

Ceylon Fishery Harbours Corporation- 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Ceylon Fishery Harbours Corporation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements including a summary of significant accounting policies, 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, and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Corporation. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer Opinion

Based on the matters described in Paragraph 1.5 of this report, I do not express an opinion.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is 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 Corporation.

1.4 Audit Scope (Auditor’s Responsibilities for the Audit of the Financial Statements)

It is my responsibility to issue the auditor's report on the financial statements of the Corporation based on the audit conducted in accordance with Sri Lanka Auditing Standards. However, due to the matters described in the Basis for Disclaimer of Opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to Relevant Standard	Comments of the Management	Recommendation
(a) As the recurrent expenditure on Myladi Fishery Harbour amounting to Rs.1,140,626 had been accounted for as work- in-progress in contrary to Section 14(a) of Public Sector Accounting Standards 07, the balance of non-current assets and the profit of the year under review had been overstated by that amount.	Payments have been made by Projects Division of the Ministry for a part of the construction of Myladi Fishery Harbour. Only the amount mentioned in the audit query has been sent by the Ministry to us to pay. Similarly, since the construction works have not been completed, this amount has been temporarily shown under work- in- progress.	Expenditure on recurrent nature should be accounted for in accordance with Section 14 (a) of Public Sector Accounting Standards 07.
(b) The total of shortage of diesel and kerosene at fishery harbours during the year under review was 57,418 litres and the value was Rs. 22,781,658. The damage to stock had not been accounted for as an expense as per Section 25 of Sri Lanka Public Sector Accounting Standards 09.	As the investigations are currently being carried out in respect of harbours with abnormal stock shortages and excesses of diesel and kerosene stocks, accounting will be done in respect of stock after receiving its observations.	Actions should be taken in terms of Section 25 of Sri Lanka Public Sector Accounting Standards 09.

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| (c) | The capital grants of Rs.46,000,000 received in the year under review had not been accounted for as revenue in accordance with Sri Lanka Public Sector Accounting Standards 11 . | About Rs.46 million had received for the capital expenditure in the year 2022 as government grants and the amount has been adjusted to the profit and loss account. | Capital Grants receive to the Corporation should be accounted for as revenue as per Sri Lanka Public Sector Accounting Standard 11 . |
| (d) | Even though a rental income amounting to Rs.91,205,033 had been earned during the year under review for 87 properties which had owned by fishery harbours and accounted for in the financial statements, the property had not been recognized as an investment property as per Sri Lanka Public Sector Accounting Standards 13 . | Leased properties in harbours cannot be identified separately as investment property as it is difficult to clearly identify the value of the property due to the leasing out harbours' properties in parts. As a result, the leased properties are shown under the property plant category when accounting for. | The investment property of the Corporation should be recognized and accounted for in accordance with Sri Lanka Public Sector Accounting Standard 13. |
| (e) | There was a balance of Rs.9,754,409 which is being brought forward for more than 05 years within the balance of the work- in -progress account and it was not confirmed whether this balance is physically remained and adjustments for impairment had also not been done as per 77 of Sri Lanka Public Sector Accounting Standards 07 . | Actions have been taken identifying the works completed so far within the value of Rs.9,754,409 stated in the work- in-progress account for the previous years and to make necessary adjustments and account for in preparing the financial statements for the year 2023 . | Impairment adjustment for this balance should be done in terms of 77 of Sri Lanka Public Sector Accounting Standards 07 . |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the value of trade payables included in the	Agree with the matters mentioned in the audit	Cash flow statement should

