Ceylon Fisheries Harbours Corporation - 2014

The audit of financial statements of the Ceylon Fisheries Harbours Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, 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 the 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act, will be issued to the Chairman of the Corporation in due course.

1.2 Management's Responsibility for the Financial Statements

The 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.

1.3 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 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 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 Ceylon Fisheries Harbours Corporation as at 31 December 2014 and its financial performance 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

Instances of non-compliances with the following Sri Lanka Public Sector Accounting Standards, were observed in audit.

(a) Sri Lanka Public Sector Accounting Standard 01

Assets and liabilities should not be set off against each other. However, bank overdrafts totalling Rs. 42,968,894 with respect to 12 bank accounts by the end of the year under review, had been shown by setting off against the current assets instead of being shown under current liabilities.

(b) Sri Lanka Public Sector Accounting Standard 02

The following observations are made.

(i) Adjustments should be made in the cash flow statement only for the transactions carried out in cash, whereas no adjustments should be made in the nominal notes. However, reserves valued at Rs. 819,431,527, and the amortization on Capital assets valued at Rs. 58,638,240, had been adjusted under investment activities of the cash flow statement.

(ii) Income not generated from the operating activities should be shown under the relevant activities after being removed therefrom. However, it had not been so done in connection with the loan interest income of the year under review amounting to Rs. 341,081.

(iii) In preparing the cash flow statement, cash receipt of Rs. 5,977,500 from the disposal of the fixed assets during the year, the profit on disposal of assets amounting to Rs. 2,778,629, and the loss of Rs. 826,554, had not been taken into consideration. Additions of Rs. 30,182,688 to fixed assets had been adjusted as Rs. 853,416,012 in the cash flow statement. As such, the balancing of the cash flow statement was questionable in audit.

(c) Sri Lanka Public Sector Accounting Standard 07

Depreciation of an assets begins when it's available for use. Contrary to that, assets had been fully depreciated for the year of purchase, and no depreciation had been made for the year of disposal. Furthermore, depreciation had been made on the purchased price of the overall assets, instead of depreciating each asset by separately identifying them.

(d) Sri Lanka Public Sector Accounting Standard 08

The following observations are made.

(i) Provisions had not been made in the financial statements for a compensation of Rs. 981,115 payable by the Corporation following an unfavourable verdict returned in connection with a case filed by a private institution against the Corporation.

(ii) Contingent liabilities totalling Rs. 3,049,500 in respect of 03 cases filed by various parties against the Ceylon Fisheries Harbours Corporation had not been disclosed in the financial statements.

2.2.2 Accounting Policies

The following observations are made.

(a) In case that the accounting policy being used for the preparation of financial statements does not cover a specific accounting methodology, an accounting policy of best practice should be prepared and followed. However, the Corporation had not done so in respect of accounting for the Government grants.

(b) When the fair value of the assets significantly differs, those assets should be revalued once in 3 or 5 years. However, the Corporation had not revalued assets after the year 2007.

(c) The accounting policy relating to the provisions for doubtful debts, had not been disclosed in the financial statements, and a sum of Rs. 7,697,129 had been provided for doubtful debts in the year under review.

(d) The rate used for depreciating other assets had been used for depreciating computers without evaluating the useful lifetime.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Of a sum totalling Rs. 8,800,000 received from the contractor, a sum of Rs.3,800,000 had been accounted as income of the year under review without demolishing the fish processing center in Kudawella Fisheries Harbour by acquiring the goods therein.

(b) As assets valued at Rs. 824,485,700 that had been received as grants, had not been depreciated, the depreciation for the year under review had been understated by a sum of Rs. 14,458,095.

(c) As a sum of Rs. 8,319,730 payable for the construction of the Slipway in Codbay Harbour had not been accounted, fixed assets and expenses payable had been understated by that amount.

(d) The shortage in the stocks of fuel at the Puranawella Fisheries Harbour had not been accounted. A sum of Rs. 574,739 recovered in that connection during the year under review, had been deducted from the debtors instead of being deducted from the stock.

