

Peliyagoda Central Fish Market Complex Management Trust - 2016

The audit of the financial statements of Peliyagoda Central Fish Market Complex Management Trust for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the comprehensive income statement, statement of changes in net assets and cash flow statement and a summary of significant accounting policies and other explanatory information for the year then ended, 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 the approval of the Cabinet of Ministers, No. අම/10/0958/438/001 of 03 June 2010. My comments and observations on the above financial statements 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 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).

1.4 Establishment of the Management Trust

The approval of the Cabinet of Ministers had been received on 03 June 2010 to the Cabinet memorandum for the establishment of Peliyagoda Central Fish Market Complex Management Trust forwarded on 14 May 2010 by the Minister of Fisheries and Aquatic Resources Development. Even though the Management Trust had been established in terms of the said decision, necessary action had not been taken to legalize as a Statutory Institution even up to 31 December 2016.

1.5 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 02**

Even though the cash flow statement should report cash flows during the period classified by operating, investing and financing activities in terms of Paragraph 18 of the Standard, the cash flow statement as at 31 December 2016 had not been presented accordingly.

(b) **Sri Lanka Public Sector Accounting Standard 07**

In terms of Paragraph 57 of the Standard, each part of an item of property, plant and equipment with a cost of the item shall be depreciated separately. Nevertheless, the buildings of the sewerage cleaning plant and the ice manufacturing plant costing Rs.38,598,438 had been depreciated at 5 per cent for the total cost considering them as machinery without being identified as machineries and buildings separately. Further, the entire ice plant had been depreciated at 3 per cent considering as buildings, without being identified as machineries and buildings separately.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though provision for depreciation should be made at the stipulated rates in accordance with the depreciation policies of the Trust, the provision for depreciation in respect of assets that is, computer accessories and Treatment Plant had been made less than the due rates. As such, the expenditure on provision for depreciation had been understated by Rs.64,658 whereas the value of assets had been overstated by a similar amount in the accounts.
- (b) The income from lease rental totalling Rs.8,460,000 receivable for the year 2016 in respect of the ice plant and 2 trade stalls belonging the Trust and used by the Ceylon Fisheries Corporation, had not been brought to accounts.
- (c) A balance of Rs.163,797 had been adjusted as the unidentified difference in the cash flow statement of the year.
- (d) Instead of taking action to capitalize the expenditure on repairs totalling Rs.2,656,080 carried out in the ice manufacturing plant during the year 2015, it had been brought to account under the revenue expenditure in the year 2015. However, action had not been taken to rectify it even during the year under review.
- (e) Even though the cash balance as at 31 December 2016 amounted to Rs.27,987,097 as per the Cash Book, that balance had been shown as Rs.28,005,997 in the statement of financial position as at that date. Thus, a difference of Rs.18,900 was observed.

2.2.3 Unexplained Differences

The creditors and other liabilities shown in the statement of financial position amounted to Rs.5,182,315 whereas it had been Rs.5,042,455 according to the relevant schedule, thus a difference of Rs.139,860 was observed.

2.2.4 Lack of Evidence for audit

The following observations are made.

- (a) The stock of water pipes costing Rs.190,737 shown under the debtors and other receipts in the financial statements presented as at 31 December 2016 had not been ascertained according to Annual Board of Survey Reports and the Stock Ledger. Further, such a stock had not been made available to audit in the physical verification as well.
- (b) Collection of revenue of the vehicle yard of the market premises had been assigned to a private Company and according to the agreement entered in to with that Company, 40 per cent of the monthly net income should be received by the Trust. However, the financial statements of the Company or any other evidence had not been made available to audit to confirm the income amounting to Rs.5,499,439 shown in the financial statements as the income receivable to the Trust for the year 2016.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules and Non –compliance Regulations etc.	Non –compliance
(a) Section 10 of the Value Added Tax Act, No.14 of 2002, amended by the Act, No 17 of 2013	Even though the lease rent income amounting to Rs. 95 million and Rs.91 million had been earned during the year 2015 and during the year under review respectively, the Trust had not taken action to register for payment of Value Added Tax.
(b) Financial Regulations 756 and 757 of the Democratic Socialist Republic of Sri Lanka and the Public Finance Circular No.441 of 09 December 2009	The steps taken on the excesses and shortages observed in the Board of Survey Reports presented on 22 March 2017 after conducting the Board of Survey for the year 2016, had not been reported.
(c) Public Enterprise Circular No. PED/95 of 14 June 1994	Monthly allowances amounting to Rs.62,500 had been paid during the year under review to the Chairman of the Trust, Treasury Representative and the Administration Coordinator appointed for the Trust without obtaining approval of the Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Trust for the year under review was a deficit of Rs. 12,728,485 and the corresponding deficit of preceding year amounted to Rs. 31,466,989 ,thus indicating an improvement of Rs.18,738,504 in the financial result as compared with the preceding year. The increase in the income from stalls by Rs.5,500,000 and the decrease in the expenditure on security services by Rs. 6,047,817 had been the main reason for the said improvement.

