

Ceylon Fisheries Corporation - 2018

The audit of the operational activities of the Ceylon Fisheries Corporation for the year ended 31 December 2018 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 the Finance Act No. 38 of 1971.

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

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16(1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should be responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. However, the Annual Financial Statements of the Statutory Boards should be submitted to the Auditor General within 60 days after the closure of the accounting year, the financial statements which should be presented for the years 2016, 2017 and 2018 had not been presented for audit even by the date of this report in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/2004 of 24 February 2004 .

02. Audit Observations

(a) Non- compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(i) Paragraph 5.1. of State Accounts Circular No. 01/2014 of 17 February 2014	The Corporate Plan for the upcoming time period from the year 2017 and the Action Plan for the year 2018 had not been prepared even by the date of audit September 2019 .	The Management had not made comments.	Arrangements should be made to achieve the objectives and targets by preparing the Corporate Plan and the Action Plan in terms of the Circular.

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| (ii) | Paragraph 9.4 of Public Enterprises Circular No. 12 of 02 June 2003 | Releasing three officers belonging to the Corporation to 02 state institutions from the year 2016 and a sum of Rs. 2,638,104 had been paid as salaries and wages to those two officers . | The Management had not made comments. | Actions should be taken in accordance with the circular instructions. |
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(b) Management Activities

Audit Observation	Comments of the Management	Recommendation
(i) Out of the specified business functions made by Gazette Extraordinary No. 14/ 186 dated 01 October 1964 and No. 1712 /21 dated 30 June 2011 , the functions such as engaging in deep sea fishing operations directly or through agents, engage in fish processing, trading wholesale and retailing of fish through authorized agents, import & export of fish and fish products and selling fish in foreign markets had not been performed by the Corporation. Although the business functions such as construction and maintenance of fisheries harbors and anchorages assigned to the Corporation during the establishment of the Corporation, import and selling fishing gear, making of fishing boats, providing maintenance facilities for fishing vessels, produce and sell necessary equipment at the request of fishermen had been entrusted with the establishment of Ceylon Fisheries Harbor Corporation, C-NOR Foundation and National Aquaculture Development Authority of Sri Lanka under Ministry of Fisheries, accordingly, necessary steps had not been taken to revise the business functions of the Corporation.	The Management had not made comments.	Methods of control should be strengthened to meet the objectives of establishing the Corporation and necessary actions should be taken to revise the business functions through the Gazette Notifications.

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| (ii) | The Corporation had failed to act as a regulatory body for price stabilization in the fish market due to the failure to sell fish covering all Districts of the country through the agents when the sale of fish by the Corporation. As a result, the market share of the Ceylon Fisheries Corporation had decreased from 1.1 per cent to 0.7 per cent during the last 06 years period. | The Management had not made comments. | Adequate measures should be taken to sell fisheries by covering all Districts of the country and increase the market share of fish of the Corporation. |
| (iii) | Although the cost can be reduced through the selling of fish by agents when selling of fish, the Corporation had paid more attention on the construction of new shops and the sale of fish which is a costly system. Further, it was observed in audit that the operating expenses of the Corporation continued to rise due to the need to build new shops and to recruit new staff for the shops. | The Management had not made comments. | The Management should take actions to develop and implement necessary plans to minimize operating costs. |
| (iv) | Although it was a business function of establishing of the Corporation for deep sea fishing by using trawlers directly or through agents, due to not doing so accordingly and delays occurred in payment to fish suppliers, it could not be able to achieve the purpose of supplying of fish to the consumers at a reasonable price by buying at a low price . | The Management had not made comments. | The necessary action should be taken to achieve the objectives of the establishment of the Corporation. |
| (v) | One hundred two employees had been made retired incurring a sum of Rs. 109,906,261 on 20 May 2016 as per the Public Enterprises Circular No. 02/2016 of 18 May 2016 implementing a Voluntary Retirement Scheme on the Decisions of Cabinet of Ministers to restructure the Corporation and to turn it into a profitable commercial venture. Other plans had not been drawn up and | The Management had not made comments. | The Management should make plans to restructure the Corporation and Voluntary Retirement Scheme should be implemented in terms of Circular instructions. |

implemented to achieve the objective of turning the Corporation into a profitable commercial business.

