

## **Cey-Nor Foundation Limited - 2017**

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The audit of financial statements of the Cey-Nor Foundation Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive income statement, 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. My observations on the performance of the Foundation for the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Responsibility of the Board of Directors for the Financial Statements**

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The Board of Directors 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 Board of Directors 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**

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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. 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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.

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**

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- (a) The Sri Bangalas Boats Manufacturing Company, which was commenced according to an agreement entered into with an investor of Bangladesh by the Cey-Nor Foundation Limited on 14 February 2008, was running at a loss and as such, the agreement had been terminated on the decision dated 23 July 2016 of the Board of Directors. However, according to Sri Lanka Accounting Standard 36, allocations had not been made for impairment of investment of Rs.1,961,850 remained as at 31 December 2017.

- (b) Even though the Ambulance Boat valued at Rs.4,822,544 manufactured by the Foundation in the year 2015 at the request of the buyer, had not been transferred even by the year 2016 to the relevant buyer, it had been adjusted to the sales income of the year under review instead of adjusting to the profit of the preceding year regarding the rectification of accounting it as sales income on 07 December 2015, thus understating the profit of the year under review by Rs.4,822,544. Further, the accuracy of the closing stock balance of the year under review could not be satisfied in audit due to failure in taking action to eliminate the cost of the boat from the stock. Even though it had been decided at the meeting of the Board of Directors held on 23 June 2017 to sell the said boat as scrap, the Foundation had not taken action even to make adequate provisions for losses in stocks that may occur.
- (c) The Foundation had entered into an agreement on 06 November 2017 with a private institution to manufacture and supply a ferry valued at Rs.8,741,820 and to pay an advance of 20 per cent therefor. Even though the said ferry which was incomplete even by 31 March 2019 by spending Rs.2.5 million had not been transferred to the buyer, it had been brought to account on 31 October 2017 considering as sales income of Rs.8,741,820. As such, the revenue of the year under review and the debtors balance as at 31 December 2017 had been overstated by Rs.8,741,820 in the financial statements.
- (d) The value of mobile workshops by which an income of Rs.1,241,176 had been earned for the year 2017, had not been included in the financial statements of the Foundation by recognizing as properties.
- (e) It was observed in audit that only provisions of Rs.6,392,490 had been made for debtors totalling Rs.57,261,894 as at 31 December 2017 remained unrecovered in the years 2004, 2011 and 2015 without making adequate provisions for doubtful debts for them.
- (f) The deeds or valuation reports required for the confirmation of the ownership and the cost of the Mattumagala land in a reliable manner, had not been made available to Audit.
- (g) According to the Nation Building Tax Returns and financial statements, the Nation Building Tax payable as at 31 December 2017 had been overstated by Rs.9,630,913 and information to explain the related year for which the negative payable balance of value added tax amounting to Rs.7,429,048 remaining in the financial statements since the preceding years, had not been available with the Foundation.
- (h) The balance of Rs.2,078,392 out of Government grants amounting to Rs.20 million provided by the Ministry of Fisheries and Aquatic Resources Development in the year 2010 for creating a boat mould for the Boat Yard at Mattakkuliya had been shown as a balance to be settled to the Ministry in the financial statements for the year ended 31 December 2017. However, relevant source documents were not available with the Foundation.
- (i) The debtors balance of Rs.11,333,779 had been shown as at 31 December 2017 in the financial statements of the Foundation in the name of Ministry of Fisheries, National Aquatic Resources Research and Development Agency and National Aquaculture Development Authority. However, the financial statements of those institutions proved that there were no

such balances. As such, the accuracy of the debtors balance amounting to Rs.11,333,779 shown in the financial statements, cannot be satisfied in Audit

