assets, actions had not been taken accordingly to assess the value of brooder stock held by the Authority with the objective of breeding fish brood.	Bio logical stocks have valued on the basis of its selling value.	Actions should be taken to introduce suitable fish stock valuation policy in accordance with the Sri Lanka Accounting Standard No 41.
(c) Rs.211,351,045 of development projects expenditures was spent under the Ministry fund to provide infrastructure facilities to the beneficiaries of fisheries and aquaculture had been shown under other creditors instead of showing under development projects in the financial statements.	The land used for construction of the crab city project worth of Rs. 183,691,999 has been temporarily transferred to our Authority by the relevant owners and the Authority will return the suitable sites to them as required. Therefore, the value of this construction was disclosed in our financial statements and shown	Actions should be taken to take over the ownership of the lands prior to carry out development activities. Prior to utilize treasury funds for development activities, environmental and feasibility reports should be obtained after preparing plans.

under current liability as it should be handed over to the relevant persons. Although we did not own the lands in the Sundara Thotupola Project, it was disclosed in the financial statements as the Authority took over the constructions after the completion of constructions and it was shown under current liability as it should be handed over to the relevant persons.

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| <p>(d) The value of the 18 plots of lands owned by the Authority and currently used for the activities of the Authority had not been assessed and presented in the financial statements as at 31 December 2019. Due to this, value of the Authority's lands was under stated in the financial statements.</p>  | <p>Actions are being made currently to assess all the lands belonging to the Authority as at 31 December 2020 as only applicable to lands so that they can be included in the financial statements of year 2020 and Kahandhamodara and Angunawewa centers have been referred for valuation at present.</p>  | <p>Lands belonging to the Authority should be assessed and accounted.</p>   |
| <p>(e) Rs.58 million of shrimps post larvae which had been distributed freely to the farmers during the year under review had been accounted as sales instead of accounting as other expenses. Therefore, the gross profit for the year under review had been over stated by the above amount.</p>   | <p>Management has not comment on this.</p>  | <p>Cost should be shown as expenditure after calculating the cost of free issue and deducting from inventory.</p>             |
| <p>(f) Rs.94, 821,266 of payable at the end of the year under review for the construction works which are under construction included in the contract register of the year 2019 had not been accounted and presented in the financial statements. Accordingly current liabilities at the end of the year under review were under stated by above amount.</p> | <p>The Authority does not recognize in the accounts bills to be paid in connection with construction on the basis of double entry issue arises when accounting in the coming year. That is, when we make a payment, it will be identified as an expense to the relevant expense vote. It has to be identified as an expense to the relevant expense vote when</p> | <p>Since the financial statements are prepared on the accrual basis, bills payable must be accounted as accrued expenses.</p> |

accounting it as payables. Then in the coming year when making these payments, it will have to identify again as an expense to the expense vote in therelevant year. Then same value has to be identified for the expense votes within 02 years. But these unpaid bills are reported for physical progress. Further study will be done in this regard on the accounts of the Authority.

- (g) Rs 89,630,000 of assessed value or transferred value of two lands including buildings at Udawala we which were transferred at the establishment of the Authority in the year 1998 had not been stated in the financial statements. Also, the value of the land where Monaragala Aquaculture Extension Office was located which the possession was transferred in the year 2007 had been valued at Rs.9,700,000 in the year 2012. But the value of that land and its buildings had not been accounted.
- Management has not comment on this.
- The assets of the Authority must be correctly identified and the correct value must be accounted.

#### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a)Debtors balance.	30,003,330	Balance confirmations.	Management had not comment on this.	Actions should be taken to obtain balance confirmations.
(b) Loans given under Divineguma Fund.	59,047,009	Agreements.	Management had notcomment on this.	Actions should be taken to present agreements and detailed schedules.

(c) Divineguma loans receipts.	3,707,500	Detailed schedules.	
(d) Fish fingerlings.	1,258,960	Detailed schedules and age analysis.	Management had not comment on this. Detailed schedules and age analysis should be presented for verification of items stated in the financial statements.
(e) 13 creditors balance.	3,884,459		
(f) Sundry deposits.	5,221,615		
(g) Unidentified balances.	452,474		

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 371(c)	Although the advances must be settled as soon as the work completed, Rs. 437,000 of advances given in 28 instances had not been settled accordingly and the delay period ranged from 14 days to 326 days.	Out of the unpaid advance balance as at 31 December 2019, the balance due to be settled by 14 July 2020 is Rs.96, 640.03 only.	Financial Regulations must be followed.