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| (vi) | The shortage of packaging stock valued at Rs. 2,558,028 in the year 2011 had not been recovered. | The Management had not made comments. | Arrangements should be made to inquire with regard to the shortcomings of the stock and identify the responsible persons and take action to recover the loss. |
| (vii) | There were 50 refrigerated lorries belonging to the Corporation and 46 lorries out of that had been deployed for the selling of fish despite the fridge had not functioned. | The Management had not made comments. | The resources of the Corporation should be utilized for efficient operational activities. |

(c) Accounts Receivable and Payable

Audit Observation

Comments of the Management

Recommendation

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| (i) | A sum of Rs. 21,350,932 for more than 2 years, Rs. 53,856,139 for more than 5 years, Rs. 13,931,795 for more than 10 years, Rs. 884,913 that was not possible to analyze had been consisted within the remained arrears loan balance recoverable as at 31 December of the year under review amounted to Rs. 213,398,533 . | The Management had not made comments. | Actions should be taken to recover the receivables from debtors. |
| (ii) | Even though the 07 hospitals had informed that there were no debtor balances amounted to Rs. 111,008,896 remained as at 31 December 2018 in those 07 hospitals, it had not been examined and the balance confirmations relating to the debtors amounted to Rs. 21,586,769 had not been received even in the balance confirmations made by the Internal Audit Division. | The Management had not made comments. | Action should be taken to ascertain the correctness of the balances specified in the debtor's documents. |

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| (iii) | Out of the outstanding debtor balance remained as at 31 December of the year under review amounted to Rs. 210,105,942, remaining of a sum of Rs. 41,186,374 for more than 02 years and age analysis for the creditor balances amounted to Rs. 21,006,310 had not been available . | The Management had not made comments. | Arrangements should be made to settle balances of creditors or if there are no outstanding liabilities remained, write off the balances from books. |
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(d) Identified Losses

Audit Observation	Comments of the Management	Recommendation
<p>An arrears contribution of Rs. 174,927,250 and a surcharge of Rs. 82,367,893 to the Employees' Provident Fund for the period from January 2006 to 31 July 2019 and an arrears contribution of Rs. 15,520,274 and a surcharge of Rs. 7,663,632 to the Employees' Trust Fund for the period from the year 2006 to 2016 and an arrears gratuity amounted to Rs. 8,300,133 and a surcharge on it amounting Rs. 1,116,950 as at 31 December 2018 had to be paid by the Corporation .</p>	<p>The Management had not made comments.</p>	<p>Establishment of the necessary controls to make statutory payments on time and conducting supervisions on it.</p>

(e) Operational Activities

Audit Observation	Comments of the Management	Recommendation
<p>(i) It was observed in audit that the sales outlet at the Padukka Circular Road has been operating without an agreement since 1994. Further, although it was advised to re-enter into a lease agreement under a new lease, in accordance with the approval of the Board Meeting 1041 dated 22 August 2018 , it had not acted accordingly.</p>	<p>The file containing the copy of the agreement maintained by the Legal Division is missing and the file of the Operations Division has been handed over to the Commission to Investigate Allegations of Bribery or Corruption on 05 September 2019 .</p>	<p>The files should be maintained under the responsible officers and the reasons for missing of them should be examined.</p>

