Ceylon Fisheries Corporation - 2014

The audit of financial statements of the Ceylon Fisheries Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive 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 29 of State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation 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 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 the 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 Ceylon Fisheries Corporation as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Corporation

The following observations are made.

(a) It was observed in audit that the continuous loss sustained by the Corporation had adversely affected its net assets and as such going concern of the Corporation without the Treasury or Government other financial assistance was uncertain.

(b) In order to mitigate the severe financial hardship prevailed in the Corporation, it had been decided to pay salaries of the excess staff of the Corporation by the Government for a period of six months according to a Cabinet decision as a relief. Further, the Cabinet of Ministers had decided that the Board of Directors of the Corporation should formulate a voluntary retirement scheme in consultation with the General Treasury and forward to the Cabinet of Ministers for consideration through the Minister in charge of the subject.

2.2.2 Sri Lanka Accounting Standards

The following instances of non compliance with Sri Lanka Accounting Standards were observed during the course of audit.

(a) Sri Lanka Accounting Standard 07

(i) Instead of being included the expenditure amounting to Rs.4,705,413 incurred in cash for the installation of fish stalls during the year under review in the cash flow statement, the net value of Rs.3,164,389 after being adjusted the amortization relating to the current year had been shown as a cash outflow under investment activities.

(ii) A sum of Rs. 24,914,759 to be rectified as differed income had been stated as depreciations on amortization.

(iii) Instead of being adjusted the expenditure incurred in cash for the capital work-in-progress within the year under the investment activities in the cash flow statement, the difference between the capital work-in-progress of the preceding year and the current year amounting to Rs.2,369,269 had been adjusted in the cash flow statement.

(b) Sri Lanka Accounting Standard 18

The accounting policy for the recognition of revenue had not been disclosed.

(c) Sri Lanka Accounting Standard 20

The accounting policy adopted for accounting Government Grants had not been disclosed in the financial statements.

(d) Sri Lanka Accounting Standard 37

Particulars on 07 cases instituted against the Corporation by external parties had not been disclosed.

(e) Sri Lanka Accounting Standard 39

The accounting system used for the recognition and measurement of financial assets and liabilities had not been disclosed.

2.2.3 Accounting Policies

The basis for the absorption of overhead cost had not been consistently adopted with the preceding year in various marketing divisions of the Corporation. Although overhead cost had been absorbed to the marketing divisions based on the turnover of the preceding year, the overhead cost had been absorbed at the rate of 3 per cent of the turnover only to the Fish Marketing Division. The Corporation had not disclosed the system used for the absorption of overhead cost among the divisions in the financial statements.

2:2:4 Accounting Deficiencies

According to the financial statements, the bank balance as at the end of the year under review amounted to Rs.415,336, whereas it had been erroneously stated as Rs.825,336 in the preparation of bank reconciliation statements. It was subsequently revealed that the direct receipt amounting to Rs.410,000 from the debtors had not been brought to account.

2.2.5. Unexplained Differences

The following observations are made.

(a) In comparing fish sales debtors and cold room debtors balances as per the financial statements with the balances shown in the relevant schedules, differences of Rs.34,121,463 and Rs.718,755 respectively were observed.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The total trade debtors balance as at the end of the year under review was Rs.294,107,499 and it had increased by 17 per cent as compared with the preceding year. The debtor balances older than 05 years included in these debtor balances amounted to Rs.23,656,885. The huge increase in debtor balances and the long existence of the debtor balances revealed the weaknesses in the control and recovery of debts.

(b) According to the age analysis of creditors, the creditors balance from 1 year to 3 years amounted to Rs.16,885,327 and the creditors balance over 3 years amounted to Rs.28,052,788. Nevertheless, action had not been taken to settle those balances even by the end of the year under review.

(c) The outstanding receivable rental income by the end of the year under review amounted to Rs.105,668,736 of which the loan balance older than one year amounted to Rs.6,502,980.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of following non- compliances with Laws, Rules and Regulations were observed.

