

National Aquaculture Development Authority of Sri Lanka - 2014

The audit of financial statements of the National Aquaculture Development Authority of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial performance as at 31 December 2014 and the income statement, 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 Section 25(2) of the National Aquaculture Development Authority of Sri Lanka Act, No. 53 of 1998. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for the Financial Statements

The 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 controls 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 financial statements. Sub sections (3) and (4) of Section 13 of the Finance Act, No.38 of 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 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 Aquaculture Development Authority of Sri Lanka as at 31 December 2014 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) In terms of standards No.01, whichever method of presentation is adopted, assets expected to be recovered, no more than twelve months after the reporting date and more than twelve months after the reporting date, an entity shall disclose in the financial statements separately in order of liquidity. Action had not been taken accordingly.
- (b) Contrary to the standard No.02 receipt of investment income of Rs.750,148 which was an investment activity had been treated as income generated from operating activities.
- (c) According to the standard No.7, some items of property, plant and equipment, experience significant and volatile changes in fair value, thus necessitating annual revaluation, such frequent revaluation is unnecessary for items with only significant changes in fair value. Instead, it may be necessary to revalue the item only every 3 or 5 years. Nevertheless revaluation of assets had been carried out by the Authority only in the year 2012 after establishing the Authority in 1999. But revaluation adjustments had not been made in the financial statements up to the end of the year under review.

2.2.2 Accounting Policies

The following observations are made.

- (a) In disclosing assets in the financial statements, either revaluation method or cost method should be adopted. Nevertheless the Authority had accounted a part of land through cost method and the balance through revaluation method.
- (b) If the accounting method used for the preparation of financial statements, does not cover the manner in which a specific accounting activity is treated , the best practice should be adopted, and an appropriate accounting policy should be prepared and

adopted. The Authority had not done accordingly in respect of accounting of Bio Scientific assets.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) According to the statement of financial position, increase of trade and other receivables, as compared with the preceding year amounted to Rs.965,536. However, it had been adjusted in the change in working capital as Rs.2,023,278 of the cash flow statement and as such the cash flow from operating activities had been overstated by Rs.1,057,742.
- (b) Even though only the difference between the current assets and current liabilities relating to the year under review should be adjusted in working capital changes in the cash flow statement under operating activities, difference of Rs.9,633,616 between the retention balances on contracts shown under non-current liabilities had also been adjusted to the working capital changes by the Authority.
- (c) Audit fee for the year under review had not been estimated and brought to accounts.
- (d) Salaries and wages amounting to Rs.123,852 payable for the year under review had not been brought to account.
- (e) Differed revenue of Rs.121,414 had been understated in the financial statements due to erroneous computation.
- (f) Depreciation adjustment of Rs.3,923,420 relating to the previous year had been brought to accounts as an expenditure of the year under review instead of being adjusted retrospectively.
- (g) Unidentified work in progress valued at Rs.43,678,802 brought forward for more than 5 years in the financial statements had been adjusted to the assets of the year under review and the annual depreciation thereon had not been adjusted to the financial statements.
- (h) Lands 6.9 hectares in extent located at Ampara, Bingiriya, Mapakadawewa and Iranawila centres, acquired by the Authority had not been included in the financial statements.
- (i) Cost and the relevant depreciation of five motor cycles sold in the year under review had not been identified and brought to accounts and the total sale proceeds of Rs.133,758 had been adjusted to the financial statements as a profit.

2.3 Accounts receivable and payable

The following observations are made.

- (a) Rent income of Rs.1,612,285 receivable for more than 3 years from Pollonnaruwa Fish Breeding Centre had not been recovered even up to the end of the year under review.
- (b) The loan balance receivable from sale of finger lings to government institutions and private pond owners remained outstanding for more than 5 years amounted to Rs.1,120,699. Receivable loan balances remained outstanding from 1 year to 4 years amounted to Rs.6,188,895. The Authority had not taken corrective action to recover these loan balances.
- (c) Five account balances totalling Rs.7,283,242 remained for the period from 2 to 3 years had been shown under current liabilities without being settled.

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

The following non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations etc.

Non-compliance

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| (a) Section 9.6 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Bills to confirm the purchase of warm clothes had not been presented by any officers to whom advances of Rs.112,656 had been given to 7 officers to purchase warm clothes. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 371(2) | Even though the advances paid should be settled immediately after the purpose for which they were granted, settlement of advances amounting to Rs.2,708,846 granted to the officers of the Authority and various institutions had been delayed for the period from 2 to 9 months. |
| (ii) Financial Regulation 137 and 138 | Payments had been made for 6 paid vouchers not approved and 12 vouchers not certified valued at Rs.270,000 and Rs.321,196 respectively. |
| (c) Circular No.30(1) of the Department of Management Services No.DMS/A/08/21 dated 01 June 2009 | In placing salary steps of officers by revision of employees' salaries under new group after re-grouping, additional 9 increments had been paid to 5 officers, out of officers then in service. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year under review had resulted in a deficit of Rs.26,327,842 as compared with the deficit of Rs.9,111,373 for the preceding year. As compared with the preceding year, a deterioration of Rs.17,216,469 was indicated in the year under review, representing 189 per cent. Increase in printing expenses, purchase of Laboratory equipment, gratuity provision, doubtful debts and entertainment expenses were the main reasons for this deterioration.

3.2 Analytical Financial Review

Expenditure in 13 items of accounts of the Authority had increased from 21 to 1052 per cent, as compared with the preceding year.

4. Operating Review

4.1 Performance

According to the records of the Authority, fresh water and sea water fish production for the last 5 years is given below.

Year	Sea water fish production	Fresh water fish production
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	M.Tons	M.Tons
2010	330,240	51,390
2011	381,260	59,560
2012	417,220	68,950
2013	445,930	66,910
2014	459,300	75,750

Sea water and fresh water fish production had increased by 3 per cent and 13 per cent respectively in the year under review as compared with the previous year.

4.2 Personnel Administration

The approved cadre of the Authority as at 31 December 2014 was 551 whereas the actual cadre was 440. Accordingly, number of vacancies was 111 and action had not been taken to fill those vacancies by the Authority even by 30 June 2015.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variations between the budgeted figures and actual in 26 items ranging from 17 per cent to 1054 per cent were observed, thus indicating that the budget had not been made use of as an investment of management control.

6. Systems and Controls

Weaknesses in systems and controls were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Assets Control
- (c) Payment of Advances
- (d) Leasing of Lands