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| <p>working capital adjustments in the cash flow statement was a decrease of Rs.10,474,859, since it was shown as decrease of Rs. 12,525,850, cash out flows in the cash flow statement had been overstated by Rs.2,050,991 .</p> | <p>query. It has been noted to correct.</p> | <p>be accurately prepared.</p> |
| <p>(b) Although the balance was Rs.8,891,397 as per the gratuity payment schedule of the year under review, thus it was shown as Rs.8,031,642 of cash outflow, under operating activities in the cash flow statement, cash outflows have been understated by Rs.859,755 .</p> | <p>The amount paid as gratuity in the current year has been adjusted in the cash flow statement. The amount paid as gratuity has been shown under Note No. 06 in the financial statements.</p> | <p>Cash flow statement should be accurately prepared.</p> |
| <p>(c) Even though the agreement that gave the Modara Fishery Harbour premises of the Corporation to a private entity on lease basis had been terminated on 23 March 2021 and the premises had been handed over, a balance of Rs.17,000,000 which should not be charged as lease rent income had been accounted for from that date to 31 January 2022 . As a result, overstating of the profit by Rs.1,700,000, understating of accumulated loss by Rs.15,300,000 and overstating of lease rent debtors by Rs.17,000,000 had been made in the year under review.</p> | <p>After obtaining written advice from the Legal Department it has been sent to the Board of Directors and necessary adjustments will be made to the accounts subject to decisions of Board of Directors.</p> | <p>Income should be accurately recognized and accounted for as per the lease agreement .</p> |
| <p>(d) Although a vessel should be released after clearing all charges on departure from the</p> | <p>Cases have already been filed against several organizations to recover the</p> | <p>Vessels should be released after all charges are</p> |

harbour, the recovery of outstanding anchorage fees for the vessels released before settlement of all charges of Rs.146,047,698 at Dikovita Harbour is uncertain, a provision for impairment for that had not been done.

outstanding balances at Dikowita Fishery Harbour and, it has not been possible to recover the outstanding anchorage charges because most of the vessels have been idle for long time.

cleared and provisions should be made in respect of anchorage charges which have not been recovered.

- (e) According to the financial statements, a difference of Rs.11,121,424 was observed between the debtor balance of 5 harbours and the balance according to the relevant source documents.
- The information provided for the debtor balances mentioned in the audit query is not sufficient and clear and it has been noted to find out about this and fix it.
- Actions should be taken to identify and correct differences between balances in financial statements and balances as per schedules.
- (f) Although a balance of Rs. 70,717,789 has to be collected from the year 2012 to date for the provision of security services to the Ministry of Fisheries, as the Ministry has not agreed to this outstanding balance, the recovery is uncertain and a provision for impairment had also not been made for it. Further, the agreements entered into with the Ministry to verify the accuracy of this balance had not been submitted to the audit.
- Invoices are prepared and forwarded to the Ministry for providing security services according to a written agreement entered into between the Ministry of Fisheries and the Corporation and due to non-payment of the said amount by the Ministry a debit balance has shown and actions will be taken to get settled after making discussions with the Ministry in this regard.
- Impairment adjustments should be done for recovery of uncertain outstanding loan balance.
- (g) A sum of Rs.19,384,026 of the lease rent receivables are balances for more than 5 years old. Their recovery is uncertain and provision for impairment has also not been made.
- The matter has been referred to the Legal Division to take necessary legal actions to recover outstanding balances exceeding 05 years in lease rent debtor balance and actions have been taken by
- Management should take actions to recover rental income receivable to the Corporation annually.

now by the Legal Division to file cases and recover in installments.

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| <p>(h) The payments in advance of Rs.36,659,356 which were not confirmed by source documents were the balances remained from the year 2004 to the year 2016 and actions had not been taken to identify these balances and clear the financial statements.</p> | <p>Although the collection of information related to the balance of payments in advance from the year 2004 to the year 2016 was done by a Committee, sufficient evidence could not be gathered and schedules in respect of balances of payments in advance in the current year have been forwarded to the Audit Division.</p> | <p>Actions should be taken to identify the balances of payments in advance.</p> |
| <p>(i) There were no source documents related to 13 creditor balances amounting to Rs.49,780,442 which had remained for a long time without having an age analysis and although the settlement of these balances was at uncertain condition actions had not been taken to settle in the financial statements.</p> | <p>These balances are remaining from the year 1992 and the balance was referred to the Audit and Management Committee of the institution and forwarded to the Board of Directors for approval.</p> | <p>Actions should be taken to clear creditor balances.</p> |
| <p>(j) A balance of Rs.8,610,910 was initiated under the name of “Dirisaviya” for the welfare of the fishery community under the Ministry grants is being brought forward under current liabilities in the financial statements and it was not possible to verify its accuracy because primary documents were not submitted for it.</p> | <p>Necessary actions will be taken to submit the necessary documents to the Board of Directors and reconcile with the accounts of the year 2024.</p> | <p>Primary documents required to verify the accuracy of balances should be submitted to audit.</p> |

1.5.3 Unreconciled Control Accounts or Records

Items	Value as per financial statements Rs.	Value as per Corresponding Records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a) Fuel sales revenue	79,100,471	80,168,413	1,067,942	The above balance cannot be identified from the documents prepared in relation to the accounts statement.	Actions should be taken to identify and correct differences between the balances in the financial statements and the balances as per the schedules.
(b) Cash in hand by 07 Harbours	29,818,531	28,339,857	1,478,674	It has been noted to find out and correct if there is an error in this regard.	Actions should be taken to identify and correct differences between the balances in the financial statements and the balances as per the schedules.