2.2.4 Unexplained Differences

A difference of Rs. 471,108 was observed in comparing the accumulated depreciation and the depreciation of the year under review shown in the financial statements with the relevant schedules.

2.2.5 Lack of Evidence for Audit

The evidence shown against the following items, had not been made available to Audit

Item	Value Rs.	Evidence not Made Available for Audit
Fixed Assets	4,473,127,854	Detailed Schedules
Fuel Debtors	54,814,826	Detailed Schedules, Balance Confirmations, and Age Analysis
Other Deposits	4,509,025	
Promp Preached Receipts	2,215,769	Detailed Schedules
Deferred Liabilities	1,653,400	
Balances to be Written Off	81,769,596	
Value Added Tax	73,798,069	
Bank Security Deposits	2,843,310	

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The payment of Rs. 38,972,543 made in advance as at the end of the year under review for purchases, included balances amounting to Rs. 15,593,826, Rs. 9,048,319, and Rs. 12,741,341 older than 10 years, older than 05 years and between 01-05 years respectively.

(b) Action had not been taken even in the year under review to recover a sum of Rs. 10,434,783 older than 10 years , overpaid to the Department of Inland Revenue, and a sum of Rs. 2,150,000 older than 01 year , receivable from the Ministries and other contractors.

(c) Action had not been taken even in the year under review to settle unidentified account balances and advances totalling Rs. 81,769,596 that had been brought forward over a period of 05 years, and creditors and deposit balances totalling Rs. 93,901,599.

(d) Action had not been taken even in the year under review to settle advances amounting to Rs. 15,879,986 that had been granted to harbours and brought forward over a period of 03 years, and a sum of Rs. 10,512,971 payable as Economic Service Charges.

(e) Anchorage charges of Rs. 5,675,373 receivable for the period from the year 2009 to July 2011 from a vessel anchored in the Modara Fisheries Harbour, had not been recovered.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Non-compliances with the following Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 137(5)	Without acknowledging the receipt, a sum of Rs.1,090,000 had been paid to a private Institution for 2,000 diaries.
(ii) Financial Regulation 187	Daily income amounting to Rs. 704,539 had been utilized for day-to-day expenses without being banked.
(iii) Financial Regulation 396(d)	Action had not been taken in terms of Financial Regulations on 49 cheques valued at Rs. 996,450 and older than 06 months that had not been presented for payment despite being issued with respect to 05 bank accounts.

(iv) Financial Regulation 757(2)	Board of Survey reports relating to the year under review had not been presented to audit.

(b) Treasury Circulars

(i)	Circular, No. 842 dated 19 December 1978	A Register had not been maintained in an updated manner in respect of fixed assets totalling Rs.5,161 million.
(ii)	Circular, No. IAI/2002/02 dated 28 November 2002	Even though a Register of Fixed Assets should have been maintained in respect of computers and accessories, a Register had not been maintained for computers valued at Rs. 50 million.

(c) Public Administration Circulars,

(i)	Circular, No. 06/97 dated 03 February 1997	The acting allowance should be paid for a maximum period of 3 months. Contrary to that limit, acting allowances totalling Rs. 777,429 had been paid to 06 officers by the Corporation during the year under review.
(ii)	Circular, No. 28/2011 dated 12 December 2011.	The allowance of Rs. 15,000 that the officers of the Engineering Service are entitled to, had been paid to 07 officers of the Corporation without approval thus incurring a sum totalling Rs. 1,155,000 in the year under review.

(d) Public Finance Circular, No. 353 (5) dated 31 August 2004	Eight vehicles had been obtained on hire basis in the year under review by paying a sum of Rs.380,000 in excess of the maximum monthly limit.
(e) Management Services Circular, No. 28 dated 10 April 2006	Recruitments being made on permanent, temporary, casual, substitute, or contract basis should be suspended. Nevertheless, recruitments had been made for the posts of Legal Advisor, Deputy General Manager, and Financial Advisor. A sum of Rs. 600,000 for the Deputy General Manager since January 2014 at Rs. 50,000 per month, a sum of Rs. 180,000 for the Financial Advisor since November 2014 at Rs. 90,000 per month, a sum of Rs. 300,000 for the Legal Advisor since July 2014 at Rs. 60,000 per month had been paid.