- (ii) Financial Regulation 395(c) Even though all institutions that hold a bank account must prepare a bank reconciliation statement before the 15<sup>th</sup> day of the following month regarding the transaction status at the end of each month, bank reconciliation statement had not been prepared for one current bank account from August to December. Preparation of bank reconciliations should be done by the book keeper and it was not possible to carry out those activities from August to December with the sudden vacancy in the post of book keeper. Bank reconciliation statements should be prepared in accordance with Financial Regulations and proper financial control should be established by preparing bank reconciliations.
- (iii) Financial Regulation 570 Actions had not been taken as per financial regulations regarding Rs.3,917,966 and Rs.8,088,637 of unsettled contracts retention money of the Authority which exceeded 05 and 10 years. Necessary actions will be taken to settle the balances or to comply with financial regulations after checking with the documents of engineering division regarding the retained money. Financial Regulations must be followed.
- (b)Section 29 of paragraph XLVIII of volume II of the Establishment Code of Democratic Socialist Republic of Sri Lanka. No formal actions had been taken against the officers who responsible for the overpayment of Rs.947, 068 during the construction of Kahandamodara freshwater prawn hatchery center. Management has not comment on this. Provisions of the establishment code must be followed.
- (c)Government Procurement Guidelines 2006 sub section 4.2.1 Even though Rs. 243.95 million had been allocated for purchasing of 27 items in the procurement plan, the approval of secretary to the line Obtaining the approval of the secretary to the line Ministry for the procurement plan as per 4.2.1 of the procurement guidelines has been done at the As per the instructions in the procurement guidelines, the procurement plan and action plans should be prepared as a single report and submitted to National Procurement Commission before 31<sup>st</sup>

- ministry had not been obtained by the Authority in this regard and the detailed procurement plan had not been prepared.
- time of obtaining the approval for relevant budget and action plan.
- January 2020 with the signature of Chief Accounting Officer.
- (d) Asset Management Circular of Ministry of Finance and Mass Media No.02/2017 of 21 December 2017. The registered ownership of 3 tractors and 5 motorcycles given to the Authority by the Ministry of Fisheries and Aquatic Resource had not been transferred to the Authority. The Authority has requested from the Ministry of Fisheries by a letter dated on 11 Mach 2019 to take over motorcycles and hand tractors used without the registered ownership with the consent of entity which has the registered ownership. It is kindly informed those transferring activities are being carried out in coordination with that entity. Instructions in the circular should be followed.
- (e) Asset Management Circular of Ministry of Finance and Mass Media No.01/2018 of 19 March 2018. Although all vehicles which are not in running condition should be disposed before 30 June 2018, necessary actions had not been taken to dispose 4 pool vehicles of the Authority which were not in running condition. Relevant motorcycles have been parked at the extension office of the Authority and arrangements will be made to return the motorcycles to the extension officers after making minor repairs and it is kindly informed that the motorcycles will be disposed in the future after purchasing new motorcycles by the Authority. Provisions in the circular should be followed.
- (f) Sub section 3.2 of Public Enterprise Circular No PED 1/2015 of 25 May 2015. Fuel bills amounting to Rs.276,511 spent during the year 2019 exceeding the fuel limit without approval. Actions will be taken to rectify this error in future and necessary steps will be taken in future to transfer Provisions in the circular should be followed.

had been reimbursed. the powers of the secretary approving bills to the board of directors of the Authority for reimbursement of expenses up to Rs.25,000 exceeding 150 Liter which is the monthly fuel limit of the chairman of the Authority.

- (g) Management Audit Circular No DMA/01/2109 of 12 January 2019. Although the Internal Audit Plan for the year 2019 should be prepared and copies of it should be submitted to the Management Audit Department, it had not been done accordingly and copies of the Internal Audit Reports had not been submitted to the Management Audit Department. Management has not comment on this. Instructions in the circular should be followed.

