

Peliyagoda Central Fish Market Complex Management Trust - 2013 .

The audit of financial statements of the Peliyagoda Central Fish Market Complex Management Trust for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in net assets 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Cabinet approval No අම/10/0958/438/001 dated 03 June 2010. My comments and observations on the above financial statement appear in this report.

1:2 Establishment of the Management Trust.

Approval for the Cabinet Memorandum forwarded by the Ministry of Fisheries and Aquatic Resources Development on 14 May 2010 for the establishment of Peliyagoda Central Fish Market Complex Management Trust had been received on 03 June 2010. Although the Management Trust had been established in accordance with the said decision, necessary action had not been taken to legalize it as an incorporated body even up to 27 March 2015.

1:3 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 Public Sector 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.

1:4 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 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Management Trust'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 Management Trust'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 the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:5 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2:1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Peliyagoda Central Fish Market Complex Management Trust as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards.

The following observations are made.

Standard No.01

Paragraph 141

- (a) In the determination of carrying amount of the assets, the effects of the future contingencies should be estimated, whereas provisions had not been made in accounts for the bad debts which may arise on the receivable rental income of the stalls of Rs.87,951,000.
- (b) A stall rental income amounting to Rs.10,280,000 recoverable during the year 2013 had been written off without the approval of the Trust.
- (c) Even though recovery of rental income amounting to Rs.22,544,215 recoverable relating to the years 2011 and 2012 was uncertain, it had been shown as receivable income in the accounts without taking action to make provisions for doubtful debts.

2.3 Accounting Policies

The depreciation policy of the Trust should be determined in a manner to depreciate its assets throughout their life. But depreciation of the assets on their value exists as at 01 January in the year being the depreciation policy of the Trust, the assets acquired and utilized in the year are not depreciated during the respective year. Therefore, it was observed that the financial statements did not reflect a true and fair position.

2.2.3 Accounting Deficiencies.

The following observations are made.

- (a) Although the interest income of the fixed deposits of the year under review was Rs.10,470,363, it had been shown as Rs. 9,632,734 by understating a sum of Rs.837,629 and as a result, the deficit of the year had also been overstated by that amount. Further, at the time of accounting interest income, action had not been taken to bring to accounts the withholding tax related thereon amounting to Rs.837,629.
- (b) Although the waste tank constructed at a cost of Rs. 771,049 in the preceding year had been removed in that year, action had not been taken to eliminate it from the accounts. Further, provisions for depreciation amounting to Rs.23,132 had been made thereon.
- (c) Provisions for the audit fees for the years 2011,2012, and 2013 had not been made in the accounts.
- (d) Provisions for the welfare expenses and research expenses amounting to Rs.18,250 and Rs.233,478 respectively payable as at 31 December of the year under review had not been made.
- (e) Instead of capitalizing a sum of Rs.433,950 spent for the electrification of new 6 trade stalls, it had been brought to account as building repairs and maintenance expenses.
- (f) A sum of Rs.5,148,000 receivable for the year under review in respect of an cold store and 4 trade stalls granted to the Ceylon Fisheries Corporation for a business purposes should have been credited to the Rental Income Receivable Account. Instead, it had been credited to an expenditure account named as Management Fees.

2.2.4 Suspense Account

Since the direct income received by the bank could not be specifically identified, it had been credited to a suspense revenue account and shown in the accounts after inappropriately deducting it from the rental income receivable as at the end of the year. Accordingly, the correct amount of the income of the year had not been brought to account and this balance as at the end of the year under review had been Rs.1,626,000.

2.2.5 Lack of Evidence for Audit

Since evidence indicated against the following each item had not been furnished to audit, they could not be accepted or vouched in the audit.