(f)	Section 2.14.1 of the Procurement Guidelines 2006	An air conditioner valued at Rs. 122,399 had been procured for the Sandagalapiysa Bungalow in Kirinda Fisheries Harbour without calling for quotations at least from 03 suppliers.
(g)	Public Enterprises Circular, No. 58(2) dated 15 September 2011	Allowances totalling Rs. 270,000 had been paid to the Managing Director at Rs. 30,000 per month from April to December 2014 in addition to the monthly allowance of Rs. 40,000 being paid monthly.

2.5 Transactions not Supported by Adequate Authority

Including the payment of Rs. 2,093,160 made to a private Institution for the supply of stages and other items in connection with the inauguration ceremony for the launch of a new fishing vessel, a sum of Rs. 3,769,509 had been incurred deviating from the Procurement Procedure and without the approval of the Board of Directors.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Corporation for the year under review had been a deficit of Rs.136, 861,294 as compared with the corresponding deficit of Rs.41, 511,370 for the preceding year, thus indicating a deterioration of Rs.95,349,924 in the financial result for the year under review. The decrease in the operating income by Rs. 250,495,530 despite the increase in the recurrent grants by Rs. 205,400,000, and increase in the personnel emoluments, and the repairs and maintenances expenditure by Rs. 26,864,261, and Rs. 17,015,879 respectively, had mainly attributed to this deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Of the 21 Fisheries Harbours functioned under the Corporation, 14 harbours had sustained operating losses during the year under review. The following observations are made on the profitability of each harbour relating to the year under review and the preceding years.

(i) Ten out of the 14 harbours that had sustained losses during the year under review, had sustained losses in the preceding year as well, and the total loss sustained in the year under review amounted to Rs.97,234,283. The loss sustained by the 05 harbours in Tangalle, Dodanduwa, Hikkaduwa, Kalpitiya, and Hambanthota had been increasing during the preceding 05 years. Furthermore, the 03 harbours in Chilaw, Valachchena, and Nilwalla had continuously sustained losses over 03 years.

(ii) The operating profits of the 04 harbours in Beruwala, Galle, Mirissa, and Modara, had decreased in the year under review as compared with the preceding year.

(iii) The management had not drawn its attention to identify the remedies by reviewing the reasons causing the losses for the harbours thereby rectifying them to make the harbours profitable, and to increase the profits of the harbours of which the profits had decreased.

(b) As the Modara Fisheries Harbour that had generated about 73 per cent of the overall operating profits of the harbours in the preceding year, had been improperly leased out with effect from 30 October 2014 at a monthly lease rent of Rs. 125,000, the profit deprived of in the year under review amounted to Rs. 7.6 million as compared with the preceding year.

4.2 Management Inefficiencies

The following observations are made.

(a) Contrary to the provisions of the Government Procurement Guidelines -2006, a supplier had been selected for repairing the main engine of a Caterpillar belonging to the Corporation at an agreed value of Rs. 5,911,995, and an advance of Rs. 1,055,713 had been paid by the end of the year under review.

(b) For the installation of 06 oil tanks in the year 2007, a private institution had been paid a sum of Rs. 3,000,000 as a 60 per cent advance without entering into an agreement thereby overriding the procurement guidelines. The management had not taken action either to get the particular activity executed, or recover the loss.

(c) Without obtaining a valuation report from the Government Valuer, and without entering into an agreement, a part of the properties belonging to the Panadura Fisheries Harbour, had been leased out to a private institution at a monthly lease rental of Rs. 150,000.

(d) A female employee appointed by the Corporation to the post of Office Assistant on temporary basis with effect from 08 May 1996, had been warned in writing in 06 instances due to failure in executing duties properly. However, she had improperly been promoted to the post of Clerk- Class 1 despite being underqualified.