- (j) The information on creditors totalling Rs.1,385,429 included in Trade Debtors remained as at 31 December 2017 and confirmation of balances relating to selected 35 creditors totalling Rs.32,684,900 had not been received to Audit. As such, the accuracy of the creditors balance totalling Rs.34,070,329 cannot be satisfied in Audit.
- (k) The creditors balance of Rs.538,130 remained as at 31 December 2017 had been confirmed as a zero balance by the relevant institution. As such, the accuracy of the said balance cannot be satisfied in Audit.
- (l) The Foundation had failed to submit investigation reports and lease agreements in respect of a sum of Rs.1,892,572 remained for a long period under other receivables in the financial statements of the year under review.
- (m) The fishing nets valued only at Rs.149,275 which were manufactured by using raw materials valued at Rs.5,059,050 provided for manufacturing of fishing nets on sub-contract basis awarded to a private institution in the year 2011, had been received by the Foundation. As such, the remaining raw materials valued at Rs.4,909,775 or 97 per cent had been shown under receivables of the financial statements without taking action to settle them since the year 2011. However, the Foundation had failed to submit the contract agreement entered into in this connection.
- (n) A difference of Rs.4,848,844 was observed between the balance of provisions for accumulated depreciation remained as at 31 December 2017 according to the schedules of computation of depreciation presented to Audit by the Foundation and the balance of provisions for accumulated depreciation indicated in the financial statements.
- (o) Even though sums of Rs.26,294,662 and Rs.18,010,833 had been shown under current assets and trade creditors in the name of Northsea Limited in the financial statements of the Cey-Nor Foundation Limited as at 31 December 2017, according to the financial statements of the Northsea Limited, a sum of Rs.2,101,138 had been indicated only under trade creditors. As such, the accuracy of balances of Rs.26,294,662 and Rs.15,909,695 shown under current assets and trade debtors in the financial statements of the Foundation, cannot be satisfied in Audit.

## **2. Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph on the basis for qualified opinion of this report, the financial statements give a true and fair view of the financial position of the Cey-Nor Foundation Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## **2.1 Report on other Legal and Regulatory Requirements**

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As required by Section 163(2) of the Companies Act, No. 7 of 2007, I state the followings;

- (a) The basis of qualified opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion;
  - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Foundation and;
  - the financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 7 of 2007.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Foundation for the year under review had been a net profit before tax of Rs.15,712,413 as compared with the corresponding net profit of before tax Rs.9,566,818 for the preceding year, thus indicating an improvement of Rs.6,145,595 in the financial result of the year under review as compared with the preceding year. In the analysis of financial results of the year under review and 4 preceding years, the profit of the year under review was gradually increased as compared with the year 2013.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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The following observations are made.

#### **(a) Corporate Plan**

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In terms of Section 5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Corporate Plan relating to 03 ensuing years commencing from the year 2017, had not been prepared even by 29 October 2018.

#### **(b) Action Plan**

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The Action Plan for the year 2017 had not been prepared in a manner of covering objectives cited in the Articles of the Foundation and the Action Plan had been prepared by considering only 03 key functions.

**(c) Budgetary Control**  
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Contrary to provisions of Sections 5.2.4 and 5.2.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Budget for the year 2017 had been approved on 27 December 2016 and the Statement of Budgeted Financial Position and the Statement of Budgeted Capital Expenditure which was in compliance with the Action Plan, had not been included in the said Budget.

**4.1.2 Function and Review**  
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The performance indicators required for measuring the output level and for evaluation the outcome of functions which should be performed by the Foundation, had not been prepared. As such, the output level and the outcome of functions performed, had not been evaluated.

**4.2 Management Activities**  
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**(a) Vesting of Fishnet Factories belonging to the Foundation in a Public Company and Vesting of a Boat Yard of the Public Company in the Foundation**  
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The following observations are made.

- (i) The two Fishnet Factories owned by the Cey-Nor Foundation Limited, being the sole agent with the International Standard Certification (ISO 9001-2000) for the manufacture of Nylon fishnets in Sri Lanka, had been vested in the Northsea Limited on 22 June 2011 and it was observed that it may adversely affect the Fisheries Sector and the Foundation.
- (ii) The boat yard at Karainagar, which was destroyed during the war, owned by the Northsea Limited, had been vested in the year 2014 in the Cey-Nor Foundation, coming under the purview of the Ministry of Fisheries. Nevertheless, manufacturing activities had not been carried out even by the end of the year 2017.

**(b) Leasing out a Land owned by the Cey-Nor Foundation**  
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The land of 02 roods 18.24 perches in extent located at D.R.Wijewardana Mawatha, belonging to the Foundation, had been leased out to a private company to maintain a canteen on 04 July 1998 for a period of 20 years and the period of the agreement had terminated on 04 July 2018. In terms of the Cabinet Decision No.අමු18/0384/725/014 dated 21 March 2018, it had been decided to lease out again to the same institution on the assessed annual lease rental of Rs.39,300,000 given on 20 September 2016 by the Valuation Department. However, according to an observation of the President made on 05 March 2018, it had been informed that “it is appropriate to give an opportunity for other investors to express their ambition”. Further, it was observed that the Orient Pearl Restaurant had filed a case under such circumstance. Therefore, the Foundation was unable to implement the procurement process again.