Item of Account	Value Rs.	Evidence not made available
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(a) Refundable security deposits	1,763,681	Details of the deposit holders
(b) Rental relevant to inoperative stalls	-	Details of the stalls
(c) Bills payable to the sanitary services supply company	2,840,158	Details of the case filed by the company against the Trust

2.3 Accounts Receivable and Payable

The following observations are made

- (a) Action had not been taken to settle four balances totaling Rs.1,546,494 brought forward from the preceding year under the Creditors and Other Liabilities even during the year under review.
- (b) Out of the total current assets, 88 per cent or Rs. 66,223,405 had been the rental income as at the end of the year under review. It was observed that the attention of the management in respect of the recovery of rentals of the stalls had been at a weak level.

2.4 Transactions not supported by an adequate authority.

The following observations are made.

- (a) Contrary to the Sub-section 12.2.5 of Chapter VII of the Establishments Code, a Planning Assistant of the Ministry of Fisheries and Aquatic Resources Development appointed for covering up duties had been paid an allowance of Rs.212,500 in respect of 9 months and 15 days in the year 2011. After inclusion of the duties relating to the post of Administrative Coordinator to the duty list of the respective officer in December 2011, an allowance cannot be paid in respect of discharging that normal duties. Nevertheless, this female officer had been paid a sum of Rs.570,000 as allowances up to December 2013.

- (b) In order to perform duties in the post of Administrative Coordinator, the Secretary to the Ministry had approved 03 days duty leave per week for the respective officer. Nevertheless, since arrival and departure of the officer had not been marked in the finger print machine, reporting for duties by her on the relevant days could not be confirmed.
- (c) Contrary to the Public Administration Circular No. 13/2008 (iv), the Secretary had approved the payment of monthly fuel allowance of Rs.120 liters to this officer and a sum of Rs.188,400 had been paid as the fuel allowance from November 2013 up to November 2014.

2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Paragraph 8 (a) of the Management Trust Document.	Although meetings of the Management Trust should be held at least once in every two months, only 05 meetings had been held for the year under review.
(b) Section 2 of the Inland Revenue Act No.10 of 2006.	Although the Trust should be liable to Income Tax obligation, action had not been taken accordingly.
(c) Value Added Tax Act, No.14 of 2002 as amended by the Act, No.17 of 2013.	Trust had not taken action to register for the Value Added Tax.
Section 10	(i) Action had not been taken to obtain tax credit in respect of the Input Tax of the Trust.
Section 22 (2)	(ii) The Value Added Tax paid on this inputs had not been separately disclosed in the financial statements.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 756 and 757	(i) Although a copy of the Board of Survey Report should be furnished to the Auditor General forthwith, the Board of Survey Report for the

- year 2013 had been furnished to the Auditor General on 11 November 2014.
- (ii) Four equipment valued at Rs.275,249 given to the canteen had not been physically verified and the report had not been furnished.
- Financial Regulation 396 (d). Action had not been taken according to the Financial Regulations in connection with 03 cheques valued at Rs.294,250 issued in the year 2011, but not presented for the payment.
- (e) Procurement Guideline dated 25 January 2006
- Guideline 3.2
- (i) Cleaning service of the premises had been entrusted to a private institute without following the procurement procedure and an agreement for a long period of 5 years from 14 February 2012 up to 13 February 2017 had been entered into with the said company.
- (ii) Since conditions had not been included in the agreement to the effect that the High-pressure wash guns should be used in the cleaning process, normal water pipes had been utilized for that purpose and as such a higher water consumption had taken place. Accordingly, water consumption cost during the year under review had been Rs.7,948,948.
- (iii) In terms of the Section 7 of the agreement, labourers and supervisors should be employed so as to cover 1110 man days per month, whereas it had been done with a shortfall ranging from 171 to 328 man days during the year under review.
- (f) Paragraph 04.1 of the Public Finance Circular No. PF/423 dated 22 December 2006.
- Having obtained the approval of the respective Minister to the budget of the Trust before 15 September of the preceding year, it should be submitted to the Director General of National Budget prior to 30 September. Nevertheless, action had not been taken accordingly.