## 2. Financial Review

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### 2.1 Financial Result

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The operational result of the year under review amounted to a deficit of Rs. 55.4 million and the corresponding deficit in the preceding year amounted to Rs.10 million. Accordingly, a deficit amounting to Rs. 45.4 million was observed in the financial result. Increase in cost of sale by Rs.9.68 million and increase in administration and distribution cost respectively by Rs.75.5 million and Rs.44.8 million had mainly caused to this decline.

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs.4,521,452 with extra works had been spent on repairing the fence surround the land for the protection of fish ponds in Udawalawe Thilapiya Breeding Centre. Because of Rs.1,647,889 was spent for additional works, the fence was estimated to construct with length of 550 meters had been constructed only up to 343.45 meters within the relevant provision limit. Due to the fence had been constructed not covering the fish ponds and existence of spaces in some parts of the constructed fence, protections of the fish ponds had not been provided and the purpose of the industry which spent Rs.4,521,452 had not been achieved.	After preparing the engineer estimate for the project of constructing a fence surrounding the land for the protection of fish ponds in Udawalawe Thilapiya Breeding Center and selecting the contractor through procurement process, the owner of the adjoining land constructed a canal near the fence parallel to the proposed fence. Due to this, it would like to inform that the construction of fence had to be done by constructing a retaining wall as an additional work to the protection of the fence. Accordingly, there were no provisions to construct the fence up to 550 meters as per relevant engineer estimate. Due to this, only 345.45 meters was constructed within the relevant allocation limit. Further, the reason for existence of spaces in some parts of the fence because it was hoped later to connect the water discharged from the ponds in the premises of the Authority through a drainage channel to the canal built by the owner of the adjoining house. Accordingly, spaces have been placed in several places of the fence to facilitate its construction works.	Construction contracts should be properly planned and carried out and actions should be taken to achieve intended objectives of the constructions.

(b) Rs.17,066,264 had been spent for construction of 4 ponds and 4 brick ponds in the Udawalawe Thilapiya Breeding Center and when the physical inspection was conducted by the Audit on 18 June 2019, 03 out of the 04 ponds constructed and 02 out of 04 cement ponds constructed was free from fish. Accordingly ponds had not been utilized for production.

B12, B13, B14, B15 are ponds which reared fish up to fish fingerlings and during the inspection period there was high demand for fish fry, hence most of the issues took place as fish fry.

Actions should be taken by the management to utilize the constructed ponds in maximum capacity.

### 3.2 Operational Inefficiencies.

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Unrecognized deposits of Rs.452,474 and Rs.363,329 withholding tax which exceeded more than 2 years had not been settled.	Value of “withholding tax” (WHT Tax) included here is relevant to the year 2011. Details for settlement of this money should be obtained by checking vouchers and it is a complex task. But actions will be taken to settle this money.	After identifying deposits, actions should be taken to settle or write off to the revenue if there is no liability and actions should be taken to check whether the withholding tax can be settled.
(b) During the physical inspection carried out on 20 June 2019, 4 types of plumbing system accessories, 5 types of electrical accessories, 2 types of machinery spare parts and 1 type of netting equipment provided by the Head Office without a request of Udawalawe Carp Breeding Center had been available in excess. In addition to this, 5 types of hormones had	The plumbing system accessories were purchased on 15 July 2016 and those are held until receipt of funds. Electrical accessories and netting equipment were purchased prior to the establishment of the Authority on 29 January 1991. Excess hormones remain due to lack of growth in brooders and decrease in response to hormones.	Actions should be taken to procure goods according to the requirement and to follow inventory control techniques.

expired from the year 2003 to the year 2017 due to excess stock keeping.