1.5.4 Lack of Written Evidence for Audit

Item	Amount Rs.	Audit Evidence Unavailable	Comments of the Management	Recommendation
(a) Grants received from various institutions	928,366,348	Dates of Receipt, Source Documents of receipt of money Agreements and Terms Tasks Performed Detailed Schedules	The balances shown in the audit query are the balances remaining from a long period of time and audit queries have been submitted in this regard every year. An institutional committee was appointed to find sufficient evidence regarding these balances and the said committee forwarded the information found related to these balances to the Audit Committee of the institution as per Circular No. PED 01/2021(i) and forwarded to the Board of Directors for its approval and it has been sent to the Department of Public Enterprises to get approval to remove these balances from the books as per decisions of Board of Directors.	Written evidences should be submitted for audit.
(b) Prom peached WHT	2,215,769	Detailed Schedules Source Documents		
(c) Provisions for Tsunami Damaged Assets	945,559,937	Sufficient evidences, agreements and terms relating to rehabilitation of damaged assets		
(d) Differed Liabilities	1,653,400	Source documents on deferred liabilities		
(e) Work-in-progress	28,111,329	Work-in- progress files, tasks performed, agreements		
(f) Creditors Other Creditors	10,584,147	Source documents required to verify relevant balances		
(g) Anchor Debtors and Rent Debtors	91,631,027	Schedules Age analysis		
(h) Land and Buildings	2,270,851,082	Asset registers Schedules		
(i) Bank Balance	166,857,402	Bank reconciliation statement prepared by harbours and balance confirmations.		
(j) Pre-Payments	15,528,686	Source documents required to verify payment, schedules		

with age analysis

(k)	Security Debtor Balance and Old Loan Balances in Dikowita	102,009,807	Individual debtor balances, source documents, age analysis		
(l)	Debtors, Withholding Taxes receivable and amount receivable for removing the Sanken Ship	65,070,045	Source documents required to verify relevant balances	The balances shown in the audit query are the balances remaining from a long period of time and audit queries have been submitted in this regard every year. An institutional committee was appointed to find sufficient evidence regarding these balances and the said committee forwarded the information found related to these balances to the Audit Committee of the institution as per Circular No. PED 01/2021(i) and forwarded to the Board of Directors for its approval and it has been sent to the Department of Public Enterprises to get approval to remove these balances from the books as per the Board of Directors.	Written evidences should be submitted for audit.
(m)	Expenditure incurred on civil engineering works	438,511	Evidences, documents and relevant bills on purchases relating to procuremens		

1.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 102 and 103 (1)	Although toilet accessories valued at Rs. 4,056,595 had been damaged and destroyed in the Puranawella Fishery Harbour premises, arrangements had not been made to take appropriate actions according to F.R. or report to the Management of the Corporation or complain to the Police.	There is no ability to take legal actions due to the difficulty in identifying the persons responsible in this regard and the Harbour Manager has been advised to draw attention to this and maintain the toilet system properly in the future.	Actions should be taken according to F.R. 102 and 103 (1) in respect of Damages.
(ii) F.R. 187 (3)	The money collected by the harbours had been kept in hand without remitting to the bank daily. Accordingly, the daily fuel sales income of Rs. 79,100,471 had been retained on the last day of the year under review. Further, it had been observed the instances where Rs.35,000,000 and Rs.5,000,000 had retained during the physical check of cash carried out at two harbours also.	Fuel files are maintained separately for each harbour in relation to the harbour where fuel is sold and all the reports prepared by the harbour were included in the files and all the files were given to the Government Audit Division.	Actions should be taken in terms of Financial Regulation 187(3) in respect of daily collection at Harbours.

