Ceylon Fisheries Corporation – 2015

The audit of financial statements of the Ceylon Fisheries Corporation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 the 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.

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 statements.

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 controls 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 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 2015 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 Institution

The following observations are made.

(a) The Corporation had faced a working capital crisis due to the ceaseless changes in the plans of the Corporation resulting from the continuous losses incurred by the Corporation having an adverse impact on the net assets, the existence of an additional cadre in the institution and the short term turnover of officers in the posts of higher management. In view of this reason, the decrease of the market share of the Ceylon Fisheries Corporation from 1.1 per cent to 0.7 per cent during the past 05 years had caused adverse impacts on the going concern of the Corporation.

(b) A Voluntary Retirement Scheme had been implemented in accordance with a decision of the Cabinet of Ministers for the preparation of a basis for the restructuring of the Corporation. Out of 126 employees who had made applications under the scheme 109 employees had been allowed to retire under the Public Enterprises Circular No. 02/2016. Out of those 102 employees had been retired on 20 May 2016 and a grant of Rs.110 million had been received from the Treasury for that purpose. Even though the employees were retired for the restructure of the Corporation and for converting it to a profitable commercial public enterprise, the appropriate plans for that purpose had not been formulated.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Financial Reporting Standard 07

The accounting policies made applicable for the recognition of the financial assets and liabilities had not been disclosed in the financial statements.

(b) Sri Lanka Accounting Standard 01

(i) The entire balance of employees distress loans as at the end of the year under review amounting to Rs.10,075,443 had been shown under the current assets instead of being classified as the current and the non - current assets in terms of the Standard.

(ii) The accounting policy followed in connection with adjustment of changes in the foreign exchange rates had not been disclosed in the financial statements in terms of the Standard.

(c) Sri Lanka Accounting Standard 08

Prior year adjustments amounting to Rs.338,936 had been adjusted to the profit and loss balance of the year under review instead of being adjusted to the profit and loss balance brought forward in the statement of changes in equity.

(d) Sri Lanka Accounting Standard 17

The expenditure of Rs. 20,396,873 incurred on the establishment of trade stalls on lands obtained on lease basis had been brought to account for depreciating in 05 years instead of being depreciated during the effective life of the assets or the period specified in the lease agreement whichever is less.

(e) Sri Lanka Accounting Standard 18

The accounting policy on the recognition of income had not been disclosed.

(f) Sri Lanka Accounting Standard 19

The current service cost and the interest cost totalling Rs.14,294,052 should be adjusted in the recognition of the profit or loss for the year whilst the actuarial loss of Rs.10,964,641 should be adjusted under the other comprehensive income. Nevertheless, the Corporation had recognized the expenditure on gratuity for the year under review amounting to Rs.25,258,694 inclusive of the above actuarial loss to the Income Statement and subsequently recognized as other comprehensive income. As such the loss for the year under review had been understated by a sum of Rs.25,258,694.

(g) Sri Lanka Accounting Standard 20

The accounting policy followed for accounting for Government grants had not been disclosed in the financial statements.

(h) Sri Lanka Accounting Standard 38

The computer software for preparation of salaries costing Rs.500,000 had been brought to account as a tangible asset instead of being brought to account as an intangible asset.

(i) Sri Lanka Accounting Standard 40

Even though income amounting to Rs.4,695,980 had been earned during the year under review through the lease of property belonging to the Corporation to external institutions, such investment properties had not been disclosed as a separate asset in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The depreciation for the year under review in respect of the surplus values arisen through the revaluation of assets amounting to Rs.45,328,629 had been written off against the Revaluation Reserve. As such the expenditure on the depreciation for the year under review in the statement of income had been understated by that amount.

(b) The balances of 02 accounts totalling Rs.3,380,094 recognized under the work-in-progress in the preceding year had been inappropriately recognized under sundry debtors in the year under review.

(c) The capital grants authorization amounting to Rs.24,644,759 relating to the year under review had been deducted from the expenditure on depreciation for the year under review and adjusted in the financial statements instead of being recognized as other income in the statement of income.

