

Ceylon Fishery Harbours Corporation - 2011

1. Financial Statements

1.1 Adverse Opinion

In my opinion, because of the matters described in paragraph 1.2 of this report, the financial statements do not give a true and fair view of the financial position of the Ceylon Fishery Harbours Corporation as at 31 December 2011 and its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

- (i) Contingencies in respect of court cases filed against the Corporation which should have been disclosed under accounting policies as a note in the financial statements in terms of Sri Lanka Accounting Standard 03 had not been disclosed as per Sri Lanka Accounting Standard 12.

- (ii) Even though the assets should not be set off against liabilities as per the Sri Lanka Financial Reporting Framework, the credit balance of accounts receivable from the Ministry and other contractors totalling Rs.1,072,579 had been deducted from the current assets and shown.

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) Provisions for doubtful debts in respect of debtor balances totalling Rs.199,746,090 had not been made.

- (b) In accounting the depreciation of assets the following deficiencies were observed.
 - (i) Assets should be depreciated from the date of purchase but the assets valued at Rs.107,391,542 purchased during the year under review had not been depreciated.

 - (ii) Fuel distribution units valued at Rs.8,405,735 and a motor trolley had not been depreciated and the rate of depreciation had also not been disclosed in the financial statements.

 - (iii) The value of depreciation for fixed assets relating to the year under review had been understated by Rs.5,713,042.

 - (iv) The value of provision for depreciation in the year under review amounting to Rs.588,241,847 had also been deducted from work in progress and shown in the financial statements.

- (c) The value of capital works in progress amounting to Rs.18,704,293 which should be disclosed as a separate item under non-current assets had been transferred to the fixed assets account, resulting in overstating the fixed assets value by that amount in the financial statements.

- (d) Leasing interest for the year under review had been understated by Rs.647,077.

1.2.3 Unreconciled Control Accounts

The following observations are made.

- (a) It was observed that there were differences between the financial statements and the schedules in respect of the following items.

| Item | Balance as per Financial Statements | Balance as per Schedules | Difference |
|---------------------------|---|-----------------------------|------------|
| ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. |
| Debtors | 24,826,945 | 23,515,143 | 1,311,802 |
| Travelling Advances | 176,168 | 175,143 | 1,025 |
| Special Advances | 10,654,829 | 9,582,626 | 1,072,203 |
| Pre-payments | 45,527,950 | 28,342,466 | 17,185,484 |
| Head office Account | 28,533 | (9,397) | 37,930 |
| Cash in Hand | | | |
| - Galle | 213,526 | 9,622 | 203,904 |
| - Beruwala | 3,642,320 | 81,719 | 3,560,601 |
| - Hambanthota | 304,878 | 307,878 | 3,000 |
| Fixed Assets | 4,635,032,102 | 4,607,922,074 | 27,110,028 |
| Creditors in Mirissa Fort | Nil | 392,943 | 392,943 |
| Watching Income | 5,179,860 | 5,176,215 | 3,645 |

The credit balances of debtors in the Trial Balance presented totalled Rs.47,980,486 as follows,

| Particulars | Value of Credit Balance |
|-------------|----------------------------|
| ----- | ----- |
| | Rs. |

| | |
|--|------------|
| Purana wella | |
| - Fuel Debtors | 514,638 |
| - Codbay | 1,417,824 |
| Receivable from Asian Development Bank | 44,707,321 |
| Petty cash imprest - Modara | 634 |
| - Workshop | 385 |
| Cash in hand at Mirissa Harbour | 1,339,684 |
| | ----- |
| Total | 47,980,486 |
| | ===== |

1.2.4 Accounts Receivable

The following observations are made.

- (a) Debtor balance and staff debtor balances amounted to Rs.199,746,090 and Rs.17,343,290 respectively and the recoverability of these loan balances had shown a slackness.
- (b) By leasing the Mechanical Workshop at Mirissa Fishery Harbour, the lease rent recoverable from 1999 to August 2006 amounted to Rs.332,382 and an effective course of action had not been taken to recover those balances.

1.2.5 Lack of Evidence for Audit

Evidence indicated against the following items of accounts totalling Rs.4,657,710,369 included in the financial statements presented for the year under review was not made available for audit.

| Item | Value | Evidence not made available |
|--------------------------------|---------------|-----------------------------|
| ----- | ----- | ----- |
| | Rs. | |
| Fixed Assets | 4,635,032,102 | Register of Fixed Assets |
| Salary Advances | 247,795 | Detailed Schedules |
| Money Exchange Control Account | 974,317 | Detailed Schedules |

| | | |
|-------------------------|---------------|--|
| Kudawella Total Account | 6,250,706 | Schedules and Bank Reconciliation Statements |
| Finance Charge | 10,349,232 | Detailed Schedules |
| Other Deposits | 4,856,217 | Detailed Schedules |
| Total | 4,657,710,369 | |

1.2.6 Non – compliance with Laws, Rules, Regulations and Management decisions

Instances of non-compliance with the following Laws, rules, regulations and Management decisions were observed.

| Reference to laws , rules, regulations and management decisions | Non – compliance |
|---|--|
| (a) Financial Regulations 371 | Advances totalling Rs.2,342,960 given to 21 officers during the year under review had not been recovered. |
| (b) Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | Employees of the Corporation had been released to other institutions without the approval of the Cabinet of Ministers and a sum of Rs.493,992 had been paid as their salaries. |

1.2.7 Transactions not Supported by Adequate Authority

The loss brought forward up to the year 2009 amounting to Rs.389,613,495 and a sum of Rs.81,769,569 stated as write off balances had been transferred to the fixed assets revaluation reserve without Board approval.

