

## **Project Design Advance for Northern Province Sustainable Fisheries Development Project - 2019**

---

The audit of financial statements of the Project Design Advance for Northern Province Sustainable Fisheries Development Project for the year ended 31 December 2019 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 in the Article IV Section 4.04 of the Loan Agreements No. PDA 6011-SRI dated 17 March 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreement of the Project the Ministry of Fisheries is the Executing Agency and Project Implementing and Monitoring Unit is the Implementing Agency of the Project. The activities of the Project are implemented under a component namely designing of fisheries harbours, anchorages and landing sites. The objectives of the Project are to carry out detailed designing of fisheries harbours, anchorages and landing sites for sustainable utilization of infrastructure for fishing industry. As per the Loan Agreement, the estimated total cost of the Project was US\$ 1.59 million equivalent to Rs.242.43 million and out of that US\$ 1.3 million equivalent to Rs.198.13 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 0.29 million equivalent to Rs. 44.217 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 20 March 2017 and scheduled to be completed by 01 June 2018 However, the date of completion of the activities of the Project had been extended up to 31 May 2020.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

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.

### **1.5 Responsibilities of 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 Generally Accepted Accounting Principles 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 Project 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 Project or to cease operations, or has no realistic alternative but to do so.

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

The Project 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 by the Project.

## **1.6 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 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**2. Comments on Financial Statements**  
**2.1 Accounting Deficiencies**

Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a) Amount of depreciation for office equipment purchased at a cost of Rs. 741,582 during the year under review had not been computed and brought to the Financial Statement.	Understated in the accounts	The depreciation of office equipment for the year under review has not been accounted in the financial statement. However, depreciation policy will be disclosed in next year's financial statements.	Action should be taken to compute depreciation and disclose in the Financial Statements.
(b) Difference of Rs.1,169,422 had been observed between the expenditure shown in the financial statements and record maintained by the General Treasury.	Un reconciled balance in the accounts	Statements giving the reconciled balances of monthly treasury expenses versus general ledger expenses for the year 2018 (Rs.67.491 mn) and for the year 2019. (Rs.31.32 mn)	Action should be taken to reconcile the ledger balance with the Treasury records periodically.

**2.2 Non- compliance with Rules and Regulations**

Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a) Eventhough value of the physical contingencies of the consultancy service should be Rs. 4,643,280 at 7.5 per cent of the contract value as per the Project Administration Manual, the Project had awarded the consultancy contract with contingencies of Rs. 6,500,000.	Although the ultimate objectives of the Project may not be achieved at the end of the period of the Project, Project cost will be exceeded.	The form of financial cost for consultancy has had Rs.6.5m included for contingencies. When calculated, Rs.6.5m is less than 7.5% of the cost estimate given by the PIMU. Therefore the percentage of the contingency provision i.e.Rs.6,500,000.00 from the total cost estimate is only 3.75%.	When awarding the bid, Physical contingencies of the consultancy service should be limited as per the Project Agreement.

- (b) Eventhough the administration activities of the Project required to be carried out by the Project Implementation and Monitoring Unit established in the Line Ministry as per the paragraph 12 of the Project Administration Manual, Project had recruited a Project Director and another additional 04 positions separately in October 2018 and remunerations of Rs.10,503,600 had been paid up to 31 December 2019.
- Although the ultimate objectives of the Project may not be achieved at the end of the period of the Project, Project cost will be exceeded.
- The approval from Cabinet Decision AMP/18/1651/825/01 4 dated 22nd Aug 2018 has been granted for the implementation of this project by the project Management Unit to be established under the Ministry of Fisheries & Aquatic Resources and Rural Economy at a cost of USD 201.22m.
- Administration activities of the Project should be done through the Project Implementing and Monitoring Unit of the Ministry without recruiting additional staff.

### 3. Physical Performance

#### 3.1 Physical Progress of the activities of the Project

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
-----	-----	-----	-----
(a) Although the Project had commenced its activities on 20 March 2017 and scheduled to be completed by 01 June 2018, the date of completion of the activities of the Project had been extended by the Lending Agency up to 31 May 2020 without being obtained the approval from the Cabinet of Ministers.	The ultimate objectives of the Project may not be achieved at the end of the period of the Project.	Project activities had to be extended several times due to reasons which were beyond our control. Objections came from various parties against the implementation of Pesalai and Point Pedro fishery harbours mainly due to the interests of the NGO's and this necessitated.	The reason for the changes should be investigated and reported correctly and the approval from the Cabinet of Ministers should be obtained.
(b) The activities of the Project consisted with designing of the construction of fisheries harbors at Pesalai and Point Pedro. However, designing of fisheries harbor at Pesalai had been withdrawn in 2019 after spending of Rs.18.6 million up to 31 December 2019 for designing works, due to change of the scope of the Project. Further, it was decided to change the designs of the fisheries	The ultimate objectives of the Project may not be achieved at the end of the period of the Project.	Not responded.	The reason for the changes should be investigated further to determine the reasonability of the redesign.

harbor at Point Pedro. However, the records on physical progress of the activities implemented by the Project for the year under review had not been submitted to the audit.

### 3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>-----</p> <p>According to the consultancy contract agreement with Harbor Design Engineer, 75 days and 30 days had to be allocated for field works and Home/Office works respectively. However, only 38.73 days for field works and 65.98 days for Home/Office works had been spent for the period from July 2017 to November 2019. As a result, the Harbor Design Engineer is unable to provide adequate time to review the harbor and anchorages' planning works carried out by the detailed design team and ensure design works are met with all the standards and parameters specified in the agreement, technical specifications and best international practices.</p>	<p>-----</p> <p>The ultimate objectives of the Project may not be achieved at the end of the period of the Project.</p>	<p>-----</p> <p>According to the agreement with the International Harbour Design Engineer, the payment per day for field visits and home/office work is USD 785.</p>	<p>-----</p> <p>The harbor design engineer should be provided adequate time to review the harbor and anchorages' planning works carried out by the detailed design team.</p>