2.2.4 Unreconciled Control Accounts

The Current Accounts relating to the transactions between the Corporation and the Marketing Divisions had not been reconciled and adjusted at the end of the year under review. In consequence of such situation, the difference of Rs.27,760,665 in 57 Current Accounts had been adjusted to the financial statements as the Trade and other Receivables.

2.2.5 Transactions not supported by Adequate Authority

The physically non-existent assets valued at Rs.5,202,867 recognized under the non-current assets as assets for disposal had been written off as prior year adjustments during the year under review without appropriate authority.

2.2.6 Lack of Evidence for Audit

The age analysis relating to the Trade Creditors amounting to Rs.335,698,363 and the Trade Debtors amounting to Rs.251,356,107 as at the end of the year under review had not been furnished to audit.

2.3 Accounts Receivable and Payable

Advances amounting to Rs.540,000 granted for the construction of Fish Sales Stalls at Batticaloa and Matugama had not been settled over a period of 02 years.

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

Instances of non-compliance with the following laws, rules, regulations, etc. were observed.

	Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a)	State Industrial Corporations Act, No.49 of 1957	Deviating from the provisions in the Act, a Vice Chairman had been appointed and a sum of Rs.520,000 at Rs.65,000 per month from April to December of the year under review and with a motor vehicle Rs.83,540 for fuel had been paid.
(b)	Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the release of employees of the Corporation to the line Ministry or any other institution should have the approval of the Cabinet of Ministers, contrary to that 12 officers and employees of the Corporation had been release to external institutions and a sum of Rs.840,370 had been paid in the year under review as salaries and wages.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Corporation for the year under review amounted to a deficit of Rs.259,917,474 as compared with the corresponding deficit of Rs.119,187,790 for the preceding year, thus indicating a deterioration of Rs.140,729,684 in the financial result for the year under review as compared with the preceding year. Even though the provisions received from the Treasury had increased by a sum of Rs.57,769,995, the decrease of sales income by a sum of Rs.343,583,159 despite the decrease of the cost of sales by a sum of Rs.209,298,089 and the increase of administrative expenditure by a sum of Rs.93,700,683 despite the decrease of distributions, finance and other expenditure by a sum of Rs.39,477,499 had been the main reasons for the above deterioration.

An analysis of the financial results for the year under review and 04 preceding years indicated that the deficit of Rs.68,969,869 for the year 2011 had decreased to Rs.41,763,563 in the year 2012 and continuously increased from the year 2013 to the year 2015 to Rs.259,917,474. The value addition of Rs.426,724,880 in the year 2011 after the adjustment of the employees remuneration and the depreciation on non-current assets had decreased continuously up to year 2014 to Rs.374,762,457 and further decreased to Rs.370,771,174 in the year under review.

3.2 Analytical Financial Review

The following observations are made.

(a) The net loss incurred during the five preceding year amounted to Rs.344 million and the net loss as at the end of the year under review had been Rs.259 million and as compared with the preceding year, the net loss had increased by 118 per cent.

(b) The current ratio and the quick ratio of the Corporation had been 0.52:1 and 0.5:1 respectively.

(c) The gross profit margins and the net profit margins of the Fish, Ice, Cold Rooms and Tinned Fish Divisions for the year under review and the preceding year had been as follows.

Particulars	**Gross Profit Margin**		**Net Profit Margin**	
	2015	**2014**	**2015**	**2014**
	%	%	%	%
Fish Income	15.32	18.19	(4.36)	4.06
Ice Income	77.75	56.51	(91.64)	(84.60)
Cold Room Income	97.42	96.47	(52.09)	(22.47)
Tinned Fish Income	(26.54)	4.33	15.04	45.15

The following observations are made.

(i) The gross profit margin and the net profit margin on the fish sales income as compared with preceding year had decreased by 2.87 per cent and 8.42 per cent respectively. This had been due to the non-decrease of the cost of sales as compared with the decrease in the sales income.