An analysis of financial results of the year under review and 04 preceding years revealed that the deficit of Rs.863,735 in the year 2012 had increased up to the year 2016. However, in readjusting the employees' remuneration and depreciation on the non-current assets to the financial results , the contribution of the year 2012 amounting to Rs.63,908,465 had been Rs.60,440,002 by the year 2016.

4. Operating Review

4.1 Performance

According to the decision of the Cabinet of Ministers No.අමප/10/0958/438/001 dated 03 June 2010, the objectives and functions of the Management of the Trust were as follows.

- Undertaking of full controls and management of Peliyagoda Central Fish Market Complex, continuation of the control and management in efficient manner attending for the affiliated works thereon.
- Taking of unlimited action to achieve the above mentioned objectives and functions mentioned in the above paragraph and undertaking of all other related functions.

The following observation is made.

Even though the undertaking of full controls and the management of the Market Complex in efficient manner had been a responsibility of the Trust, the Chairman of the Trust had informed that the income generate from renting out a stall belonging to the Trust , the income from renting out a land for the construction of an ice cube plant and the income generate from transferring the sale of ice in the premises to the Trade Association, were received by the Ceylon Fisheries Corporation. As such, the income of Rs.4,272,000 receivable therefrom by the Trust in the year under review had not been shown as the income of the Trust in the financial statements.

4.2 Management Activities

The following observations are made.

- (a) Necessary action had not been taken in the establishment of the Trust, to ensure the legality of Cabinet Memorandum requiring that the Trust should be managed by 15 Trustees. Nevertheless, the Deputy Director of the Ministry of Health being a member of the Trust had not attended the meetings of the Board of Trust from 30 September 2011 and the Trust had not taken action to make a replacement for him.

- (b) The collection of revenue of the vehicle yard of the Market Complex had been vested by Ceylon Fisheries Corporation and entered into a long-term agreement with a private company on 07 March 2011 for 10 years in this connection. In terms of the agreement, 40 per cent of that revenue should be received to the Ceylon Fisheries Corporation. Even though a decision had been taken at the meeting of the Board of Trust held on 17 May 2016 to revise the agreement as to determine the revenue receivable by the Trust from the vehicle yard to be 50 per cent of the net revenue, action had not been taken even by August 2017 to revise the agreement in accordance with that decision.
- (c) The Plate Ice Production Factory at the Central Fish Market Complex had been rented out to the Ceylon Fisheries Corporation at an annual lease rent of Rs. 3,900,000 without entering into a written agreement with the Corporation. Further, action had not been taken by the Trust to collect the rent as well.
- (d) The approval of the Board of Trust had granted to the Trade Association on 17 July 2015 for fulfilling the daily requirement of ice of the businessmen at the Central Fish Market Complex. The following matters were observed in this connection.
 - (i) In assigning that task to the Fish Trade Association, quotations had not been called in terms of the Procurement Guidelines and action had not been taken to enter into a written agreement.
 - (ii) Even though the supply of ice had been assigned to the Trade Association for a period of three months from 24 August 2015, it had been done up to 16 February 2016 by the Trade Association. The Chairman had informed that, the supply of ice since the said date was done by the Ceylon Fisheries Corporation and no payment whatsoever had been made to the Trust in this connection. Nevertheless, no agreement had been entered into in respect of assigning the supply of ice to the Ceylon Fisheries Corporation.
 - (iii) As decided by the Board of Trust on 17 July 2015, even though the construction of a factory for the production of ice cubes should have been completed before 01 March 2017, action had not been taken even to commence it by August 2017.
 - (iv) Even though the selection of suppliers for the sale of ice cubes had been assigned to the Trade Association, the Trust had not taken action to enter in to agreements with the Trade Association or the businessmen selected for the sale of ice cubes.
- (e) The main source of income of the Fish Market Complex commenced in the year 2011 had been the renting out of assets and according to the following matters ,it was observed that action had not been taken to collect the maximum revenue therefrom.
 - (i) A review of income from renting out the stalls in the year 2016 and 4 preceding years revealed that rent income of the year 2016 and the rent income earned during the year had decreased by Rs.17,787,000 and Rs.31,952,527 respectively as compared with the year 2012. Further, it was observed that the rent income receivable had increased by Rs.14,165,527.