Although it was informed by the letter No. 1/5/1/1/8 Min (ii) dated 15 August 2011 of the Additional Secretary to the Ministry of Fisheries and Aquatic Resource Development that the said appointment had contradicted the laws and rules, and hence, she should be appointed to another post suitable for her educational qualifications. Nevertheless, the Corporation had not implemented that directive so far.

(e) Although a sum of Rs. 982,150 had been paid by the Corporation during the year under review in connection with the external courses followed by the officers, transparency was not observed with respect to the procedure through which, officers had been selected for those courses. It was not observed in audit as to whether the suitability of those courses for official requirements had been taken into consideration.

(f) Although the limit of overdraft approved by the Department of Public Enterprises was Rs. 25 million, overdrafts up to Rs. 27 million in excess of the said limit had been obtained from a bank account.

(g) Twenty two and 21 audit queries referred to the Chairman of the Corporation for the accounting years 2013 and 2014 respectively, had not been replied even up to 16 February 2016. The computable value of the transactions relating to those queries amounted to Rs. 222,271,550.

(h) The comparison of the stock of fuel that should be available according to the books as at 31 December of the year under review, with the physically available stock, revealed a shortage of fuel valued at Rs. 5,584,489. The management had not taken action to identify the parties responsible thereby recovering the loss.

4.3 Operating Inefficiencies

The following observations are made.

(a) The operations of the Chilaw Fisheries Harbour that had been handed over to the Corporation after being constructed at an expenditure of Rs. 224 million out of loan facilities provided by the Asian Development Bank and the Coastal Resources Management Project, had been commenced in the year 2009. However, it was observed in audit that the primary objectives expected from a fishery harbour had not been achieved so far. A loss of Rs. 5,951,350 had been sustained from the operations of the harbour as at 31 December 2014. Accordingly, it was observed that the payback of the foreign loans and the interest thereon had become a burden to the Government.

(b) The Technical Evaluation Committee had recommended on 24 November 2011 to award the contract for the dredging of sand accumulated in the fisheries harbours pertaining to the Corporation in Ambalangoda, Valachchena, Chilaw, Kirinda, Panadura, Hambanthota, and Hikkaduwa to 02 private institutions. However, the contract had been awarded to the same institution without approval on 13 December 2011, and 09 January 2012 for dredging sand at all of the harbours. As the performance and capacity of this institution had not been evaluated when awarding the contract, there had been delays in the dredging of sand by the relevant institution. The income receivable to the Corporation during that period had been deprived, and the following matters were further observed in that connection.

(i) The Corporation had sold the dredged sand to the said private institution, and a sum of Rs. 335,000 had remained receivable from that institution to the Corporation in that connection. However, the said sum had not been received by the Corporation even up to 17 July 2015, the date of audit.

(ii) Furthermore, an advance of Rs. 20 million had been paid to the said private institution on 01 August 2014 following a request made by the institution. No approval had been obtained from the Board of Directors in that connection.

(iii) Even though the Corporation had owned 03 Cutter Suction Dredgers valued at Rs. 374,000,000, and 02 Grab Hopper Dredgers valued at Rs. 1,069,535,760 that could have been used for dredging sand, it was observed in audit that public resources owned by the Corporation had been left idle by allowing a private institution to drege sand of 07 harbours.

(c) Without annulling the agreement entered into by the Corporation with a private institution on 01 August 2014 in connection with the sale and dredge of sand accumulated in the basin of harbour in Kirinda, another private institution had been assigned on 30 June 2015 to dredge and sell the sand of the same harbour. Pursuant to the condition number 02 of the agreement entered into with that institution on 15 June 2015, an advance of Rs. 200,000 should be paid by the institution to the Corporation prior to the commencement of the relevant project. However, the said amount had not been paid to the Corporation even up to the date of audit.

(d) Advances amounting to Rs. 1,000,000 had been paid in respect of the contract awarded to a private institution at a value of Rs. 1,848,000 for constructing the plaque for the ceremony held on the development of the coast of the lagoon in Negambo. According to the plan for the construction of the plaque, a fish should have been carved out of stone. However, it was revealed at the physical inspection carried out on 16 February 2014, that the fish had been made of cement.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) The Corporation had purchased 06 fuel despensing unit from a private institution at a cost of Rs. 6,229,440. Instead of making the payment to the supplier after installing all 06 despensing units at the relevant fisheries harbours, payments had been made in installments based on the work completed at each stage. Due to this reason, it was observed in audit that the supplier had delayed the installation of fuel despensing. As there had been no recommendation that the fuel despen were suitable for use, those dispensing had become faulty even before a period of one year.

