

Transaction Report of the Ceylon Fisheries Corporation – 2020/2021

The audit of the operational activities of the Ceylon Fisheries Corporation for the years ended 31 December 2020 and 2021 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should report to Parliament stated in this report.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

As per sub Section 16(1) of the National Audit Act No. 19 of 2018, required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable annual and periodic financial statements to be prepared of the Company.

As per sub Section 16(2) the annual financial statements in respect of every audited entity shall be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such period as may be provided by rules.

As per Sub Section 38(1) (d) ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the audited entity.

1.3 Presentation of financial statements

Audit Observation

Management Comment

Recommendation

According to sub-section 6:5:1 of the State Business Circular No. PED/12 dated on 02 of June 2003, the financial statements and draft annual report must be submitted to the Auditor General within 60 days of the end of the accounting year, but the financial statements of the year 2018 with defects had been submitted to the audit on 24 of November 2022. The financial statements for the years 2019, 2020 and 2021 had not been presented to the Auditor General by 31 October 2022.

Agreed. Currently, the incomplete schedules related to the year 2018 have been presented to you. I would like to mention that after the fully completed the audit of financial statement 2018 and according to the final audit report only amendment have to be done in 2019. The financial reports related to the years 2020 and 2021 are also expected to be completed immediately.

According to the circular, the financial statements and the draft annual report should be submitted to the Auditor General within 60 days of the end of the accounting year.

1.4 Receivable and Payable Accounts

1.4.1 Receivable Accounts

Audit Observation

Management Comment

Recommendation

- (a) Although the internal circular CFC/GM/CIR/51 dated on 07 of
- The sales have been made to external parties on credit basis in
- The internal circular should be followed and disciplinary

October 2003 had instructed to immediately suspend sales on credit, the receivable total fish sales value on 31.12.2021 was Rs.261,549,254 and of this the external debtor balance of more than 5 years was Rs.28,831,013 and the outstanding debtor balance from the sale of fish to employees and the hospital debtor balance was Rs.17,497,325. However action had not been taken against the officers who sold fish on credit against the circular.

order to increase the corporation's sales, the corporation's investigation has been carried out, disciplinary action have been taken against the internal officers and internal circulars have been revised.

action should be taken against the officers who do not comply with it.

(b) As at 31 of December 2020, only 16 out of 30 hospitals were received balance confirmation letters from hospital debtors and out of the received balances, there was no follow-up on disagreements with the balance confirmation of Rs.7,782,214.

Not responded.

Investigations should be carried out to detect the reasons for the disagreed balance confirmations.

1.4.2 Payable Accounts

Audit Observation

Bank loan balance due on treasury guarantees as on 31 of October 2022 is Rs.158,623,208 and the interest amount due on that date is Rs.34,531,894 and according to the bank statement of bank account number 1257 the bank overdraft was Rs.25,491,592 as on 31 December 2021 and the corporation was not possible to manage this bad financial situation as it incurred losses in continue.

Management Comment

The top management has discussed with the Bank of Ceylon and the Treasury for the payment of the bank loans obtained on the relevant treasury guarantees and the relevant procedures are being happening.

Recommendation

Management should pay close attention due to the future survival of the corporation is risky.

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

	Reference to Laws, Rules, Regulations	Non- compliance	Management Comment	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	F. R. 103(c)	Although investigations should be carried out regarding losses and damages and those responsible persons should be determined, but the investigations and those responsible had not been determined regarding the missing of compressor spare parts revealed in the stock physical survey in Galle Ice Factory and the value of these compressors had not been submitted to the audit.	In this regard, formal and financial investigations have been carried out at the institutional level and the estimated value of the current market price had been obtained in relation to the missing spare parts and a complaint had been lodged at the Galle Police Station regarding the misplacement and an investigation is currently being conducted.	Investigations should be started to determine those responsible for this loss.
(ii)	F. R. 175(2)	Special attention should be paid to the arrears, and legal action should be initiated without delay if necessary, but as at 31 of December 2021, out of the total outstanding fish sales value of Rs.261,549,254, the balance less than 01 year was 129,435,004 and the balance between 1-3 years was Rs.42,460,993, and the balance between 3-5 years was Rs.20,743,759 and the balance above 5 years was Rs.68,909,498, but the regulation had not been followed.	Letters have been sent to the relevant institutions and individuals regarding outstanding loans related to production, sales, sales promotion and project division and further legal action is being taken. Further, internal investigations had been conducted and disciplinary action had been taken against the relevant parties for the loan balance related to the Sahana Market and a complaint had also been made in the financial crime department.	Action should be taken to charge the arrears immediately.
(b)	Section 26 of the Value Added Tax Act No. 14 of 2002	Although the Value added tax should be remitted to the Inland Revenue Department before the 20 of every month,	As soon as the financial situation improves in the future, it is expected that the relevant payments will be	This tax amount should be remitted to the Inland Revenue