- (ii) The lease rent of a wholesale stall of the Central Fish Market Complex ranged between Rs.2.1 million and Rs.4.7 million. According to Section 14 of the Lease Agreement, the lessee has no right to mortgage, sale or exchange with any other transaction of an outlet leased out or a part of it. However, the Trust had not taken action to get transferred at the end of the lease period of the outlets given to businessman and to lease out again by following the tender procedure. As such, the Trust Fund had allowed the businessmen who owned 11 such outlets to transfer those outlets to third parties and only a sum of Rs.500,000 had been obtained from each outlet by the Trust. Further, the Trust had not taken action to recover a lease rent income of Rs.360,000 due from the owners of outlets of which the lease period was expired.
- (f) Even though 5 years had lapsed since the commencement of the Trust, action had not been taken to transfer the land of 7 acres, 3 roods and 14.9 perches in extent where the Peliyagoda Fish Market Complex is located, to the Trust.
- (g) Replies to audit queries were at a very weak level and 33 audit queries issued from the year 2011 up to the year 2016 had not been answered even by 31 December 2016.
- (h) Even though the Environment Protection License for the Fish Market Complex had been applied from the Central Environment Authority, it could not be obtained even by December 2016 as the waste water was not cleaned and released and the Market Complex premises had not been maintained in compliance with the specifications in accordance with the recommendations of the Authority.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) Even though the ownership of the land where the Peliyagoda Central Fish Market Complex is located was not transferred to the Trust, a part of the land had been leased out by the Trust to a third party for a period of 10 years from 01 November 2016 in respect of the construction of an ice cube plant. However, it was observed that, entering in to an agreement as the lessor in this connection was illegal.
- (b) Manufacturing of animal food and compost fertilizer using the waste materials of fish disposed at the Market Complex and the sales thereof had been assigned to a private company and an agreement for the construction of buildings in the premises and to recover a monthly rental therefrom, had been entered in to on 20 August 2014 for a period of 15 years. Even though it was not stated in the agreement that the Trust should make payments to the company for the disposal of waste materials of fish, the payment of Rs.6,101,216 made to the company by the Trust is a matter of contentious nature.
- (c) The income of Rs.4,272,000 receivable to the Trust in respect of leasing out a land and a room belonging to the Trust to third parties and from the sales of ice, had not been shown as the income of Trust in the financial statements and the Chairman of the Trust had informed that the income was being received by the Ceylon Fisheries Corporation.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) It was observed that 03 refrigerators purchased at a cost of Rs. 1,143,868 in the year 2011 for the use of canteen of the Central Fish Market had remained idle without being used.
- (b) The retail shopping area of the Market Complex is comprised with 128 sales outlets and out of that 64 outlets had been converted in to wholesale outlets in 2011 and 2012 at a cost of Rs. 9,625,540. However, 48 wholesale outlets and 12 retail outlets stalls had not been leased out for selling purposes by 31 December 2016, the date of audit.

4.5 Procurement Process

Even though the selection of a supplier should be done by inviting bids in terms of the Guideline 3.2 of the National Procurement Guidelines -2006, a firm had been selected for cleaning of the premise without taking action accordingly. As per the agreement entered into with the firm, a sum of Rs.15,000,000 should be paid per a year at Rs.1,250,000 per month. However, overpayment amounting to Rs.3,960,000 had been paid due to additional monthly payment of Rs.330,000 made during the year 2016.

4.6 Staff Administration

Even though a Scheme of Recruitment for 43 posts in the cadre approved for the Fish Market Complex had been prepared , necessary action had not been taken to approve it.

5. Accountability and Good Governance

5.1 Action Plan

The Annual Action Plan that should be prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014, had not been prepared by the Trust.

5.2 Budgetary Control

The Annual Budget that should be prepared in terms of Paragraph 4.1 of the Public Finance Circular No.PF/423 of 22 December 2006, had not been prepared and presented since the year 2014.

5.3 Internal Audit

An Internal Auditor had not been appointed for the Trust and an internal audit had not been carried out.

5.4 Procurement Plan

The Annual Procurement Plan that should be prepared in terms of the National Budget Circular No.128 of 24 March 2006, had not been prepared by the Trust.

5.5 Audit Committee

The expected results had not been achieved only from the conduct of Audit and Management Committee meetings due to the failure to reply audit queries and to carry out an internal audit by appointing an Internal Auditor.

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 the following areas of the control.

Areas of System and Observations Control

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| (a) | Financial Control | (i) Non-preparation of Bank Reconciliations properly.
(ii) Non-reconciliation of entries in the cash book with the cheque counterfoils. |
| (b) | Leasing out of sales outlets | (i) Failure to take action to lease out all sales outlets
(ii) Sub lease of sales outlets. |
| (c) | Accounting of Income | (i) Failure to issue invoice for the income from sales outlets
(ii) Issue of receipts before realizing the bank deposits
(iii) Entering transactions in the Cash Book without issuing receipts. |
| (d) | Maintenance of Books and Registers | A record book had not been maintained to record all matters relating the meetings of the Board of Trust. |