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| <p>(ii) Four vehicles which bears the total value of Rs. 3,200,000 decided to be disposed of before the year 2018 and not disposing of four unrecognized vehicles have been becoming unusable even by 20 December 2019 .</p> | <p>The Management had not made comments</p> | <p>Actions should be taken to adhere to the circular instructions on vehicle disposal.</p> |
| <p>(iii) The contract had been awarded to a private company on 31 August 2017 to purchase a computerized account management system valued at Rs.1,500,000 on 27 August 2017. However, for this purpose, a contract agreement, bid security and a bond for the payment of advance amounting Rs. 300,000 had not been obtained in accordance with the National Procurement Guidelines 5.2.1, 5.3.11, 5.4.4 . Although two years had elapsed by 25 September 2019 the computerized account management system had not been installed.</p> | <p>The Management had not made comments</p> | <p>Actions should be taken in accordance with the instructions in the National Procurement Guidelines and arrangements should be made to recover compensation from the relevant institution for not following the conditions of the agreement.</p> |
| <p>(iv) The business premises of 03 acres 01 rood 13.9 perches in extent in Pesalai belonging to the Corporation assessed by the Chief Valuer for a monthly lease amounting to Rs. 141,667, the Procurement Committee had decided the monthly lease amount as Rs.150,000 on 17 October 2016. As it had leased out to a sum of Rs. 130,000 without complying with that decision, the Corporation had incurred a loss of Rs 480,000 since 14 December 2016 .</p> <p>Although providing a bank guarantee amounted to Rs. 500,000 to the Corporation for a</p> | <p>The General Manager had recommended a request made by the Hand C Food Export Company (Pvt.) Ltd on 05 December 2016 to obtain the Pesalai land on lease basis for a monthly lease of Rs. 130,000 and the Chairman had advised the Legal Division on 09 December 2016 to carry out the proceedings.</p> | <p>The Procurement Committee decision should be submitted to the Board of Directors and obtain approval and introducing and implementation of adequate control measures to protect the lands belonging to the Corporation.</p> |

period of one year at the commencement of the agreement and should be updated annually as per Section 06 of the lease agreement entered into on 14 December 2016, it had not so acted accordingly.

Due to non-separation of leased land from the total 20 acre 01 rood 15 perch owned by the Corporation from the total extent land, the opportunity to use of the entire land had been made to the private company.

- (v) The two condensers belonging to the refrigerator room at the Galle Ice Plant had been sold for a sum of Rs. 313,103 as scrap iron on 16 May 2018. The goods had not been identified as items that could not be used by a Board of Survey in terms of Financial Regulations 770 and 771. Further, a report from a technologically skilled engineer and the approval of the Board of Directors had also not been obtained.
- Further, the approval of the Procurement Committee had been received to purchase 02 condenser machines for the Galle Ice Plant for a sum of Rs. 12,737,500 (without VAT) each for a Rs. 6,368,750. Although the two condensers had been connected to the system paying advance of Rs. 2,547,500 on 12 April 2018, the poor quality condenser had been installed with the defects such as taking long time for freezing, leaking of the gas and water in the condenser.
- Agree with the matters appear in the audit query. A sum of Rs. 2,547,500 has been paid by the Corporation which was the 20 per cent of Rs. 12,737,500 (VAT free) for two condenser machines purchased from Inovave Engineering (Pvt.) Company . It is informed that the report from an engineer with expertise knowledge will be obtained on advice of the Board of Directors and further actions will be taken.
- Actions should be taken in accordance with the circular instructions and expenditure should be made to ensure maximum benefit from the government provisions and to recover damages from the responsible parties in accordance with the agreement.

Even though it was stated that if the requested condenser does not meet the specification, it would be rejected without any conditions and the advance would be recharged as per the report of the Technical Evaluation Committee, actions had not been so taken even by December 2019 .

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| (vi) | An extent of 117.78 perches of land at Modara Head Office and 30 perches had been leased out by the Corporation on 28 March 2017 for a period of four years to a private firm on a monthly lease of Rs. 1,100,000 and Rs. 333,000 respectively and the 08 month arrears of Rs. 5,487,450 had not been recovered by 16 August 2019 . Even though another 49.7 perches had been encroached by the private company, the monthly tax assessment of the Chief Valuer for the 29.7 perches was Rs. 178,333. Accordingly, the loss of lease to the Corporation was Rs 4,993,334 from March 2017 to August 2019 due to the unauthorized use of 29.7 perches. | Agree with the facts of the audit query. As stated in the audit query a preliminary discussion has been carried out on 23 October 2019 with Walkers Colombo Shipyard (Pvt.) Ltd, to lease an extent of 29.7 perches belonging to Lot No. A of 2016/86 B plan and approximately 20 perches of land to lease to the institution or to undertake that portion to the Corporation again . | Arrangements should be made to recover the arrears of rent and lease out the land belonging to the Corporation as per the economic value. |
| (vii) | The Fisheries Corporation had been given Rs. 100 million to sell fish at concessionary rates during the festive season. A sum of Rs. 15.7 million of this had been incurred to settle suppliers' arrears balances, and it had been utilized a sum of Rs. 45 million to settle bank overdrafts and Rs. 10.7 million for payments gratuity. | The Management has accepted the audit paragraph. | The management should take actions to utilize the provisions made to the Corporation for the relevant purposes. |

