

## **Project Design Advance for Northern Province Sustainable Fisheries Development Project - 2020**

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The audit of financial statements of the Project Design Advance for Northern Province Sustainable Fisheries Development Project for the year ended 31 December 2020 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 Article IV Section 4.04 of the Loan agreement 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**

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According to the Loan Agreement, the Ministry of Fisheries is the Executing Agency and Project Implementing and Monitoring Unit is the Implementing Agency of the Project. 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. 267.79 million and out of that US\$ 1.3 million equivalent to Rs. 218.95 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 0.29 million equivalent to Rs. 48.84 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**

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In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for 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.

### **1.5 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 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.

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

## **1.6 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 scepticism 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

	Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
		Rs. million		
(a)	The vouchers relating to the total payments had not been submitted for audit up to the date of 30 September 2021.	6.42	Not responded	Evidence relating to the payments should be submitted to the Audit.
(b)	There was a difference of expenditure incurred on foreign loan during the year under review between the reports maintained by the Line Ministry and the project. The reasons for the difference had not been submit for audit.	24.35	Not responded	Actions should be taken to reconciled the ledger balances with the treasury records.
(c)	Due to change in the scope of the project, the uneconomic expenditure incurred on consultancy services for the construction of the Pesalai fisheries Harbour up to 31 December 2019 had been shown in the financial statements under non-current assets.	18.6	Not responded	The reason for the changes should be investigated further to determine the reasonability of the redesign.

### 2.2 Non- Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The External Resources Department's decision on 10 January 2020	Despite the External Resources Department's decision on 16 January 2020 to pause all the project activities until the community protests over the Point Pedro fishing harbor are resolved, there was a controversial in deciding to call bids again for procuring of contractor for construction of above harbor on 6 February 2020 as well as the payment of Rs.418,358 made to the Procurement Committee in the year under review.	Not responded	Actions should be done as per External Resources Department's decision.

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| (b) | Paragraph 16 of the Administrative Manual of the Project Agreement | The scope of the internal audit of the Ministry should include to the audit of the Project but no internal audit was done in the project for the year under review.  | Not responded | Scope of the Internal audit of the Ministry should be included the audit of the Project   |
| (c) | Paragraph 66 of the Administrative Manual of the Project Agreement | According to paragraph 66 of the Administrative Manual of the Project Agreement, the Ministry is required to submit a report on the completion of the Project to the Asian Development Bank within six months of its physical completion, but the audit had not been informed that such a report was submitted by 30 September 2021. | Not responded | The Ministry should submit a report on the completion of the Project to the Asian Development Bank within six months of its physical completion |

### 3. Physical Performance

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#### 3.1 Extraneous Activities/Payments made out of the Project objectives

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No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	A sum of Rs. 220 million spent on preparation of the plans of the project had become a non-economic transaction, due to improper identification of public protests at the proposed two construction sites.	Not responded	Public protests should also be considered when taking a decision to construct fisheries harbors at the above two locations before the commencement of the project.
(b)	A list of items including the date and value of the office equipment purchased at a cost of Rs. 741,582 in 2019 for the project had not been submitted with the financial statements. Further, after completing the project, though it was planned to hand over the office equipment to the Ministry of Fisheries, it was not handed over to the Ministry by 05 October 2021.	Not responded	A list of items including the date and value of the office equipment purchased for the project should be submitted with the financial statements. After completing the project, items should be handed to the Ministry of Fisheries.

**3.2 Matters in Contentious Nature**

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The project had commenced its operations on 20 March 2017 and was scheduled to be completed by 01 June 2018, but the Lending Agency had extended the completion date of the Project to 31 May 2020 without obtaining Cabinet approval.	Not responded	The reason for the changes should be investigated and reported correctly and then 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	Not responded	The reason for the changes should be investigated further to determine the reasonability of the redesign.

