

National Aquatic Resources Research and Development Agency – 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

The policy on provision for bad and doubtful debts of the Agency had not been disclosed.

1.2.2 Accounting Deficiencies

The following matters were observed.

- (a) The opening balance of receivable fixed deposit interest brought forward and the interest income receivable on investment in fixed deposit amounting to Rs.142,600 and Rs.290,612 respectively had been understated in the financial statements.
- (b) The value of investment in fixed deposits amounting to Rs.279,443 had been understated in the financial statements.

- (c) The expenditure incurred on the bounding wall and the park identified as an idle assets by the Agency and abandoned in the Kadolkele Regional Research Centre in Negombo amounting to Rs.470,234 had been shown under work in progress.
- (d) In the deformation of computers and equipment annually received as foreign grants, the differed revenue had been overstated by Rs.251,296 and understated by Rs.759,169 in the financial statements.
- (e) Expenditure incurred on fish stall being constructed at Beruwala town amounting to Rs.4,272,492 had been brought to accounts under advances instead of being accounted under work in progress.
- (f) The insurance premium of Rs.4,730,403 paid for the insurance of the research vessel for the year under review had been capitalized as capital expenditure.

1.2.3 Unreconciled Control Accounts

The following differences were observed between the financial statements and schedules.

Particulars	Balance as per financial statements	Balance as per schedule	Difference
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	Rs.	Rs.	Rs.
Foreign Grants	220,528,683	54,576,186	165,952,497
Local Grants	24,538,781	6,967,343	17,571,438

1.2.4 Accounts Receivable and Payable

The following matters were observed.

- (a) The value of debtor balances as at the end of the year under review amounted to Rs.34,652,667 and out of which balances totalling Rs.4,816,690 had remained for more than 2 years as per the age analysis. Action had not been taken to settle those balances.

- (b) The value of creditors balances as at the end of the year under review amounted to Rs.28,841,961 and out of which a sum of Rs.1,887,342 had remained for over 4 years as per the age analysis. These balances had not been settled and continued to be brought forward.

1.2.5 Non – compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances observed in audit are given below.

Reference to Laws, Rules etc. -----	Non – compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 751	The research vessel and related accessories valued at Rs.307,824,862 purchased during the year under review had not been recorded in the stock books.
(b) Treasury Circulars -----	
(i) Circular No.842 of 19 December 1978	A proper register of fixed assets in respect of fixed assets valued at Rs.1,376,638,289 had not been maintained.
(ii) Circular No.IA1/2002/02 of 28 November 2002	An updated register for computers and accessories value at Rs.51,595,553 had not been maintained.
(c) Management Services Circular No. 33 of 06 April 2007	Allowances totalling Rs.761,047 had been obtained by the Project Director, Project Supervisor and the Financial Controller by establishing a project management unit treated a supply of service by the Agency as a project.
(d) Paragraph 9.4 of the Public Enterprises Circular No. 12 of 02 June 2003	Despite it was informed that staff should not be released to the other institutions or to the line Ministry without Board approval, three

officers in the Agency had been released to the Deputy Ministers office of the Fisheries and Aquatic Resources Development Ministry and a sum of Rs.1,323,200 had been paid as salaries during the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the operation of the Agency for the year ended 31 December 2012 had resulted in a deficit of Rs.93,909,306 as compared with the deficit of Rs.41,313,223 for the preceding year, thus indicating a further deterioration of financial results by Rs.52,596,083. Increase in maintenance expenditure and other operating expenditure by 87 per cent and 148 per cent respectively had been the reason for the deterioration of financial results as compared with the preceding year.

2.2 Working Capital Management

Although the current ratio of an organization under normal condition should be 2:1, this ratio of the Agency had been 0.0 : 0.74. Accordingly, the agency had faced a drastic working capital crisis.

3. Operating Review

3.1 Performance

Grants received for research and development expenditure and the expenditure incurred thereon during the year under review and the previous 3 years are given below.

		Year			
		2012	2011	2010	2009
		-----	-----	-----	-----
Total Grants Received	(Rs.Mn)	274	311	218	246
Research and Development expenditure	(Rs.Mn)	54	46	37	36

The following observations are made in this regard.

- (i) Total grant received had decreased by Rs.37 million in the year 2012 as compared with the year 2011.
- (ii) The increase of total research and development expenditure incurred during the year 2012 amounted to Rs.8 million as compared with the year 2011.
- (iii) The expenditure incurred on research and development represented 20 per cent of the total grants.

3.2 Management Inefficiencies

The following matters were observed.

- (a) The vessel manufactured by incurring an expenditure of Rs.13,192,703 to be able to utilize research activities of the coastal areas had not been fully utilized for research activities up to now. However, a sum of Rs.1,106,569 had been spent during the year under review for the payment of salaries, security and overtime to employees who served in the vessel.
- (b) Action had not been taken to ascertain the discount benefit of Rs.124,336 by settling water bills on due dates.

3.3 Idle and Underutilized Assets

The following matters were observed.

- (a) A sum of Rs.120,000 had been paid for the purchase of “Thanduri Furnace” but it had been remained idle for more than 2 years.
- (b) A sum of Rs.272,160 had been incurred for the purchase of a software but it had been idle for more than 4 years.
- (c) Although a sum of Rs.855,938 had been spent for construction of a proposed canteen, it had been abandoned for more than 4 years.
- (d) Two boat engines valued at Rs.4,493,052 had remained idle for more than 2 years without being utilized.

3.4 Personnel Administration

The Cadre position of the agency as at 31 December 2012 is given below.

Staff Category	Approved Cadre	Actual Cadre	No . of Vacancies
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Executive	165	79	86
Non-executive	258	211	47
Total	423	290	133
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As compared with the approved cadre, the vacant positions had increased over 31 per cent. The Chairman’s reply was “Recruitments could not be done as no provision is made due to non-approval of the recruitment and promotion scheme”.

4. Accountability and Good Governance

4.1 Internal Audit

A sufficient internal audit staff had not been recruited to perform the duties and responsibilities of the internal audit. Recruitment procedure had not been approved in a manner to include the posts of audit assistants to carry out the audit work of the Head office.

4.2 Procurement Plan

A procurement plan had not been prepared for the year under review.

5. Systems and Controls

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

- (a) Amounts Receivable and Payable
- (b) Human Resource
- (c) Investments
- (d) Fixed Assets
- (e) Computer Accessories
- (f) Procurements
- (g) Stock