

National Institute of Fisheries and Nautical Engineering - 2014

The audit of financial statements of the National Institute of Fisheries and Nautical Engineering for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance 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 of the National Institute of Fisheries and Nautical Engineering Act, 36 of 1999. My comments and observations which I consider should be published with the Annual Report of the Institute 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 Auditing 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute'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 Institute'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 Institute of Fisheries and Nautical Engineering 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 non- compliances with Sri Lanka Public Sector Accounting Standards were observed.

- (a) Even though a statement of net assets/changes in equity should be presented along with the set of financial statements of an institute in terms of Sri Lanka Public Sector Accounting Standard 01, action had not been taken accordingly.
- (b) Even though the assets expected to be realized within 12 months after the reporting date should be classified as current assets in terms of Sri Lanka Public Sector Accounting Standard 01, staff loans amounting to Rs. 3,304,121 which were expected to be realized within 12 months had not been shown as current assets.
- (c) Even though material prior period errors should be rectified retrospectively by restating the comparative values presented for the period in which the error had occurred after having found it in terms of Sri Lanka Public Sector Accounting Standard 03, the prior period errors had been adjusted to the deficit brought forward instead of adjusting retrospectively after identifying balances of debit amounting to Rs. 7,598,116 and credit amounting to Rs. 4,357,288.
- (d) Even though an annual revaluation of property, plant and equipment with volatile changes and a revaluation of property, plant and equipment with only insignificant changes in fair value once in three or five years should be carried out in terms of Sri Lanka Public Sector Accounting Standard 07, no revaluation whatsoever had been carried out for the property, plant and equipment of the Institute.

2.2.2 Accounting Policies

Even though the assets purchased under Government grants had been depreciated annually, an accounting policy had not been identified in respect of amortization of those assets. The value of Government grants was Rs. 596,385,686 as at the end of the year under review and the value of net assets represented it amounted to Rs. 413,101,215.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs. 973,417 had been paid in the year under review for the Employees' Provident Fund and the Employees' Trust Fund payable for the years 2006 and 2007, further provisions had been made thereon.
- (b) Action had not been taken to revalue the buildings and motor vehicles costing Rs. 19,493,690 fully depreciated but still used by the Institute, to show their fair value.
- (c) Provisions had not been made in the financial statements for the audit fees payable for the years 2013 and 2014.

2.2.4 Suspense Accounts

The unidentified balance of the Suspense Account existing from the year 2011 under Current Assets in the financial statements amounted to Rs. 85,433 and action had not been taken to settle that even by the end of the year under review.

2.2.5 Lack of Evidence for Audit

Confirmation of balances relating to the total of Rs. 88,246,308 in respect of balances of trade and other receivable accounts shown in the financial statements had not been made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Course fees of Rs. 5,913,500 recoverable from the year 2001 had not been recovered and the recovery of fees had been in an uncertain position as the relevant students had completed the courses.
- (b) Hostel fees of Rs. 3,659,854 recoverable for the period from the year 2001 to the year 2014 had not been recovered.
- (c) Action had not been taken even by the end of the year under review to recover the travelling advances of Rs. 15,000 paid in the year 2012.
- (d) Refundable deposits amounting to Rs. 137,200 existing for a period from 3 to 7 years had not been settled even by the end of the year under review.
- (e) No instalment whatsoever had been recovered during the year from the balances of distress loans of Rs. 184,472 and balances of Tsunami loans of Rs. 193,920 recoverable from officers.

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

The following non-compliances were observed.

Reference to laws, rules and regulations -----	Non compliance -----
(a) Payment of Gratuity Act, No.12 of 1983	Provisions had not been made for gratuity as at the end of the year under review for 09 officers of the Institute recruited on contract and casual basis.
(b) Paragraph 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Acting appointments had been given for vacant 20 posts during a period from 1 to 5 years and sums of Rs. 676,826 in the year under review and Rs. 663,756 in the preceding years had been paid as acting allowances.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371(2)(b)	Advances totalling Rs.2,441,413 had been granted to 40 officers in the year under review exceeding the limit of Rs.20,000 at a time.
(d) Treasury Circular No. 842 of 19 December 1978	A Register of Fixed Assets had not been maintained in respect of fixed assets valued at Rs. 413,175,070.
(e) Treasury Circular No. IAI/2002/02 of 28 November 2002	A Register of Fixed Assets had not been maintained in respect of computers, accessories and software valued at Rs.31,211,625.
(f) Procurement Guidelines 2006 (i) Paragraph 4.2.1	Even though a procurement plan should be prepared so as to include the expected procurement activities for a minimum period of 3 years and to indicate the procurement activities in detail for the ensuing year, the Institute had not fulfilled this requirement.
(ii) Paragraph 5.4.12	Even though the details on Value Added Tax paid for contractors should be reported to the Commissioner General of Inland Revenue, with a copy to the Auditor General on or before the 15 of the following month, action had not been taken accordingly.