### **4.3 Operating Inefficiencies**

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#### **(a) Control over Motor Vehicles**

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The following observations are made.

- (i) A motor vehicle owned by the Foundation had been repaired by spending a sum of Rs.25,000 after an accident occurred on 21 March 2017. Moreover, in terms of Financial Regulations 103 and 104, inquiries had not been instituted to fix responsibility on damage occurred to the vehicle.
- (ii) In terms of paragraph 3.1 of the Public Administration Circular No.30/2016 of 29 December 2016, inquiries had not been conducted on combustion of fuel.
- (iii) Eleven motor vehicles were available in the Cey-Nor Foundation and Log Books had not been used for those motor vehicles until the end of the year 2017.
- (iv) It was observed that out of these 11 motor vehicles, 6 were repairable and 04 have been remaining over a period between 20 years and 30 years. Moreover, registers had not been maintained for expenditure on repairs and maintenance and as such, suitability for repairing and maintenance of these motor vehicles could not be examined.
- (v) Out of wood furniture and other goods valued at Rs.474,976 provided by the Cey-Nor Foundation Limited for the use of the Managing Director who had served during the period from 20 May 2010 to 22 December 2014, goods valued at Rs.136,782 had been returned on 18 August 2017. However, 12 items of goods valued at Rs.141,350 had not been returned even by 10 October 2018.

#### **(b) Manufacture and Supply of Multiday Fishing Boats**

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In terms of the Cabinet Decision No.අම/16/1233/725/020-1 of 06 July 2016, the contract of manufacturing and supplying of 10 multiday fishing boats had been awarded to the Cey-Nor Foundation with a view to providing customers with quality fish products by reducing post-harvest fish losses. The production cost of a multiday fishing boat had been assessed for Rs.26 million and 50 per cent subsidy and 50 per cent of the expenditure should be incurred by the Government and the Fisherman respectively. It is required to implement this purpose before 15 December 2016 and as such, manufacturing activities of 5 boats out of them had been commenced by the Cey-Nor Foundation and remaining 5 boats by two private boatyards registered in the Department of Fisheries and Aquatic Resources under the supervision of Cey-Nor Foundation. The following matters were observed in this connection.

- (i) Even though manufacturing activities of 5 multiday fishing boats should be completed before 15 December 2016 by the Cey-Nor Foundation, manufacture of 2 multiday fishing boats could not be completed even by the end of August 2018. Further, 3 multiday fishing boats provided to a private institution had not been manufactured even by 29 October 2018.

- (iii) A boat manufactured and handed over to a fisherman by the Cey-Nor Foundation had been destroyed by fire at the first sailing on the sea, that is, on 22 March 2018. Even though the Marine Engineering Assistant of the Department of Fisheries and Aquatic Resources had ascertained on 20 February 2018 that the multiday fishing boat has been manufactured at a high standard, a formal inquiry in terms of the Financial Regulations 103 and 104, had not been conducted regarding this damage.

#### 4.4 Staff Administration

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The following observations are made.

- (a) The position on the cadre as at 31 December 2017 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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Senior Level	03	01	02
Tertiary Level	20	08	12
Secondary Level	43	32	11
Primary Level	69	47	22
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	<b>135</b>	<b>88</b>	<b>47</b>
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- (b) Recruitments had not been made for 47 vacancies including 02 vacancies in the senior level and 12 in the tertiary level in the approved cadre. These vacancies had affected the delay in manufacturing multiday fishing boats and in presentation of financial statements.

#### 5. Achieving Sustainable Development Goals

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The following observations are made.

- (a) Every Government institution should act in terms of the 2030 “Agenda” of the United Nations for Sustainable Development. However, Foundation had not been aware of the functions that come under its scope, relating to the year under review and had not taken action to identify the sustainable development goals and targets and focal points to reach those targets and indices for measuring the achievement of targets.

- (b) It was observed that the process of preparation of plans and preparedness for achieving targeted objectives had been sluggish or at a week level due to unavailability of proper coordination with other institutions in preparation of achievement of sustainable development goals.