(ii) Even though the sales income of the Ice Plants for the year under review as compared with the preceding year had decreased by 23 per cent the cost of sales had decreased at a higher percentage to that, that is 61 per cent and as such the gross profit ratio for this year had improved by 21 per cent.

(iii) As external sales had not been done by the Tinned Fish Division in the year under review and the sale of tinned fish to other Fish Marketing Regions at a price less than the cost of sales and the unavailability of closing stocks, the gross profit ratio for the year under review as compared with the preceding year had improved by 30.8 per cent.

(iv) The deterioration of the net profit ratio of the Fish Sales and the Ice Plant Divisions, as compared with the preceding year by 8.4 per cent and 30 per cent respectively had been due to the increase of the administrative expenditure of those Divisions by 20 per cent and 4 per cent respectively.

(v) The net profit ratio of the Tinned Fish Division for the year under review had decreased due to the decrease of the lease rent of the Division for this year by 60 per cent and incurring a gross loss.

(vi) The administrative expenditure on the income for the year under review had been 27 per cent and the distribution had increased only by 3 per cent. As such it was observed that the unusual increase of the administrative expenditure of the institution had been the reason for the Corporation to turn into net loss status.

3.3 Legal Action initiated against the Institution

External parties had filed 17 cases against the Corporation by the end of the year under review.

4. Operating Review

4.1 Performance

According to the Notifications published in the Gazette Extraordinary No. 14/186 dated 01 October 1964 and the Gazette Extraordinary No. 1712/21 dated 30 June 2011 under the State Industrial Corporations Act, No. 49 of 1957 for the establishment of the Ceylon Fisheries Corporation its initial objectives are summarized as follows.

* Fishing in deep sea direct or through agents by trawlers, processing of fish and sale or distribution as Wholesale or retail sale, construction of Fishery Harbours and Anchorages with Cold Rooms and maintenance, import and export of fish and fish products and import and sale of implements, equipment and other equipment required for the fishery industry.

* Engage in the fishery industry development activities for or on behalf of the Department of Fisheries or any other Government Department construction of boats or other small craft for the fishery industry, supply of repair and maintenance facilities for fishery boats and manufacture and sale of fisheries equipment.

The following observations are made in this connection.

(a) Since the establishment of the Ceylon Fishery Harbours Corporation, Cey-Nor Foundation Limited and the National Aquaculture Development Authority of Sri Lanka under the Ministry of Fisheries and Aquatic Resources Development, out of the Statutory Objectives devolved in the Corporation, the objectives within the scope of those institutions had been devolved in those institutions and as such the Ceylon Fisheries Corporation had not paid its attention to such objectives. Nevertheless, action had not been taken for the revision of the objectives devolved in the Corporation at the establishment of the Corporation.

(b) The Corporation could not achieve the following targets included in the Corporate Plan of the Corporation due to the ceaseless losses incurred and facing a severe financial crisis.

- Making maximum contribution to the Gross Domestic Product as an effective organization.

- Being meaningful with responsibility and consideration for the production, processing and sale of fish.

- Strengthening of the economic capacity of the fishermen and achieving development by uplifting its capacity.

- Engage in the Marketing of fish of high quality by utilizing modern technology and the produce of the value added productions at a fair price.

(c) The following observations are made on the achievements of the main activities during the year under review according to the Performance Report.

(i) Even though provision amounting to Rs.3,125.16 million had been made for the purchase of 9,708 metric tons of fish, 3,443.79 metric tons of fish had been purchased at a cost of Rs.1,186.93 million by the end of the year under review. As such the quantity of fish sales as well had been 38 per cent of the planned quantity.

(ii) Out of the targeted ice sales and cold room income planned for the year under review, the achievement amounted only to 23 per cent and 37 per cent respectively.

4.2 Management Activities

The following observations are made.