Reference to Laws, Rules, Regulations,etc.	Non compliances
(a) Financial Regulations of Democratic Socialist Republic of Sri Lanka. Financial Regulation 177	According to the referred regulation, the public money collected should be remitted daily, whereas revenue amounting to Rs.170,870 had been banked with a delay ranging from 2 days to 10 days.
(b) Paragraph 8.3.9 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Contrary to the instructions stipulated in the circular, expenditure for fuel amounting to Rs.316,000 had been incurred on 03 vehicles not owned by the Corporation.
(c) Public Enterprises Circular No.1/2013 dated 15 January 2013.	Outside the approved cadre and contrary to the circular instructions, an officer older than 71 years of age had been appointed to a post of Senior Consultant on a monthly allowance of Rs.50,000 with effect from 15 March 2013. A sum of Rs.1,150,000 had been paid as allowances from 15 March 2013 to 31 December 2014 and a sum totalling

Rs.2,338,626 had been paid as fuel and transport allowances from March 2013 to December 2014.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a deficit of Rs.119,187,790 as compared with the corresponding deficit of Rs.54,446,218 for the preceding year, thus indicating a deterioration of Rs.64,741,572 in the financial results for the year under review as compared with the preceding year. Although sales income had increased by Rs.853,293,687 and Treasury Grants of Rs.47,395,965 had been received, increase in cost of sales by Rs.947,392,426 and decrease in the non operational income by Rs.16,729,938 had been the main reasons for the above deterioration.

3.2 Analytical Financial Review

The following observations are made.

(a) The net loss sustained within the past 6 years amounted to Rs.384 million and the net loss as at the end of the year was Rs.119 million. The net loss had increased by 120 per cent as compared with the preceding year.

(b) It was observed that since the current ratio and the quick assets ratio of the Corporation were 0.76:1 and 0.64:1 respectively, and as a result the Corporation had faced an acute working capital crisis.

(c) The gross profit margin and the net profit margin of the fish, ice, cold store and canned fish divisions were as follows.

	Gross profit margin		Net profit margin	
Item	**2014**	**2013**	**2014**	**2013**
	Per cent	**Per cent**	**Per cent**	**Per cent**
Fish income	22.2	45	2.1	(1.3)
Ice income	130	294	(84.6)	(12.6)
Cold Store income	2,733	2,882	(22.5)	(34.7)
Caned fish income	4.5	1.6	45.2	(3.5)

The following observations are made.

(i) Increase in cost of sales had mainly attributed to the decrease in the gross profit margin of the fish income and cold store income.

(ii) Cold stores were inoperative thus resulting the decrease in the ice production and it had mainly given rise to the decrease in the gross profit margin and net profit margin of the ice income.

(d) As compared with the preceding year, the following inordinate increases and decreases in the expenses of the marketing divisions of the Corporation were observed during the year under review.

(i) Although sales expenditure and financial and other expenditures of the Canned Fish Division had decreased by 91.4 per cent, 99.6 per cent and 99.78 per cent respectively, administrative expenditure had increased by 174.56 per cent and it had given rise to the increase in the cost per employee.

(ii) Financial expenditure of the Cold Store Division had increased by 73 per cent and increase in the loan interest had affected it.

4. Operating Review

4.1 Performance

Sale of fish and ice had declined within the period of past three years and as compared with the preceding year, sale of fish and ice had declined by 677 MT and 16,384 MT respectively. The decrease in the ice sale income was Rs.71 million.

4.2 Management Inefficiencies

The following observations are made.

(a) The assets to be disposed of totalling Rs.5,202,867 recognized in the year 2012 had been continuously shown in the financial statements without being disposed of.

(b) Although two multiday fishing boats of the Corporation valued at Rs. 66,715,516 had been leased out to a private institution for a period of 2 years on a monthly lease rent of Rs.200,000 with effect from 20 January 2010, the relevant agreement had been signed on 30 July 2010, that is, after a delay of 06 months. Legal action taken for the recovery of the lease rent in arrears amounting to Rs.6,000,000 for the 02 boats from January 2011 to November 2013 had been at snail pace.

One out of the above two boats had been leased out again without calling for competitive bids during the year under review and the security deposit relating to it had also not been obtained. Further, the multiday fishing boat valued at Rs.33,324,776 had been vested in the lessee prior to signing the agreement and action had not been taken to recover the lease rent of the boat amounting to Rs.1,125,000 relating to the period from January to September 2014 properly.

(c) The Corporation had been occupying 08 lands containing 09 acres and 15.59 perches in extent over a period of 31 years. Nevertheless, the Management had not taken action to legally take over them from the relevant parties.