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the operations of the Trust for the year under review had resulted in a deficit of Rs.25,873,482 as compared with the corresponding deficit of Rs.863,735 for the preceding year, thus indicating a deterioration in the financial result by Rs.25,009,747 for the year under review. The decrease in the rental income by Rs.20,536,000 and increase in the Management fees by Rs.5,148,000 and building maintenance expenses by Rs.1,290,000 had been the reasons for this deterioration.

4. Operating Review.

Management Inefficiencies

The expenditure incurred by the Government in respect of assets and the infrastructure facilities required for the establishment of the market complex amounted to Rs. 2,073,693,568. To Take over entire control and maintenance of the market complex, efficient handling, management and maintenance of the said market complex and the performance of its consequential activities are the objectives and purposes of the establishment of the Trust. Multitude of responsibilities pertaining to the above matters rest on the Trust. Although proper recovery of all the income of the Trust and sound management of the expenditure is essential, it was observed according to the following matters that the Trust had failed to carry out those activities properly.

- (a) The following observations are made in connection with the collection of revenue of the vehicle yard.
 - (i) The collection of revenue of the market complex had been entrusted to the Ceylon Fisheries Corporation by the Trust and the Corporation had entered into a 10-year long term agreement with a third party company for that purpose without an approval of the Trust.
 - (ii) The approval of the Attorney General had not been obtained for the agreement.
 - (iii) The expenditures which can be deducted from the revenue collected by the company had not been included in the agreement and in the remittance of the revenue to the trust, salary of the employees had been over deducted by Rs.1,428,917 and as such the revenue amounting to Rs. 428,675 had deprived of the Trust.
 - (iv) Since the copies of the financial statements of the company for the year 2012/2013 and 2013/2014 had not been furnished to audit, accuracy of the rental income of Rs.5,618,204 relating to the parking of vehicles at the Management Trust could not be established in audit.

- (v) The Trust had not taken necessary action to recover a sum of Rs.18,398,680 recoverable from the income which had been remitted to the Fisheries Corporation after making recoveries by the company relating to the years 2011, 2012 and 2013.
 - (vi) According to the income records of the company, the income of the Trust relating to the charges of the membership passes issued to the businessmen who utilize the vehicle yard of the market complex daily was Rs.265,185 and the trust had not devised a methodology ensuring the accuracy of the said income. Membership passes for 1366 vehicles had been obtained during the year under review and if the charges for the membership passes for those vehicles were paid every month, the receivable income to the fund would have been Rs.22, 136,400.
- (b) Since rental income of the trade stalls had not been properly recovered, the following deficiencies were observed.
- (i) Sixty four trade stalls of the Retail Market Complex constructed with 128 trade stalls had been converted into wholesale stalls by spending Rs.9,625,540 in the years 2011 and 2012, whereas these 64 trade stalls and 34 out of the 64 retail trade stalls had remained idle even by the date of audit on 27 March 2015.
 - (ii) The Trust had not taken action to recover rentals from the trade stalls as per the assessed value given by the Department of Valuation. Therefore, the rental income deprived during the year under review amounted to Rs.36,960,000.
 - (iii) Although action had been taken to obtain refundable security deposit at the time of renting properties belong to the Trust, since action had not been taken to obtain security deposit totalling Rs.14,020,000 from the relevant parties, risk relating to the settlement of the damages caused to properties or the recovery of the rental arrears had to be borne by the Trust.
 - (iv) Out of 16 stalls the monthly assessed value of which had been Rs.14,000 per stall constructed for renting out at the retail market complex, 02 stalls had been given for the use of the police officers while one stall had been given for the use of employees of the cafeteria, free of charge.
- (c) The floor area below the concrete layer of the foundation of several buildings situated within the market complex had sunk and filled with water and certain places of the premises and the roads as well had sunk and filled with polluted water. In order to examine the risk of sinking of these buildings and obtained a report thereon, a sum of Rs. 628,120 had been paid to the National Building and Research Organization during the year under review, whereas action had not been taken to bring the premises to its normalcy and the relevant report, too, had not been furnished to audit.
- (d) A female officer served in the Management Trust had obtained leave for 50 days without approval, whereas action had not been taken either to recover it from her salary by taking into consideration those leave as the no-pay leave or to take disciplinary action.