		an amount of Rs.19,696,372 has been remained unremitted as at 31 December 2021.	settled very soon.	Department immediately.
(c)	Section 04 of the National Building Tax (NBT) Act No.9of 2009	Although the Nation Building Tax should be remitted to the Inland Revenue Department, an amount of Rs.94,316,489 had been remained as at 31 December 2021.	The Inland Revenue Department filed a case in Colombo Magistrate's Court in the year 2022 against the Corporation for the value of Rs.10,350,626.65 out of which Rs.94,316,484.00. Accordingly, after presenting facts that the corporation is currently in a huge financial crisis in 12.12.2022, the honorable court was ordered to pay the relevant arrears in installments of Rs.500,000 per month. Accordingly, the first installment of Rs.500,000 was paid to the honorable court on 25.01.2023 and the rest will be paid in future installments and Other arrears are expected to be paid as soon as the financial situation is improves.	The Nation Building Tax should be remitted to the Inland Revenue Department without delay.
(d)	Economic Service Charges Act No. 13 of 2015 and Economic Service Charges (Amendment) Act No. 07 of 2017	The payable amount of Rs.49,119,889 of Economic Service Tax from the year 2015 to the year 2019 had not been remitted to the Inland Revenue Department.	Not responded.	The Economic Service Tax should be remitted to the Inland Revenue Department without delay
(e)	Paragraph 3.7 and 3.9 of Public Enterprises Circular No. 2013/02 dated 11 of September 2013	The circular introduced the measures to be followed for the settlement of outstanding employee provident fund contributions and employee trust fund contributions and according to 3.7 of the circular, the secretary of the relevant ministry should be informed about the	In order to pay the arrears through the intervention of the line ministry, through a cabinet memorandum, to request some provision from the treasury and if there is a difficulty in doing so, the institution may propose an installment that can be paid monthly on the basis of	The contributions of Employee provident fund and contribution of employee trust funds should be remitted timely.

outstanding contributions that are no longer settled and a copy should be submitted to the treasury secretary and It was the responsibility of the Ministry Secretaries to reach a solution with the treasury secretary after discussions. Also, according to section 3.9 of the circular, it was stated that the chairman, the board of directors, the chief executive officers and the officers in charge are collectively and individually liable for no further growth of arrears.

However, as at 31 of December 2021, contributions to the Employee Provident Fund amounting to Rs.321,171,209 and surcharges of Rs.165,835,868, and contributions to the Employee Trustee Fund amounting to Rs.15,420,275 and Rs.7,710,137 as surcharge.

showing some positive profit on the basis of the current operations, and accordingly, on the guarantee of the treasury in the long term. The management has decided to take a bank loan and settle these contributions.

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| (f) | Paragraph 5.1.3 of Public Enterprises Circular No. PED 12 dated 02 of June 2003. | A copy of the updated compact plan approved by the board of directors should be submitted to the Auditor General 15 days before the start of the next financial year, but the compact plan for the period 2021-2025 was submitted to the Auditor General on 13 of July 2022, about one and a half years later. | Based on the recommendations presented by the COPE committee, expect to revise the five-year compact plan and present a new compact plan very soon. As an extension of that compact plan, a concise corporate plan containing strategic plans for the year 2023 has been prepared and submitted to the relevant institutes. | A copy of the updated compact plan with the approval of the Board of Directors should be submitted by the Corporation to the Auditor General 15 days before the commencement of the next financial year. |
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2. Operational Review.
2.1 Management Inefficiencies.

Audit Observation	Management Comment	Recommendation
(a) Rs.1,273,400,000 worth of land 46 acres, 01 rood, 10 perches belonging to the Fisheries Corporation had not been acquired by the corporation even on 31 of December 2021.	Not responded.	Action should be taken to acquire the lands belonging to corporation.
(b) The corporation did not have any information of the extent, value, ownership, acquisition and assessment in respect of 15 lands used by the Corporation in the areas of Negombo, Trincomalee, Beruwala, Mirissa, Puranawella, Kuduwella, Tangalla, Peliyagoda, Matara, Beliatta, Weerakatiya, Ambalangoda, Angunakoapalassa,	Not responded.	All information related to land should be maintained by the corporation.