(a) Even though the Board of Directors had taken a decision for the conduct of disciplinary action against the parties responsible for 08 charges in connection with the fraud of packaging materials valued at Rs.2,558,028 committed in the year 2011 and the supply of fish to Hospitals causing outstanding debtors balances amounting to Rs.13.9 million by 12 August 2014, and take necessary action for the recovery of the deficiency, such decision had not been implemented even by the end of the year under review.

(b) An Assistant Manager of the Corporation who had been charged for 12 frauds including a cash fraud of Rs.192,000 in February 2001 had been reinstated in service without conducting a disciplinary inquiry based on a decision of the Board of Directors. This officer had been allowed to proceed abroad for participating in a training programme and had been promoted to the post of Manager of Regions Grade II with effect from 03 October 2011 and to the post of Manager of Region Grade I from 20 October 2011.

(c) An appeal made by an Officer who had functioned as the Operating Manager of the Corporation and interdicted from service after finding guilty to 11 charges had been considered and appointed to the posts of Manager of Tangalle, Kurunegala, Minneriya, Kandy, Chilaw and Negombo Marketing Regions subject to another disciplinary inquiry.

(d) The management had not taken action over a period of 32 years to obtain the legal vesting from the parties concerned 08 parcels of land 09 acres, 15.59 perches in extent of which the Corporation holds the tenure.

(e) According to the letter No. NPC/1/2/6 dated 06 March 2013 of the Ministry of Fisheries and Aquatic Resources Development addressed to the Chairman of the Ceylon Fisheries Corporation, instructions had been given for the takeover by the Corporation the Fish Sales Stall at Trincomalee costing Rs. 15 million. Nevertheless action for the takeover had not been taken even by January 2016, the date of audit.

(f) The comparison of the physical stock of trading fish of the Ceylon Fisheries Corporation as at 31 December 2015 with the book value revealed a shortage of 5,939 kilogrammes of fish. Action had not been taken to detect the reasons for such shortage and recover from the parties concerned.

(g) The Board of Directors had, at the meeting No. 980 of the Board of Directors held on 12 November 2012 that out of the sum of Rs. 874,255 receivable from an external party for the supply of 2,117 kilogrammes of fish for the sale through vehicles in the Uva Paranagama in the year 2009, a sum of Rs.427,276 should be borne by the Corporation and the recovery of the balance sum of Rs.446,979 from the party responsible within one year. A sum of Rs.200,000 only had been recovered even after the elapse of 04 years from the decision of the Board of Directors.

(h) According to the decision of the Board of Directors arrived at the meeting No. 1015 of the Board held on 19 May 2016, the Cold Room Complex of the Ceylon Fisheries Corporation had been closed down with effect from 30 July 2016. Nevertheless, instructions for the removal of stocks of fish stored in the Cold Room had not been issued to the parties concerned. As such 5,140 kilogrammes of fish and disposable parts of fish stored therein from the year 2009 had putrefied spreading a foul smell in the area causing discomfort to the people of the area and the media giving publicity to the incident and that had an adverse impact on the goodwill of the Corporation.

(i) The management had not introduced and appropriate methodology for the recovery of charges for the supply of deep freezer facilities for the stocks of fish entrusted to the Corporation by external institutions and individuals. As such the unrecovered balance older than 02 years out of the outstanding balance due as at 19 August 2016 for the supply of the Cold Room facilities to external parties amounted to Rs.4,014,847.

(j) The Corporation had failed to formulate a suitable methodology for draining out the waste water flowing into the Corporation premises from the main road even from a very short period of rain. It was observed at a spot inspection that the staff of the Corporation cannot perform their duties without any hindrance due to that reason. The possibility of employees of the Corporation falling sick due to that reason cannot be ruled out. As goods for disposal are stacked in the Corporation premises and water collecting in them provided breeding places for dengue mosquitoes.

4.3 Operating Activities

The following observations are made.