2. Financial Review

2.1 Financial Results

 According to the financial statements presented, the operation of the Corporation for the year ended 31 December 2011 had resulted in a deficit of Rs.190,648,226 as compared with the deficit of Rs.164,314,807 for the preceding year. Accordingly, the financial results of the year under review had shown a deterioration of Rs.26,333,419 or 16 per cent. Increase in cost of personnel, establishment and administration expenses and finance charges had been the main reason for this position.

2.2 Legal Matters Initiated by the Corporation

A contract had been awarded to a private institution for the removal of 100,000 cubes of sea sand in the Kirinda Fishery Harbour by paying an advance of Rs.69 million (without Taxes) in the year 2006, but the relevant work had not been carried out even by the end of the year 2011. This advance had risen to Rs.76,261,312 (with VAT) in the year under review and this debtor balance had been shown as a creditor balance in the financial statements. A court case had been filed against the party concerned.

3. Operating Review

3.1 Performance

The following observations are observed.

- (a) Out of 17 Fishery Harbours belonging to the Corporation, it was observed that the following 6 Harbours had run at operating losses.

| Fishery Harbour | Loss for the year 2011 | Loss for the year 2010 | Increase / (decrease) the loss as compared with the previous year as a percentage |
|--------------------|---------------------------|---------------------------|--|
| ----- | ----- | ----- | ----- |
| | Rs. (Mn) | Rs. (Mn) | % |
| Mirissa | (6.877) | (1.147) | 500 |
| Dodanduwa | (3.971) | (3.408) | 17 |
| Hikkaduwa | (5.585) | (4.188) | 33 |

| | | | |
|-------------|---------|---------|------|
| Kalpitiya | (2.584) | (3.469) | (26) |
| Chilaw | (5.418) | - | - |
| Valachchena | (5.944) | - | - |

- (b) Operating profit of 3 fishery harbours had decreased in the year under review as compared with that of the preceding year. Particulars are given below.

| Fishery Harbour | Profit for the year 2011 | Profit for the year 2010 | Decrease in profit as a percentage |
|-----------------|-----------------------------|-----------------------------|---------------------------------------|
| ----- | ----- | ----- | ----- |
| | Rs. (Mn) | Rs. (Mn) | % |
| Puranawella | 1.281 | 2.078 | 38 |
| Codbay | 8.796 | 11.197 | 21 |
| Modara | 38.266 | 39.364 | 3 |

- (c) Twelve expenditure items had increased over 100 per cent as compared with the preceding year.

3.2 Idle Resources

Intercom telephone system with internet facilities established in the year 2007 valued at Rs.13,456,059 had become idle as the expected objective had not been achieved.

3.3 Uneconomic Transactions

The following observations are made.

- (a) Even though the Chilaw Fishery Harbour commenced by spending a sum of Rs.224 million from Asian Development Bank funds and Coastal Resources Management Project grants, the human resources who are working in it had become idle due to non-performance of its primary activities. Salaries, wages and overtime totalling Rs.7,519,468 had been paid to them during the year under review.
- (b) Despite having 3 Lawyers in the Corporation, a sum of Rs.498,600 had been paid to external lawyers during the year under review.

3.4 Identified Losses

The following observations are made.

- (a) Due to non-payment of Employees Provident Fund contributions on due dates, a surcharge of Rs.4,505,835 had been paid during the year under review.
- (b) Even though the anchoring charges recoverable from a vessel anchored in the Modara Fishery Harbour amounted to Rs.10,520,113, it had been released only after payment of Rs.4,844,739 and as such, the financial loss incurred was Rs.5,675,374.
- (c) The Corporation had paid a sum of Rs.1,214,552 as overdraft interest during the year under review.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

The following observations are made.

- (a) In terms of section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements should be presented to audit within 60 days after the end of the financial year. Nevertheless, the financial statements for the year under review had been presented to audit after lapse of 15 months, on 31 May 2013.
- (b) An open and irrevocable statement, stating that the financial statements had been prepared in fully compliance with Sri Lanka Accounting Standards had not been presented along with the financial statements.

4.2 Procurement Plan

A Procurement Plan had not been presented for the year under review.

4.3 Budgetary Control

As the budget had not been appropriately prepared in agreement with the Corporate Plan and the Action Plan, there were considerable variances between the budget and actuals. As such, the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

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

- (a) Revenue
- (b) Accounting
- (c) Creditors
- (d) Debtors
- (e) Assets Control
- (f) Control over Pre-payments and Ad-hoc Imprests
- (g) Personnel Management
- (h) Budgetary Control