2.2 Operational Inefficiencies.

Audit Observation	Management Comment	Recommendation
(a) 22 of July 2021 According to the agreement reached with a private institute for the lease of the Galle ice plant, the agreement did not include any terms regarding the maintenance and repair of the compressors in the corporation's possession and even though the lessee had handed over 02 compressors to another private company for repair without the prior approval of the corporation. The compressors with a market value of Rs.7.1 million (US\$10,000) remained inoperative as of 30 of November 2022.	Not responded.	Compressors should be repaired and used.
(b) The corporation issues fish and dried fish to the hospitals for the type and quantity of fish/dried	According to the situation of the Covid crisis, the daily operations of the department had been	Management should ensure that necessary measures are taken to ensure that fish/ dried fish are

fish requested by the hospitals but during the inspection of the Return Day Book worth of Rs.573,653 valued and total quantity of 676.3 kg fish/dried fish had been returned related to 04 months of the year 2020 and 08 months of the year 2021 from 10 hospitals and the hospital supply department of the corporation had not taken action to investigate this. In addition to that the Public Service Supply Division supplies fish and dried fish at subsidized prices only for the needs of the hospital, but in 11 cases where fish had been supplied to the hospital staff at the same subsidized price and it was observed that 315 kg of fish/dried fish worth Rs.282,318 had been returned. It was observed during the audit that the corporation had incurred the cost of transporting the fish to the hospitals at a subsidized price, and these factors had also affected to the continued losses of corporation.

maintained with heavy difficulty due to the attendance of the employees of the institution was very limited. Due to on, the hospital supplies were delayed and so that hospitals had returned the fish and dried fish without accepting them, and the returned fish were again supplied for the hospital orders.

not returned and fish/ dried fish should be released only for hospital requirements.

Due to a request made from the hospital staff about the difficulty in buying food from the market due to the covid epidemic, a very minimum quantity of fish/dried fish had been supplied to the hospital staff at the concessional price of the hospital due to compassionate reasons, but the fish/dried fish so provided had not been returned. As the fish/ dried fish supplied to the hospital staff have been supplied along with the hospital order related to the hospital and additional cost had not been incurred for the transportation of fish and that fact had not affected to the loss of the institution.

- (c) 8 stores built at an incurred initial cost of Rs.2,093,548 in the years of 2018, 2019 and 2020 had been closed in the year 2020 and in this there were 03 stores that were started in the year 2020. 6 stores built at an initial cost of Rs.1,461,658 were closed in the year 2021 and there were 04 stores opened in the year 2020 and one store opened in the year 2021.

The normal procedure followed by the corporation of the choosing a suitable place to start a new store is focusing on the main cities where the public hangs around more. Accordingly, in many cases the desired sales can be achieved, but in some cases the store is unable to achieve the desired sales in the competitive market.

A market survey should be carried out while choosing a suitable place to start a new store.

The audit also observed that the stores will have to be closed and the expenses incurred will be inefficient due to the closure and the corporation will continue to

For that, the existing competition in external stores as well as the weaknesses of the employees working in the store are affected and if the customer is rejected once due to any reason, it is difficult to call the customer back

incur losses due to not conducting a market survey before starting a store whether it is possible to start a store in the relevant area and make enough sales.

to the store in the competitive market. As a result, many new stores can achieve successful sales, but some stores fail.

2.3 Human Resource Management

Audit Observation	Management Comment	Recommendation
<p>(a) As on 31 of December 2020 there were vacancies for the 3 posts of Senior Management (HM) General Manager, Deputy General Manager (Marketing), Deputy General Manager (Engineering) and as on 31 of December 2021 the same 3 senior management level posts and Deputy General Manager (Human Resource Development and Administration) 04 posts were vacant. The management of the Corporation had not yet taken action to fill these long-term vacancies at the senior management level by 30 of November 2022.</p>	<p>As on 31.12.2022, recruitment has been suspended for 03 posts at senior management level and 04 posts including Deputy General Manager (Human Resources and Administration) as per circulars BD/CBP/01/01/04-2022 and dated 16.04.2022 issued by the Ministry of Finance. Therefore, letters had been forwarded to the Department of Management Services through Ministry of Fisheries on 04.11.2022 for approval to recruit for the above positions.</p>	<p>Action should be taken to fill the long term vacancies at senior management level immediately.</p>
<p>(b) As on 31 of December 2020 there were 20 vacancies for 11 Management Level (MM) posts and as on 31 of December 2021 there were 23 vacancies for 11 Management Level posts. It was observed that out of those posts, only 4 posts have been employed and the work has been done by acting officers. The audit observed that situation has a huge impact on the performance of the corporation.</p>	<p>Officers have been appointed for the posts of Administrative Manager and Marketing Manager as per the description of vacant posts belonging to Management (MM1.1) category as on 31.12.2020. The activities related to the establishment of acting posts or new recruitment are being carried out following the formal procedures for the actual vacant posts.</p> <p>Regarding the application of the recruitment procedure to the corporation, an interview panel will be nominated by the ministry to invite applications for vacant positions and conduct interviews</p>	<p>Action should be taken to fill up the vacant posts immediately.</p>

and carry out further work related to allocating positions.