(d) In accordance with the Letter No.NPC/1/2/6 dated 06 March 2013 of the Programme Consultant of the Ministry of Fisheries and Aquatic Resources Development addressed to the Chairman of the Fisheries Corporation, it had been notified to take over the Trincomalee fish stall costing Rs. 15 million with effect from 09 March 2013. Nevertheless, action had not been taken to take over it even by January 2016.

4.3 Operating Inefficiencies

The following observations are made.

(a) The Maldives Fish Project commenced in the year 2013 had sustained losses during the year 2014 and as such the loss suffered by the end of year had been Rs.3,638,311. The Chairman had informed the audit that the decline in the market price resulting from the decrease in the duty on imports by the Government had attributed to this situation and the project had been discontinued on a decision of the Board of Directors.

(b) Outside the expected prices of the Tuna Project commenced on 17 December 2014 under the Treasury provisions for the purchase of fish harvest of the fishermen until the ban imposed by the European Union is lifted, purchase and sale of fish stocks had been done on the approval of the Deputy Chairman and as such a loss of Rs.47,359,695 had been suffered by the end of the year under review.

(c) Twenty eight out of 32 executives engaging in fish sales sustained losses and the total loss suffered by the end of the year under review amounted to Rs.180,538,573.

4.4 Apparent Irregularities

The following observations are made.

(a) In the payment of rent for the buildings obtained on rent from outside parties for fish stalls, without making payments directly to the renter, cash cheques had been issued to a Sales Manager recruited on contract basis. He had fraudulently obtained Rs.2,260,000 relating to the years 2013 and 2014 by producing forged bills to the Corporation without being paid rents.

(b) As a result of a fraud committed in the year 2011, the cardboard shortage of Rs.2,558,029 had been stated under trade and other receivables, whereas the Management had not taken action either to identify the parties responsible and conduct disciplinary inquiry in terms of Financial Regulations 103 and 104 or to recover that amount.

(c) According to the reports of the Board of Survey as at the end of the year under review, a shortage of fish trade stock of 915 MT was observed in 05 divisions of the Corporation, whereas Management's attention had not been focused on that shortage.

4.5 Idle and Underutilized Assets

A balance of 7 bank accounts belonging to the Corporation totalling Rs.121,979 remained dormant as at 31 December of the year under review.

4.6 Identified Losses

The following observations are made.

(a) Since lease rent had not been paid on due date, a sum of Rs.67,771 had been paid as fines during the year under review.

(b) The Corporation had paid a sum of Rs.15,286,528 as interest for the bank overdrafts during the year under review, of which a sum of Rs.5,403,488 had been the overdraft interests for the Operations Division alone.

4.7 Personnel Administration

The approved cadre of the Corporation stood at 745 and the actual cade stood at 1,228. Accordingly there was an excess cadre of 483. As employees had been excessively recruited without being precisely identified the requirement, an additional cost had to be borne.

5. Accountability and Good Governance

5.1 Corporate Plan

The Corporation had prepared a Corporate Plan for the period from the year 2014 to 2016. In terms of Section 5.1.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the prior approval of the Minister of Finance should be obtained for the Corporate Plan prepared including the citation of reasonable grounds for the losses, manner in which those losses are balanced and the measures adopted for the prevention of recurrence of such losses, whereas action had not been taken in accordance with those provisions although the Corporation was sustaining losses for over a number of years. Action had not been taken to review the Corporate Plan timely and as such it had not been able to achieve the targets stipulated in the Corporate Plan.

5.2 Budgetary Control

Significant variances ranging from 33 per cent to 840 per cent were observed between the budgeted and actual figures , thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Tabling Annual Reports

Annual Reports for the years 2011 and 2012 had not been tabled in Parliament.

5.4 Unresolved Audit Paragraphs

The following directives made by the Committee on Public Enterprises of Parliament had not been executed.

(a) Payment of economic service charges and taxes totalling Rs.83,384,863 payable to the Department of Inland Revenue.

(b) Repossession of the land in which the investment of the joint venture established was made with a private company.

(c) Action had not been taken to recover the outstanding debtors balances. Further the balances amounting to Rs.299.5 million had increased up to Rs.399.7 million by the end of the year.

6. Systems and Controls

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

(a) Purchase and Sale of Fish
(b) Payments Control
(c) Collection of Revenue
(d) Accounting
(e) Control of Fixed Assets
(f) Personnel Administration
(g) Budgetary Control
(h) Creditors and Debtors Control.