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
<p>(a) During the physical inspection was carried out in June 2019, It was observed that 7 tanks extent of 1000M<sup>2</sup> at the Udawalawe carp, new carp and thilapiya breeding centers had not been utilized with maximum capacity. Further, the harvest relating to 08 ponds was at lower level of 3.5 to 13 percent compared to the fish used for fish production. Although the new carp breeding center was commenced in the month of May 2018, the delay in use of its 07 ponds had been taken a period from 05 months to 11 months and another 17 ponds remained idle due to non – repair.</p>	<p>It is mentioned that 05 ponds at the Udawalawe new carp center have been rehabilitated according to the provisions allocated in the year 2019 and currently being used at maximum capacity. It would like to inform that a “Tentative Estimate” has already been prepared for the repairing works of remaining ponds and the repairing works of ponds could not be commenced due to the lack of required funds. Further, it needs to be controlled because growing an aquatic plant named as Hydrilla. The water leakage in N1 pond was high and Moss and Hydrilla has grown as uncontrollable of water leakage. Due to this, it has not been possible to maintain water plankton (natural food). Therefore the harvest is reduced. Post larvae belonging to the genus of Catla have been deposited in N4 pond and fish have die due to the infection of parasite called as Larnia.</p>	<p>It is a responsibility of the governing board to search whether the fish tanks are being utilized at maximum capacity and proper management of the assets and the necessary management plans should be prepared and implemented for this purpose.</p>
<p>(b) Even though the industry of supply and installation of water supply system in Udawalawe new carp breeding center had been completed on 11 February 2018 by incurring Rs.8,628,689, the</p>	<p>It would like to inform that all the electrical wirings and panel installation works to be done within the Authority premises required to obtain electricity for the pumphouse under the water supply system construction industry in new aqua culture</p>	<p>Construction contracts should be completed in a planned manner and the management should pay their attention on maximum utilization of capacity.</p>

project that constructed by incurring Rs. 8,628,689 could not be utilized with maximum efficiency due to the electricity supply for the pump house had not been obtained by 19 June 2019, the date of audit.

development center in Udawalawe has been completed. Further in these days, the Ceylon Electricity Board is in the process of providing the relevant power supply. It is mentioned that about 95 percent of a physical progress in its activities has been achieved. Accordingly, the pump house will be able to utilize with maximum efficiency in the near future. Also, it is mentioned that the steps have been taken to pump water through a temporary supply, until the actions are taken to obtain permanent electricity from outside through the Electricity Board.

(c) The Kamkaru Piyasa with 05 houses had been constructed by incurring Rs.14,063,040 for construction of Kamkaru Piyasa in Udawaawe Thilapiya Breeding Center and out of 02 houses were still remained idle as at 19 June 2019.

A person who was in the workers' quarters at the Thilapiya Breeding Center has now died and the other person left because of a transfer. Therefore the official residence is vacant and it will be given when request made by an officer.

The Kamkaru Piyasa should be used with maximum capacity and management should pay attention in this regard.

### 3.4 Delays in Projects or Capital Works.

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
After planning the construction works to undergone during the period from August 2016 to August 2018 in a land belonging to the Wildlife Induction Zone at Vedithalathivu, Mannar District with an objective of increasing the production of coastal and marine aquaculture,	The Ministry of Fisheries and Aquatic Resources held a series of discussion with the Department of Wildlife to settle this land during a discussion held at Temple Trees on 14 May 2020, it was instructed to resolve this issue expeditiously.	Actions should be taken to obtain Feasibility Reports, Environmental Assessment, Reports and Risk Assessment Reports before commencing projects and management should pay attention in this regard.

Environmental Assessment Reports, Feasibility Reports and Risk Assessment Reports had not been obtained by the year under review and Rs.25,185,181 had been spent on obtaining water and electricity for the project.

### 3.5 Defects in Contracts Administration

Audit Issue	Management Comment	Recommendation
<p>(a) Project had been awarded to a private company on 25 July 2018 at a contract price of Rs.16, 600,780 for essential upgrades in Syphon Structures to obtain a regular water supply to the Iranamadu Breeding Center. This contract which was to be completed within 3 months from 25 July 2018 had not been completed even a year passed. According to the letter of the Irrigation Department No. NP/27/03/02/257 dated 23 October 2018 regarding the above construction, the laying of system and excavation for independent canals had been carried out by exceeding the agreed conditions and due to this, the works had been suspended temporarily from 23 October 2018. Further, water supply had been widened during the construction of syphon without the approval of the Irrigation Department. Further, Rs.368,081 which had been spent by variation</p>	<p>The plan for the project of essential improvements on syphon structures to obtain regular water supply to the Iranamadu Breeding Center had to be restructured as per the instructions of the Irrigation Department. As this Iranadu Reservoir, the bund and surrounding area are a land belonging to the Irrigation Department, changes in the plans had to be made at all times to meet their requirements. Further, the construction works in the reservoir of this project had to be done during the dry season after the water receded up to the relevant construction limit.</p>	<p>Contracts must be completed as per the agreements and constructions should be done in a planned manner. Management should pay attention in this regards.</p>



orders under the construction had become an idle expenditure due to the suspension of those activities.