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| <p>(viii) Three cases by Public Health Inspectors regarding the sale of fish expired or not suitable for consumption, demanding of Rs. 9,500,000 for 05 cases as compensation for vehicle accidents, 07 cases by employees for re-employment and for post-pay, demanding of Rs. 5 million as compensation case by a maid and a case of violations of fundamental rights of 02 employees of the Corporation had been filed in Magistrates' Courts, District Courts and the Supreme Court against the Corporation.</p> | <p>The Management had not made comments</p> | <p>Focus on cases against the Corporation and to finish quickly and to introduce control systems to prevent occurring of such incidents.</p> |
| <p>(ix) The Ceylon Fisheries Corporation had filed 09 cases against external parties for the recovery of Rs. 23,481,680 for selling of fish were sold on loan and 06 cases were also filed to recover a sum of Rs. 19,438,275 as lease as at 31 December 2018 .</p> | <p>The Management had not made comments.</p> | <p>Arrangements should be made to recover the outstanding debts of the Corporation promptly.</p> |
| <p>(x) Although the Board of Directors should appoint a senior management committee to evaluate the annual performance as per Section 7.4.2 of the Public Enterprises Circular No. 12 of 02 June 2003 and due to the failure of appointing such a senior management committee to evaluate the annual performance of the Corporation, formal future steps had not been taken regarding the following shortcomings.</p> <ul style="list-style-type: none"> • The attention of the Board of Directors had not drawn to evaluate the performance of the Corporation and out of the 32 Regions selling | <p>The Management had not made comments.</p> | <p>The Corporation should implement control systems to reduce losses and increase profits, and answer audit queries and to recover the debts receivable to the Corporation and to safeguard the assets of the Corporation.</p> |

fish, 28 Regions in the year 2014, thirty Regions in the year 2015 had occurred losses and the total loss occurred in those years were Rs.180,538,573 and Rs.138,040,828 respectively. The entire 08 ice plants had incurred a loss of Rs. 33,364,965 in the year 2015 and the plans for the mitigation of losses by the Corporation had not been prepared even by the end of the year under review.

- Replies had not been given for 06 audit queries relating to the previous year and 09 audit queries for the year under review.
- When examining internal audit reports, an inactive debtor balance of Rs. 1,550,464 had remained within the Debtor Balance amounting to Rs 1,877,993 from 01 January 2016 to 31 December 2018 in Beruwala Region and actions had not been taken to recover foresaid debt balances from the responsible authorities.

(f) Staff Management

Audit Observation	Comments of the Management	Recommendation
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<p>(i) The approved cadre as at 31 December 2018 was 724 and the actual cadre was 571. There were 153 vacancies. Due to there are 19 vacancies in the posts of General Manager, Deputy General Manager, Human Resources Development & Administration, Accountant, Cost and Management Accountant which were the essential senior level posts to carry out the day to day business of the Corporation as per the approved cadre , it had adversely affected to the administration activities and performance of the Corporation.</p> <p>Further, due to the excess number of employees out of the approved cadre positions were 107 , it was observed that the Corporation is facing a financial crisis and the objectives of the Corporation had not been fulfilled by making retirement incurring a sum of Rs. 115 million under the Voluntary Compensation Scheme.</p>	<p>The Management had not made comments.</p>	<p>Actions should be taken to fill the vacancies in the senior level essential posts to strengthen the administration.</p>
<p>(ii) Although an acting appointment should be a temporary remedy until the appointment is made in terms of Section 13.3 Chapter II of the Establishments Code , the acting appointments had been made for 15 positions from 1 to 20 years period .</p>	<p>The Management had not made comments.</p>	<p>It should act in accordance with the Establishments Code and circular instructions.</p>