4.2 Transaction of contentious nature

- (a) The following observations are made in connection with the construction of waste tank.
- (i) In order to dry, break and sale of the wastes disposed at the market complex, a private company had constructed a building equipped with machines within the market complex at their cost. Nevertheless, approval of the Trust had not been obtained for that purpose.
 - (ii) Action had not been taken to enter into an agreement with the relevant institute in connection with the construction of the building and to recover the rental in respect of the land.
- (b) The following observations are made in connection with the renting the cafeteria.
- (i) Contrary to the Guideline 3.2 of the Government Procurement Guidelines, the cafeteria had been rented out to a private party for a period of 10 years from 01 April 2011 at a monthly rental of Rs.129,000.
 - (ii) Three refrigerators valued at Rs.1,143,868 purchased during the year 2011 had remained in the cafeteria without being utilized.

4.3 Apparent Irregularities

The following observations are made.

- (a) Although the private security service company which provides security to the market complex had employed 9-12 security personnel at one roster, bills had been submitted indicating that 24 officers had been so employed. Accordingly, an overpayment of Rs.15,399,050 had been fraudulently made from 01 June 2011 to 31 October 2013 and a sum of Rs.1,884,954 and Rs.307,999 thereon had been over paid as the Value Added Tax and the Nation Building Tax respectively to the said company. Despite being revealed by the audit report of the year 2012, the Trust had not taken action to take necessary steps against the officers who had discharged duties carelessly after conducting a proper inquiry and to recover the overpaid amount from the security service company even up to 27 March 2015. As a result, deficit of the Trust of the years 2011, 2012 and 2013 had increased by Rs.4,271,262, Rs.6,686,981 and Rs.6,634,659 respectively.
- (b) So as to cover up a period of 04 years from 31 March 2011 to 30 March 2015, the Trust had entered into an agreement on 08 January 2014 with this company which had supplied services without a proper agreement. Nevertheless, the places and the number of officers to be deployed had not been determined in advance and the conditions thereon had not been included in the agreement.

4.4 Identified Losses.

After making payment of an advance of Rs.1,289,904 to a private company for applying paints on the floor of the wholesale building complex of the market complex on 10 June 2013, the relevant work had been commenced. However, it was revealed that paints had removed even by 11 July, whereas the first and the second interim payments had also been made on 17 June 2013 and 14 August 2013 without a certification of a Technical Officer or an Engineer. Further, the voucher No.549 valued at Rs.1,200,000 in which the first interim payment was paid, had not been approved and out of the total payment amounting to Rs.2,902,280, only the value of the performance bond amounting to Rs.930,000 had been reimbursed. Accordingly, the Trust had suffered a loss amounting to Rs.1,972,280.

4.5 Staff Administration

Although 41 employees of the Ceylon Fisheries Corporation had been employed for the operations and maintenance activities of the market complex, action had not been taken either to seek approval for the cadre having determined the requirement of the staff or to prepare the organization chart.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements.

In terms of the paragraph 4.3 of the Public Finance Circular No.PF/423 dated 22 December 2006, the financial statements of the Trust should be furnished to audit within 02 months from the close of the year of accounts, whereas the financial statements of the Management Trust had been prepared and furnished to audit after a delay of 11 months on 21 January 2015.

5.2 Action Plan.

The Trust had not prepared an Action Plan for the year under review.

5.3 Internal Audit

An internal audit unit had not been established.

5.4 Unresolved Audit Paragraphs.

The following observations are made.

- (a) Reports of the accounts inclusive of the audit reports had not been considered by the Trust Board.
- (b) Providing answers to the audit queries issued by the Auditor General had been at a very weak level. Replies for 17 audit queries issued in the years 2012,2013,2014 and 2015 had not been given up to 31 March 2015.

6. Systems and Controls

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

- (a) Accounting
- (b) Stores Control
- (c) Refundable Deposits