- (b) Although the Rekawa Crab Cultivation project had been commenced on 11 June 2018 and completed in June 2019 by incurring Rs.188,665,560 for preparation of ponds and construction of tanks and water drainage system, the approval of Cabinet Ministers, that is by presenting the relevant Ministry as a policy decision had not been obtained for the projects with an initial cost of more than Rs.10 million in terms of the financial regulation 03(b) (iii). Further, there was no formal agreement to provide lands for implementation of the project between the Authority and the private land owners who owned 42 acres of lands in the Rekawa Divisional Secretariat where the aforesaid project is being implemented. By the date of Audit, the project had been halted by halfway due to lack of salinity required for crab cultivation.
- Management had not comment on this.
- Plans should be prepared before commencing such costly projects and Feasibility Studies Reports, Environmental Reports and Risk assessment reports should be obtained. The responsible officers should be inquired regarding suspension of projects halfway and alternative methods should be studied and steps should be taken to utilize resources.
- (c) The Divisional Secretariat of Ambalanthota had allocated 89 hectares of government own land to the Authority through Ministry of Fisheries and Aquatic Resource for the
- Management had not comment on this.
- It should be checked whether there are any budget allocations prior to the commencement of the Galmulla Crab City project. Management should pay attention in this regard and take further necessary steps.

implementation of Galmulla Crab City project which is proposed to be implemented as a public-privet partnership. However in terms of the section 30(3) of the National Aquaculture Development Authority of Sri Lanka Act No 53 of 1998, no immoveable property of the state should be transferred without the consent of Minister in charge of State Lands. If a transfer is made, the proposed transfer should be published in Gazette as per the section 33(1) of the act and the transfer should be done formally for the aforesaid project after acquiring lands under the Land Acquisition Act. However, the area of 89 hectares allotted to the Authority had not been published in the Gazette. A provision of Rs. 5 million had been allocated in the year 2018 for the above project and Rs.490,930 had been spent on Initial Environmental State Report and other minor expenses. Contracts had been awarded on 03 November 2018 for value of Rs.80 million and the Hambanthota Galmulla project had been halt due to insufficient budget allocation.

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| <p>(d) A project report was prepared to set up a fish feed unit for Thilapiyaat the Udawalawe Carp Breeding Center and the Authority had planned to produce</p> | <p>Management had not comment on this.</p> | <p>It is a responsibility of the management to properly plan and execute projects before starting them. Idle assets should be searched and made arrangements for their efficient utilization.</p> |
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quality feed at minimum production cost and save at least Rs.05 million on cost of fish feed. Even though in accordance with Procurement Guidelines 2.3.1, before making a request to appoint a Procurement Committee, Initial Environmental Examination, Environmental Impact Assessment, Social Impact Assessment and pre-procurement activities related to the project had not been carried out, a sum of Rs.10,225,796 had been spent in the year 2019 for the fish feed manufacturing machine. The machine could not be put in to operation from August 2019 to August 2020 due to lack of preparation of building required to install the machine, failure to obtain electricity and lack of infrastructure. Therefore, Rs.57,791,585 had to be incurred for fish feed in the year under review. Further, the machine was idle during the warranty period and the objective of the project that spent Rs.10,225,796 had not been achieved.

**4. Accountability and Good Governance**

**4. Internal Audit**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though under the Lagoon Development project, Rs.42,572,925 as an advance payment for the purchase of 03 weed and debris removal machines worth of Rs.161,400,000 had been paid on 13 July 2018 to the supplier who submitted fake bond documents without verifying the accuracy of the relevant documents, no disciplinary actions had been taken up to now against those officers as per the chapter XLVIII of volume II of the Establishment Code. This amount of Rs.42,572,925 which had paid informally had been recovered after leaving it for personal use for a 06 month period. Further, 04 officers had gone abroad to inspect this machine and Rs.363,504 had been paid by the Authority thereon and this amount had become an idle expenditure.	Management had not comment on this.	Actions should be taken as per the provisions in the Establishment Code regarding the officers and suppliers who prepared fake bonds.