

National Aquatic Resources Research and Development Agency -2013

The audit of financial statements of the National Aquatic Resources Research and Development Agency for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13 (1) of the Finance Act No. 38 of 1971 and National Aquatic Research and Development Agency Act No 54 of 1981 and Section 25 (2) of the amendment Act No.32 of 1996*. My comments and observations which I consider should be published with the Annual Report of the Agency in terms of Section 14(2)(c) of the Finance Act appear in this report .

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances , but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub- sections (3) and (4) of the Section 13 of the Finance Act No. 38 of the 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2. of this report the financial statements give a true and fair view of the financial position of the National Aquatic Resources Research and Development Agency as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

An expenditure in revenue nature incurred on Boats and Vessels had been capitalized and the provisions for depreciation had been made in the previous year. Even though the capitalized amount had been corrected in the year under review, the over provisions of depreciation amounting to Rs.514,234 had not been rectified.

2.2.2 Accounts Receivable and Payable

The following observations are made

- (a) According to the age analysis of debtors presented to audit, the value of the debtor balances as at the end of the year under review amounted to Rs.26,132,204 and the value of balances older more than 03 years amounted to Rs.2,728,665.
- (b) According to the age analysis of creditors presented to audit, the value of loan balances payable as at the end of the year under review amounted to Rs.16,852,620 and the value of loan balances older than 01 year amounted to Rs.244,593.

2.3 Non - compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules and Regulations etc	Non- compliance
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(a) National Aquatic Resources Research and Development Agency Act, No. 32 of 1996 (amended)	Contrary to the objectives stated in the Act, a sum of Rs. 7,916,832 had been spent for the construction of a fish market.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 371 (2)	An advance obtained should be settled immediately after the completion of the purpose for which it was granted. However,

advances totalling Rs.213,243 obtained in 14 instances had not been settled even at the end of the year under review.

- (ii) Financial Regulations 454 and 751 All inventory articles should be entered in an inventory register but such a register had not been maintained in the stores.
- (c) Treasury Circular No. 842 dated 19 December 1978 The Register of fixed Assets to record the value of fixed assets amounting to Rs.1,278 million had not been Updated.
- (d) Circular No. 28 dated 10 April 2003 of the Department of Management Services Without the approval of the Department of Management Services, a consultancy fee of Rs.650,000 had been paid.
- (e) Paragraph 2 of the Treasury Circular No. 1A1/2002/02 dated 28 November 2002 The Register relating to computers and Computer software valued Rs.7,013,457 had not been updated.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Agency for the year ended 31 December 2013 had resulted in a deficit of Rs.120,061,820 as compared with the deficit of Rs.93,909,305 for the preceding year. Accordingly, an increase of Rs.26,152,515 in the deficit for the year under review was shown. Increase in salaries, travelling expenses, contractual services, and research and development expenses had been the main reasons for this increase.

4. Operating Review

4.1 Performance

The total grants received for the research and development expenditure from 2009 to 2013 amounted to Rs.1,334 million and the expenditure incurred thereon totalled Rs.242 million. Accordingly, the expenditure incurred on research and development had represented 18 per cent of the grant received.

4.2 Management Inefficiencies

The following observations are made.

- (a) Out of the grants received for research and development activities as capital expenditure, a sum of Rs.20,027,819 had been spent for recurrent expenditure of the year under review, without being utilized for that purpose.

- (b) The vessel manufactured at a cost of Rs.15,685,633 enabling to use for research activities in the coastal areas had not been utilized for research activities up to now. A sum of Rs.4,427,117 had been paid as salaries, overtime and allowances of officers and security purposes.
- (c) Advances totalling Rs.333,891 had been paid as salaries, travelling, petty cash and special cash advances. Action had not been taken to settle them even by the end of the year under review.

4.3 Idle and Underutilized Assets

The following observations are made

- (a) Four motor vehicles, the assessed value of which was Rs.5,750,000 had remained idle without being utilized for more than 01 year.
- (b) A software had been purchased in the year 2009 by incurring an expenditure of Rs.272,160 but it had not been utilized up to now.
- (c) Although a sum of Rs.855,938 had been spent for the construction of a proposed canteen, it had been abandoned for more than 2 years.
- (d) Two boat engines (HP 200) valued at Rs.4,493,052 purchased without being properly evaluated, had remained unutilized for more than 2 years.

4.4 Commencement of Projects on Lands not Properly Acquired

Agreements had been entered into at a value of Rs.14,502,760 for the construction of a fish market and ocean observation and tsunami center in a land near Beruwala city. Even though a sum of Rs.6,532,047 had been spent thereon during the year under review, action had not been taken to acquire the land formally by the Agency.

4.5 Personnel Administration

Approved and actual cadre as at 31 December 2013 amounted to 443 and 308 respectively and the number of vacancies were 122.

4.6 Uneconomic Transactions

As two vessels built at a cost of Rs.3,329,908 to be used for research activities had been built without a proper standards, it could not be utilized and that value had been shown further under non-current assets as work in progress.

5. Accountability and Good Governance

5.1 Internal Audit

The following observations are made in respect of the establishment of internal audit division and the implementation

- (a) An adequate staff had not been attached to the internal audit functions. The Scheme of Recruitment including the audit assistants posts to carry out the audit functions at internal audit division of Head Office had not been approved.
- (b) It was unable to plan and implement the internal audit functions as required due to the shortage of staff.

5.2 Budgetary Control

Significant variances between the budget and the actual in the year under review were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Agency from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Financial Control
- (c) Human Resources Control
- (d) Assets Management
- (e) Accounting
- (f) Advances