## **6. Accountability and Good Governance**

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### **6.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the draft Annual Report and the financial statements should be presented to the Auditor General within 60 days after closure of the financial year. Nevertheless, the financial statements for the year under review had been presented to Audit on 19 November 2018 after a delay of 09 months.

### **6.2 Internal Audit**

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The internal audit programme relating to 20 financial aspects for the year 2017 had been prepared and furnished for the survey of the financial aspects of the work of the Department in order to enable a systematic and efficient check on financial matters in terms of the Financial Regulation 134(2). However, internal audit had been carried out only relating to 7 aspects.

### **6.3 Procurement and Contract Process**

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#### **6.3.1 Procurements**

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The following observations are made.

- (a) A detailed Procurement Plan for procurements of the year 2017 had not been prepared in terms of Guideline 4.2.1(c) of the Government Procurement Guidelines and 4.2.1 of the Procurement Manual. Further, there was no evidence that procurement time schedules and a total cost estimate had been prepared, a first meeting jointly with the Procurement Committee and the Technical Evaluation Committee was held and that the Technical Evaluation Committee had been appointed in terms of Guidelines 4.2.2, 4.3, 2.11.1 (c), 2.8.4 and 8.9.1 (b) of the Procurement Guidelines respectively, for 3 instances of procurement of raw materials totalling Rs.55,584,916 carried out in the year 2017 and it had not been properly entered into a written agreement with the supplier.
- (b) In terms of the Public Finance Circular No.06/2016 of 17 June 2016, the non-refundable tender fees for procurements costing between Rs.10 million and Rs.15 million should be between Rs.3,500 and Rs.12,500. However, in Procurement Nos.2017/FGRM/01 and 2017/FGRM/04, a minimum fee of Rs.1,500 which should be charged as the non-refundable tender fees, had been recovered. As such, a sum of Rs.16,000 had lost from 08 procurements due to failure in recovering the minimum fee of Rs.3,500.



- (c) Even though it had been mentioned in specifications of bidding documents that a performance bond of 5 per cent should be submitted by the selected supplier, evidence that the performance bonds relating to the said three procurements had been submitted, had not been made available.
- (d) The written evidence that the specifications mentioned in bidding documents had been compared with specifications in bidding documents submitted by the Technical Evaluation Committee relating to three procurements, had not been made available and as such, it could not be satisfied on the recommendation of the Technical Evaluation Committee.

#### 6.4 Unresolved Audit Paragraphs

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 The attention of the Foundation had not been paid on following matters shown by the Audit Report of the year 2016 up to the date of this report.

Paragraph Number	Observation
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2.2.5(b)	The Cabinet Paper dated 02 November 2010, report on computation of value of vesting of assets or report of the Government Valuer in respect of vesting of two factories at Lunuwila and Weerawila owned by the Cey-Nor Foundation in the Northsea Limited, had not been made available to Audit even by 29 October 2018.
4.2(a) ii	Title deeds or any other evidence required for confirming ownership of the land on which the workshop for repair of motor vehicles at Mattumagala is located, had not been made available to Audit even by 29 October 2018.
4.4 (a)	<p>According to the Cabinet Decision No.අම/07/0198/351/001 dated 22 February 2007, the Cey-Nor Foundation Limited had entered into an agreement on 14 February 2008 with the Elite Agro Industries (Pvt) Ltd. in Bangladesh to commence a joint venture for the purpose of manufacturing fishing boats.</p> <p>(i) In terms of the Agreement, a bank security in respect of the joint partner of the venture had not been obtained and a sum of US\$.21,265 had been overinvested.</p> <p>(ii) No benefits whatsoever from the investment had been received to the Cey-Nor Foundation up to the year 2017 and the approval had been granted by the Board of Directors Paper No.310 dated 28 July 2016 to complete the project. However, action had not been taken to terminate the project even by 29 October 2018 and a nominal value of Rs.1,961,850 had been indicated under investments in</p>

the statement of financial position in the year 2016.

**7. Systems and Controls**  
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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Controls</b> -----	<b>Weaknesses in System</b> -----
(a) Procurements	Taking action deviating from Procurement Guidelines.
(b) Leasing out of Assets	Failure in taking action for proper recovery of lease rental income.
(c) Action Plan	Failure in taking action to achieve the objectives mentioned in the Action Plan.