(b) The motor vehicle obtained on rent that had met with an accident in the year under review, had been recommended to be unusable, and the insurance company had offered an indemnity of Rs. 3,500,000. However, in paying the indemnity, it was questionable in audit that the leasing company had deducted a sum of Rs. 2,227,100 from the indemnity, instead of the sum of Rs.1,712,510 that remained payable by the Corporation to the leasing company at the time of the accident. Accordingly, the leasing company had recovered a sum of Rs. 514,590 in excess from the Corporation.

(c) Action had been taken to purchase 1,500 T Shirts, and 2,000 Caps at a cost of Rs. 1,225,000 for the Development of Negambo Lagoon Programme contrary to the Procurement procedure. Payments had been made to the relevant private institution without acknowledging the receipt of the stock of those items.

(d) The expenditure for the inauguration ceremony for the development of the lagoon coast with relevance to the Development of Negambo Lagoon Programme, had been estimated to be Rs. 13,270,000, and contrary to the Procurement procedure, a private institution had been paid a sum of Rs.5,000,000 as advances. Nevertheless, no evidence had been made available to audit to verify that the said ceremony had been held.

4.5 Idle and Underutilized Assets

The Jeep valued at Rs. 4,000,000 owned by the Ministry of Fisheries and Aquatic Resource Development had been vested with the Corporation on 19 December 2013, and the Corporation had incurred a sum of Rs. 652,189 for repairing the Jeep. However, it was observed that the Jeep had not been run since 17 April 2014.

4.6 Identified Losses

The following observations are made.

(a) The Corporation had obtained overdraft facilities contrary to Section 8.10 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003. An overdraft interest of Rs. 6,485,293, and a fine of Rs. 31,966 had been paid in the year under review.

(b) Due to failure in remitting the contributions to the Employee Provident Fund on time, a surcharge of Rs. 8,357,906 had been paid by the Corporation in the year under review.

4.7 Personnel Administration

The following observations are made.

(a) Approval of the National Salaries and Cadre Commission had not been obtained for the scheme of recruitment, and 128 employees had been recruited in excess of the approved cadre.

(b) Even though there had been 07 officers in the Legal Division including 02 Legal Officers to whom salaries and allowances amounting to Rs. 3,005,880 had been paid annually, a sum of Rs. 1,154,660 had been paid to an external party for obtaining legal consultancy services.

4.8 Resources of the Corporation Released to Other Institutions

In accordance with Sections 8.3.9, and 9.4 of the Circular, No. PED/12 dated 02 June 2003, the approval of the Cabinet of Ministers should be obtained in case of releasing the employees of the Corporation to the Line Ministry. Contrary to that, 17 officers and employees had been released to external institutions and a sum of Rs. 7,318,140 had been paid in the year under review as salaries and wages. Furthermore, the Corporation is not authorized to incur expenses relevant to the Line Ministry or other Public institutions. However, sums of Rs. 440,395, and Rs. 600,000 had been paid for repairing the official residence of the Minister of Fisheries and Aquatic Resource Development, and purchasing 1000 T Shirts for the Ministry respectively.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan had not been prepared in terms of Section 5.1.2 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003. According to the Corporate Plan of the Corporation, it had been expected to generate profits during the year 2011 to 2014. However, losses had been sustained during that period. In order to ascertain the fulfilment of the expected objectives in terms of Section 5.1.1 of the said Circular, it was observed that the Board of Directors and the top management had not established an effective system of control without delay.

5.2 Tabling of Annual Reports

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

6. Systems and Controls

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

- (a) Budgetary Control
- (b) Administration of Revenue
- (c) Accounting
- (d) Assets Management
- (e) Personnel Management
- (f) Procurement Procedure