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| (iii) F.R. 371 (5) | Although the ad hoc sub imprests should be settled immediately after the completion of the relevant task, it had taken between 13-111 days in order to settle the advances amounting to Rs.474,751 received on 03 occasions at Puranawella Fishery Harbour. | There are cases where the payment of special advances exceeding 14 days in practice due to matters such as insufficiency and difficulty in finding workers for carrying out the work at the harbours and lack of supervisory officers. | Actions should be taken to settle the ad hoc sub imprests In terms of Financial Regulation 371 (5). |
| (iv) F.R.371 (2) (b) | Although the maximum amount of advance that an officer can get at one time is Rs.100,000, the officers of Puranawella Fishery Harbour had exceeded that limit in a range between Rs.148,770 and Rs.283,230, totalling to Rs.1,003,100 in 5 cases where special advances were given. | Even though the special cash advance of Rs. 100,000.00 should be given at one time only, these advances are given for emergency maintenance works of harbours that is civil and mechanical works and there, money has to be given according to the nature of the work. | Actions should be taken in terms of 371 (2)(b) of the Financial Regulations in providing advances. |
| (v) F.R.571 (3) | The refundable tender deposits amounting to Rs.12,858,264 for more than two years since 2006 had not been credited to the government revenue as per the Financial Regulations. | Tender deposits to be refunded have been identified and actions have been taken in preparation of financial statements for the year 2023 to credit to the profit and loss account. | Actions should be taken as per Financial Regulations 571(3) in respect of refundable tender deposits for more than two years. |
| (b) Section 3 of the Gazette of the Democratic Socialist Republic of Sri Lanka No. 965/15 dated 06 March 1997 | Even though the Ceylon Fishery Harbours Corporation had stated that the supplying of fuel and provide other ancillary services to fishermen are the objectives thereon, the issuance of fuel to fishermen at the Beruwala | Fuel sale at Beruwala Harbour has not been handed over to the private sector and fuel is sold to fishermen through fuel tanks in the Harbour. There is a fuel shed built and maintained by a party | Actions should be taken to meet the objectives of the Corporation. |

- Fishery Harbour had been entrusted to private parties. who had taken the harbour premises on lease for a very long time.
- (c) Public Enterprises Circular No. PED/12 dated 02 June 2003 Section 5.1.3 The Corporation had prepared the Corporate Plan only for the period of 2016-2020 and a Corporate Plan had not been prepared for subsequent years. It is informed you that a Corporate Plan has been prepared for the period from 2023 to 2028. Corporate Plan should be prepared in terms of Public Enterprises Circular No. PED/12 dated June 02, 2003.
- (d) Public Enterprises Circular No. 12 dated 02 June 2003 Section 5.2.5 Although the Budget should be submitted to the Line Ministry, the Department of public Enterprises, the Treasury and the Auditor General's Department within a period not less than 15 days before the commencement of the relevant financial year after being approved by the Board of Directors, The Budget prepared for the year 2022 had not been approved accordingly. The Budget related to the year 2022 have been handed over to the Ministry of Fisheries on 29 December 2021 and the Ministry forwards to the Treasury. The report, Action Plan and Procurement Plan related to the year 2022 have been handed over to the Auditor General on 18 March 2024. Budget should be prepared in terms of Public Enterprises Circular No. 12 dated 02 June 2003.
- (e) Manual of Government Procurement Guidelines 2006
- (i) Paragraph 4.2.1 The Corporation had not prepared a Procurement Plan for the year under review. The Ceylon Fishery Harbours Corporation prepares the Annual Procurement Plan at the beginning of the year and procurement activities have been carried out during that year accordingly. A Procurement Plan should be prepared in terms of Paragraph 4.2.1 of the Procurement Guidelines.

- (ii) Paragraph 4.3.1 Although the Corporation should revise and update the total cost estimate in terms of Paragraph 4.3.3 of preparation of total cost estimate of all relevant expenses for the year under review, it had not been so done. The revision and updating of total cost estimate will be done from the year 2024 in terms of Paragraph 4.3.3 of the Procurement Manual. Total cost estimates should be prepared, revised and updated in terms of Paragraph 4.3.1 of the Procurement Guidelines.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 363,998,388 and the deficit as against to that for the preceding year was Rs. 136,222,182. Accordingly, an improvement of Rs. 500,220,570 equivalent to 367 per cent in the financial result was observed. The increase of operating profit of 14 harbours by Rs. 460,779,131 equivalent to 345 per cent and being the operating profit of the China Harbour Dredging Project started in 2022 was Rs. 66,310,907 had mainly attributed to this improvement.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The profit/loss situation from the operations of fishery harbours was as follows.