- (g) Letter No. DMS/E4/50/7/298/1(vol)1 of 13 December 2011 of the Director General of the Department of Management Services
- Fourteen officers had been recruited on contract basis and temporary basis and paid allowances of Rs. 4,284,738 in the year under review and Rs. 5,358,830 in the preceding years without taking action to fill the vacancies in the approved cadre and without a proper approval of the Department of Management Services.
 - Fifteen officers had been recruited in the years 2013 and 2014 on the basis of paying a day's pay of Rs.378 contrary to the instructions of the Letter.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review had been a deficit of Rs.71.01 million as compared with the corresponding deficit of Rs.62.28 million for the preceding year, thus indicating a deterioration of Rs.8.73 million in the financial result. Even though the total operating income of the year under review had increased by Rs.19.35 million or 14.9 per cent, the increase in the total operating expenditure by Rs. 28.1 million or 14.6 per cent had been the main reason for this deterioration. The increase in the staff expenditure by Rs. 19.04 million or 23.7 per cent, training expenditure by Rs. 9.67 million or 31.4 per cent and contractual services expenditure by Rs. 7.94 million or 41.6 per cent had mainly attributed to the increase in operating expenditure.

4. Operating Review

4.1 Performance

The following matters were observed in respect of 13 Diploma and Certificate courses conducted during the 03 preceding years.

- (a) Even though the Institute had planned on enrolling 1,155 students for Diploma and Certificate courses in the year under review and conduct 13 courses, only 667 students had been registered. Moreover, out of the 2,343 students registered during the period of 03 preceding years, 452 students had dropped out of the courses.
- (b) Seven courses had been commenced in 06 regional colleges including Mattakkuliya with the objective of presenting the students with the National Vocational Qualification (NVQ) awarded by the Tertiary and Vocational Training Commission. However, those

certificates could not be obtained since the year 2012 for 123 students due to inability of passing the examination held by the Tertiary and Vocational Training Commission who had passed the examination held by the Institute.

4.2 Management Inefficiencies

The following observations are made.

- (a) The ownership of 03 motor vehicles used by the Institute had not been transferred to the Institute even by the end of the year under review.
- (b) A sum of Rs. 846,450 had been paid as arrears of contribution for the Employees' Provident Fund for the years 2006 and 2007 and no action had been taken to abate a sum of Rs. 338,580 from the relevant employees, which should be contributed by employee.
- (c) Fifty five cancelled cheques valued at Rs. 697,854 existing from the year 2012 had not been settled even by the end of the year under review.

4.3 Operating Inefficiencies

Action had not been taken even by June 2015 to distribute approximately 50 types of equipment out of the training equipment purchased by utilizing funds of Rs. 40 million for which provisions were made from the Skills Sector Development programme for Regional Colleges in the year under review. As such, the training courses expected to be conducted in the year under review could not be commenced even in the first half of the year 2015 and action had not been taken to fix or use certain training equipment distributed to Regional Colleges in the year under review and as a result, those equipment had remained idle for over a period of 6 months.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) According to the valuation report of the Provincial Valuation Officer, the present rent for a student hostel maintained by the Institute was Rs. 60,000. However, the Institute had entered into an agreement to pay a monthly lease rental of Rs. 70,000 for a period of 02 years from 01 March 2013 to 01 March 2015. As such, a sum of Rs. 240,000 had been paid by the Institute exceeding the assessed value of the rent.
- (b) A sum of Rs. 102,146 had been spent for a dinner hosted for the members of the Board of Governors and Boards of Academic in appreciation of the sponsorship extended towards giving important judgements and decisions of the Institute.
- (c) A sum of Rs. 868,806 had been paid to publish congratulatory advertisements in newspapers for Assumption of Office and venerated as the Chairman of the Commonwealth for a former President.

4.5 Idle and Underutilized Assets

Twelve motor vehicles of the Institute had remained idle for a period from 1 to 10 years and action had not been taken to repair and use or dispose of these motor vehicles.

4.6 Uneconomic Transactions

Even though a sum of Rs. 2,787,456 had been spent in the year under review for advertising purposes, with a view to increasing the number of students for the courses conducted by the Institute, the number of registered students had decreased as compared with the year 2013.

4.7 Deficiencies in Contract Administration

4.7.1 Construction of a new three storeyed building for the Jaffna Training School

A new three storeyed building had been constructed by spending a sum of Rs. 44,768,867 under foreign aid for the Training School of the National Institute of Fisheries and Nautical Engineering (Ocean University) located in 'Gurunagar', Jaffna. The following observations are made in this connection.