- (c) According to Section 04 of Management Services Department's letter No. DMS / 16 / 18 dated on 16 of July 2018, the corporation should not make any recruitment beyond the approved staff to affect the financial status and performance of the institution, but the corporation shall appointed 99 officers and employees to 8 posts beyond the approved staff on 31 of December 2020 and 78 officers and employees had been recruited for 6 positions on 31 of December 2021.
- The corporation had not made any new recruitments and the employees who completed 180 days in the year 2019 were confirmed as per the circular. Absorption of employees had not been done as per the recruitment procedure. Necessary actions are being taken to apply the recruitment procedure to the corporation.
- The recruitment should not be made beyond the approved carder.
- (d) It was observed that 09 positions of Ceylon Fishery Corporation are being acting for 01 year to 05 years and the management had not been taken an action for the appointment for 5 years and Rs.4,690,932 had been paid for it.
- An interview panel has been formally appointed from the representatives of the ministries regarding the establishment of positions for the officers who will be doing acting work positions and the necessary actions are being taken to fill those positions immediately.
- Immediate action should be taken to recruit permanent employees for acting work positions.
- (e) Since the business plan was not prepared at the time of approved of the recruitment procedure by the Management Services Department on 22 of August 2019, the number of employees to be applied to the relevant units and regions had not been approved. Thus, 430 employees had been assigned to various units and 21 regions without any basis.
- Not responded.
- The number of employees to be assigned to various units and regions should be approved by the Management Services Department.

2.4 Identified Losses

Audit Observation	Management Comment	Recommendation
(a) The corporation had suffered a financial loss due to the fish stocks with an approximate value of Rs.587,520 became unusable and were disposed of as garbage on 20 of August 2020 and follow-up procedures and preventive measures had not been taken.	The answers have not received.	Management should not work to incur financial losses for the corporation.
(b) The internal circular had not been issued by the management, to minimized the sales return and identify the responsible officers for the errors of the sales return or maximum quantity of that return. Although 19,492 kilograms of fish worth of Rs.14,635,446 had been accepted as returned after sale in the year 2020 in Galle region and the management did not follow up the reasons that affected to this.	Not responded.	Management should issue internal circular regarding the sales return and sales return should be minimized.

3. Annual Action Plan

Audit Observation	Management Comment	Recommendation
Although 14 activities had been planned for the year 2021 and the following 9 activities had not been implemented.	Provisions for the preparation of the 2021 action plan were mainly based on the national budget document as a financial allocation of Rs.500 million to the Ceylon Fishery Corporation for restructuring and streamlining the operational process.	The progress should be obtained according to the action plans.
(i) Installation of Cold Storage Complex with Solar Power Unit at Modara Head Office.		
(ii) Establishment of 20 super markets.	However, money was not received from the money allocated by the national budget in that year and the main financial flow of money received from the sale of fish, could not be done other than the opening of a certain number of	
(iii) Introducing a business resource planning system.		
(iv) Establishment of freezer containers in harbor premises.		

- (v) Repair of Anuradhapura Ice new shops related to the Plant. development of direct sales.
- (vi) Purchase of 2 forklifts.
- (vii) Establishment of a new ice plant at Minneriya.
- (viii) Establishing a new cold storage complex in the Northern Province.
- (ix) Establishment of Modara fish processing unit.

3.2 Internal Audit

Audit Observation	Management Comment	Recommendation
<p>As of 31 of December 2021, the corporation had filed a case against an employee who worked in Chilaw region in relation to fraud of Rs.1,594,067 and against an employee of Peliyagoda Metro region Fish Market in relation to fraud of fish sales money of Rs.619,815. It was further observed that the corporation has not implemented an internal audit to prevent these kind of fraud.</p>	<p>It is accepted that there are weaknesses in the old systems regarding the origination and recovery of these debt balances mentioned in the audit inquiry and currently the debt collection department is being strengthened under the direct supervision of the top management and its progress is being regulated on a weekly basis and that positive progress can be made on this weakness upon establishing the computerized accounting system immediately that the initial procurement work has completed.</p>	<p>The management should act to minimize the fraud and errors by developing a strong internal control system and control methodology.</p>