Fishery Harbour	Operational Profit / Loss		Percentage of Decreases or Increases %
	Rs.		
	2022	2021	
Beruwala	33,198,600	761,297	4260.79
Galle	44,591,588	5,969,142	647
Mirissa	30,891,309	4,963,322	522
Puranawella	9,857,422	(11,161,594)	188
Tangalla	(19,884,663)	(42,361,257)	53
Kirinda	(24,246,631)	(23,119,633)	(4.87)
Kodbe	14,001,744	9,040,677	54.87
Dodanduwa	(13,589,106)	(13,923,260)	(0.47)
Hikkaduwa	(3,754,538)	(19,030,984)	80.27
Kalpitiya	(6,431,832)	(6,304,480)	(2.02)
Kudawella	46,337,294	7,263,325	537.96
Panadura	(9,926,405)	(14,980,763)	33.74
Negombo	22,679,335	(7,710,157)	394.14
Hambantota	(5,380,383)	(23,537,965)	77.14
Ambalangoda	32,040,266	(5,340,880)	699.90
Chillaw	(12,755,175)	(14,556,192)	12.37
Valachchane	(2,603,036)	(14,693,334)	82.28

Nilwella	17,224,104	(4,741,902)	463.23
Dikowita	167,773,625	77,306,735	117.02
Suduwella	7,415,234	(11,876,324)	162.44
Miladi	2,379,773	(9,349,962)	125.45
Kalametiya	(14,362,168)	(16,316,134)	11.43
Vellamankara	5,775,038	-	-
Pareliya	6,347,415	-	-

- (a) As compared to the previous year, two new fishery harbours became operational and achieved operating profits and due to the increase in fuel revenue, anchorage fee revenue and rent revenue compared to previous years in Beruwala, Galle, Mirissa, Kodbe, Kudawella and Dikowita harbours, profits had grown between 54.87 per cent and 4260 per cent.
- (b) Further, the harbours of Puranwella, Negombo, Ambalangoda, Nilwella, Suduwella and Myladi which had made losses during preceding year had earned profits between 125 per cent and 700 per cent in the year under review and the growth of fuel income, anchorage fee income and rental income had affected for that. In addition, about 6 harbours that had suffered losses preceding year had reversed their loss situations by a percentage between 11 per cent and 82 per cent.
- (c) Only the losses of two harbours of Kirinda and Kalpitiya continue growing. They incur less than 5 per cent of losses furthermore.
- (d) The Beruwala Work Unit had incurred a loss of Rs 27,709,161 in the year under review and the loss of the preceding year was Rs. 26,802,018. Accordingly, it is observed that the Work Unit is in a state of continuous losses.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A security CCTV camera system consisting of 32 cameras had been installed on 25 February 2021 in the Puranwella Fishery harbour at a cost of Rs. 1,242,200 and within a short period of 02 months after the system was installed, 02 cameras were missing and out of the 32 cameras installed in a short period of 02 years, only 10 cameras were operational.	The grant letter for this CCTV camera system was given to the respective institution on 28.12.2020. After that date, while the related project was being carried out by the said institution, one of the cameras was damaged on 02.01.2021 due to an accident caused by the crane at the harbour. It was restored by the respective agencies on the same day without charging any money. Although, there were some minor breakdowns due to the	Actions should be taken to repair the camera system in accordance with the terms of the agreement.

reasons mentioned above, it is not correct to state that the whole camera system has been broken within a very short period of 02 months as mentioned here.

(b) Even though an amount of Rs. 4,754,436 was spent on the purchase of spare parts from the year 2018 to October 2022 for the repair of the LG 2554 mobile crane which was purchased for Rs .45,000,000 in the year 2008, the amount spent had been futile and the Corporation had lost an income of Rs 22,000,000 since the crane was restored in the year 2023 .

This repair was done by the employees of the Corporation for an amount of Rs.4,754,436.00. Accordingly, we were able to save a lot of money due to the completion of the work deploying company employees. Accordingly, it is informed that the amount of Rs. 4,754,436.00 incurred for the restoration of the crane is not a futile expenditure.

The crane should be repaired and it should be urgently deployed for harbour operations.