- (a) A total cost estimate had not been prepared for the constructed building and it had not been approved by the relevant Authority and only a summary of the estimate not approved by the Head of the Institute had been presented to audit. Moreover, the Institute had not entered into a formal agreement with the contractor for this construction.
- (b) The cost estimate of the contractor who had submitted the second minimum quotation had been fraudulently prepared and submitted to the Procurement Committee of the Department. As such, action had been taken to reject the qualified contractor who had submitted the minimum quotation. The Procurement Committee of the Department as well had recommended in awarding the procurement to the second contractor without a proper evaluation, rejecting the qualified contractor.
- (c) A number of items that should be included in the Bills of Quantities in the preparation of contract documents had been shown under extra works.
- (d) A total of Rs. 202,401 had been overpaid fraudulently for two items in making payments for the final bill submitted by the contractor.
- (e) It was not confirmed that the consultant or a qualified technical officer representing his party had been supervising the construction works, remaining in the work site continuously.
- (f) Even though steps had been taken to lay out a concrete slab above the second floor and fix a water tank by spending a sum of Rs. 114,730, no access road had been constructed to reach this place and provisions had not been made in this respect even in the plans.
- (g) Even though the Institute had taken over the building with the work completed, on 06 February 2015, a large number of defects were observed. Those defects were being readjusted by the contractor even by June 2015 and as such, it was observed that the

building had been taken over by the Institute fraudulently. The building with its work completed was under repairs again without written permission or notification of the Head of the Institute and granting permission to the contractor for repairing the defects of the building had not been confirmed by documents.

(h) Construction of the Chairman's Office Building

The contract of constructing the Chairman's Office Building estimated at Rs. 29,319,231 had been commenced in 3 stages and the matters observed in that connection are as follows.

- (i) Stage 1 Contract had been awarded to a private contract company on 06 June 2012 for an agreement value of Rs. 9,574,517 (including VAT). Even though the constructions should be commenced on 06 June 2012 and completed on 05 September 2012 in terms of the agreement, the completion of constructions had been delayed up to 30 January 2014, for a period of 02 years and 04 months. Nevertheless, liquidated damages for that had not been recovered.
- (ii) The value of the Bill of Quantities prepared for the second and third stages of the contract amounted to Rs. 17,817,308. Even though the Institute had identified the weaknesses of the performance of the contractor who carried out constructions of Stage 1, the reasons for calling quotations for the second and third stages of the contract and awarding them to the same contractor had not been explained to audit.
- (iii) Even though a period of over 03 years had lapsed after the commencement of the constructions of the building, it had not been brought to a usable condition even by September 2015.

4.8 Commencement of Projects on Lands/Property not formally vested

The following observations are made.

- (a) A sum of Rs. 309,196,639 had been spent by the end of the year under review for the development of property and new constructions in 08 colleges located regionally including the Head Office of the Institute and the college situated in Mattakkuliya. However, those properties had not belonged to the Institute and action had not been taken to transfer the ownership of them even by the end of the year under review.
- (b) Even though expenses of Rs. 11,750,593 had been incurred up to 31 December of the year under review for improving 07 vessels used by the Institute, the ownership of 06 vessels had not been transferred to the Institute even by the end of the year under review.

4.9 Resources of the Institute given to other Government Institutions

Five officers of the staff of the Institute had been released to external institutions contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and a sum of Rs. 796,250 in the year under review and a sum of Rs. 1,951,281 in the preceding years had been paid to three of them as salaries.

4.10 Personnel Administration

(a) The approved cadre of the Institute as at the end of the year under review had been 286 and the actual cadre had been 187. As such 99 vacancies existed.

The following observations are made.

(i) All 04 posts of Director which are top management posts of the Institute had been vacant and the day to day activities of the Institute had been covered by officers of low categories.

(ii) Seventeen posts of lecturer including senior lecturer and 36 posts in the academic staff including 19 posts of demonstrator and college instructor had been vacant. Even though newspaper advertisements had been published by spending a sum of Rs. 166,566 in August 2014 from the funds of the Skills Sector Development Programme for recruitment to the posts of college lecturer and college instructor, recruitments had not been made for those posts even by July 2015. As such, training courses in colleges could not be commenced. The vice chancellor had informed the audit that “08 qualified employees of the Institute were recruited as college instructors”

(b) Sums of Rs. 1,280,000 and Rs. 610,000 had been paid in the year under review and the preceding year by recruiting 03 officers on assignment basis for the permanent posts of the Institute for non- emergency services contrary to the provisions of the Public Finance Circular No. 449 of 21 February 2011. Moreover, sums of Rs. 50,000 and Rs. 40,000 had been paid monthly to two officers contrary to provisions of Circulars and without the approval of the Department of Public Finance.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented before 60 days of completion of the financial year in terms of provisions of Circular No. 21 of the Director General of Public Finance of 24 May 2002, the financial statements had been presented on 21 August 2015, with a delay of 174 days.

5.2 Action Plan

Even though all divisions of the Institute should be considered in preparing the Annual Action Plan, 3 degree courses, other expected income including income from 13 Diploma and Certificate courses had not been included in the Action Plan and 10 courses included in the Action Plan for which provisions of Rs. 2,900,000 had been made, had not been commenced in the year under review.

5.3 Budgetary Control

The following observations are made.

- (a) A sum of Rs. 15,522,165 had been spent for two construction items for which provisions had not been made in the budget in the year under review.
- (b) The actual expenditure had ranged from 11 per cent to 503 per cent exceeding the budgeted expenditure as at 31 December 2014 thus indicating that the budget had not been made use of as an effective instrument of control.

6. Systems and Controls

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

- (a) Procurement
- (b) Budgetary Control
- (c) Assets Management
- (d) Personnel Administration