(a) An annual interest of Rs.38.5 million had to be paid for the loan for Rs.100 million obtained from a State Bank in the years 2010 and 2011 for the achievement of the target of construction of 250 Fish Sale Stalls by the end of the year under review. Ninety one Fish Sale Stalls only had been constructed at a cost of Rs.47.2 million during the years 2010 to 2014. In view of the construction of the Sales Stalls without conducting a feasibility study, 49 Sales Stalls had been closed down due to lack of adequate sales and the removal of Sales Stalls to make way for the widening of highways. Similarly instances of high costs incurred on legal problems due to construction work done without the vesting of lands were also observed.

(b) Out of the 32 Fish Harvesting Regions, 30 Regions, incurred losses and the total loss incurred during the year under review amounted to Rs.138,040,828 and 08 Ice Plants had incurred a total loss of Rs.33,364,965 during the year under review.

4.4 Idle and Underutilized Assets

Twenty one motor vehicles valued at Rs.12,211,084 belonging to the Corporation remained idle during periods ranging from 06 months to 07 years.

4.5 Identified Losses

The following observations are made.

(a) The Corporation had paid overdraft interest of Rs.7,597,811 during the year under review.

(b) A sum of Rs.1,665,963 had been paid in the year under review as interest for the delays in the payment of gratuities.

4.6 Staff Administration

Even though the approved cadre of the Corporation had been 745 the actual cadre had been 1,228 thus indicating the existence of excess staff of 483. The Corporation had become a loss making institution due to the increase of staff cost resulting from the recruitment of additional employees without specifically identifying the requirements.

5. Accountability and Good Governance

5.1 Presentation of Accounts

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the draft Annual Report should be presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented only on 04 July 2016.

5.2 Corporate Plan

The following observations are made.

(a) According to the Corporate Plan prepared by the Corporation, Strategic Plans for the achievement of the objectives of engaging in fishing in the "Own Resources Zone" and fishing outside thereof in accordance with the recognized International Rules, and the sale of fish in the foreign market and representing the domestic and foreign productions and the distribution, had not been presented.

(b) The Marketing Plan of the Corporate Plan of the Corporation for the years 2014 to 2016 had been formulated by recognizing the final consumers as the targeted market. The institutional consumers had not been considered as a targeted market.

(c) The target for the achievement of each objective of the Corporate Plan had not been identified.

5.3 Action Plan

Even though the Annual Action Plan should be prepared in accordance with the Corporate Plan, the activities had not been planned for the achievement of the objectives included in the Corporate Plan such as the maintenance of a consumer service of high quality, enhancement of resources utilization and the efficiency of the management and function as an against of stabilization of fish price.

5.4 Internal Audit

The management had not taken action for the recovery of losses pointed out and the implementation of the recommendations made in the Internal Audit Reports.

5.5 Procurement and Contract Process

Quotations had been invited from 09 registered suppliers for the purchase of dried fish required for the sales requirements of the Corporation. Out of those, the quotations of the bidder who had submitted the lowest quotations had been altered and all contracts had been awarded to one supplier who had submitted higher quotations, thus resulting in a loss of Rs.315,000 by the Corporation.

5.6 Unresolved Audit Paragraphs

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

(a) As the activities of the joint venture entered into with a private company in the year 2006 had become inactive by the year 2010, recovery of the possession of the land invested therein.

(b) Taking action for the recovery of the outstanding debtors balances.

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.

Areas of Systems and Controls	Observations
(a) Income Control	The recovery of income for the sale of fish by the Divisions being at a weak position and action not taken over a number of years for the recovery of outstanding income.
(b) Budgetary Control	Non-presentation of accounts of an approved budget.
(c) Stock Control	- Non-determination of optimum stock levels. Non-introduction of a methodology for the issue of stocks. Existence of stocks not fit for consumption. - Issue of stocks stored in the Cold Rooms on the basis of payment of fees later. - Storage of sub-standard stocks. - Providing Cold Storage facilities again to the external parties who had not removed stocks after long storage and who had not paid the cold storage fees as specified. - Storage of other food commodities along with fish. - Absence of an appropriate methodology for the issue of fish belonging to the Corporation to the market. - Storage of fish not fit for consumption along with the good quality fish.