

1.1 Qualified Opinion

The audit of the financial statements of the Cey-Nor Foundation Limited (“Foundation”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Foundation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 Foundation'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 intend to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

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

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

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is

sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation;
- Whether the Foundation has performed according to its powers, functions and duties; and
- Whether the resources of the Foundation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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(a) Land owned by the Foundation valued at Rs. 73,136,262 had been leased to private company. Discloses had not been done in the financial statements in respect of the lease period which expired on 03 July 2018 and a case had filed by the company to obtain the land again under the lease basis in terms of the paragraph 29 of No.01.	Not replied.	In terms of the standard, material information which effect on the economic decision of the financial statements users should be disclosed in the financial statements.
(b) Actions had not been taken in relating to nonmoving stocks of Rs. 6,848,376 and slow moving stocks of Rs. 1,593,044 in terms of the paragraph 33 of No.02.	Not replied.	In terms of the standard, a new valuation of the net realizable value on stocks should be made and allocated in the financial statement.

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| <p>(c) In terms of the paragraph 5.5 of No. 9, the total amount shown since the year 2011 has not been dealt with on the debtor balance of Rs.26,294,662.</p> | <p>Not replied.</p> | <p>According to the standard, true balance should be stated in the financial statement on the long-term debtor balances after identifying the impairment of loss and making necessary adjustments.</p> |
| <p>(d) In terms of the paragraph 34 of No.16, lands and buildings were not revalued and adjusted to accounts.</p> | <p>Not replied.</p> | <p>In terms of the standard, the land and the building should be assessed by the foundation and the fair market value should be stated in the financial statement.</p> |
| <p>(e) In terms of the paragraph 6 and 51 of No.16, no adjustments were made to the accounts in respect of the amounting to Rs. 74,427,651 of Property, Plant and Equipment in which the net book value was zero.</p> | <p>Not replied.</p> | <p>As per the standard, true balance should be disclosed in the financial statement after reviewing the residual value and useful life time of the Property, Plant and Equipment, and making adjustment to the accounts.</p> |
| <p>(f) In terms of the paragraph 75 and 79 of No.40, leased out assets of the land of 2 roods and 12 perches in extent located the Cey-Nor</p> | <p>Not replied.</p> | <p>In accordance with the standard, assets which earn income continually</p> |

Orient Pearl Seafood Restaurant Ltd. and 25,000 square feet warehouse of Mattakkuliya Yacht respectively for 20 years from 04 July 1998 and 5 years from 08 February 2017 were shown under the Property Plant and Equipment in the financial statements.

should be disclosed as investment assets in the Financial statements.

1.5.3 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Tractor and Trailer belonging to the Foundation valued at Rs. 1,300,000 had been shown as leased property in the financial statements.	Not replied.	The assets owned to the Foundation should be stated as fixed assets.
(b) Receivable withholding tax amounting to Rs. 179,360 on the rental income from 4 rented lands had been understated.	Not replied.	The amount of withholding tax receivable on the rental income should be accurately calculated and accounted.
(c) The debtor balance had been understated by Rs. 53,869,409 due to crediting the sales advance receipts in the debtor's ledger.	Not replied.	The sales advance receipts should be properly accounted.
(d) Although the sum of Rs.2,700,000 had been shown as the investment income of Maththumagala land, value of the property had not been stated in the financial statements.	Not replied.	Value of the investment income property should be stated in the financial statement.

1.5.4 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Cumulative depreciation	108,738,261	103,948,761	4,789,500	Not replied.	The correct value should be accounted by comparing values and checking the reason for the difference between the financial statements and corresponding reports.
Receivable from Cey-Nor Restaurant	1,025,796	1,364,594	338,797	Not replied.	The correct value should be accounted by comparing values and checking the reason for the difference between the financial statements and corresponding reports.
Net loss before tax	49,851,727	49,372,758	478,969	Not replied.	The correct value should be accounted by comparing values and checking the reason for the difference between the financial statements and the tax computation register.

1.5.5 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
Although the total estimated labour cost for a 150 of 19 ½ feet boats was Rs. 3,465,000, a sum of Rs. 5,585,840 had been paid. Thus, the approval for the payment of Rs, 2,120,840 beyond the estimated limit had not been obtained.	Not replied.	The approval should be obtained before making payments beyond the estimated limit.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount	Audit Evidence not furnished	Management Comment	Recommendation
	Rs.			
(a) Other receivable balance	2,481,584	Documentary evidences to prove the existence	Not replied.	Documentary evidences to prove the existence of the receivable balance stated in the financial statement should be furnished to the audit.
(b) Other payable balance	0,437,306	Documentary evidences to prove the existence	Not replied.	Documentary evidences to prove the existence of the payable balance stated in the financial statement should be furnished to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
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(a) Actions had not been taken to identify the officers responsible and to settle in respect of the unsettled advances balance of Rs.8,037,027 from 2013 to 2017.	Not replied.	Actions should be taken to settle the long standing advance balance.
(b) Raw material advances valued at Rs.5,059,049 had been granted to a private institution to manufacture of fishing nets on sub-contract basis. Although the fishing nets value only at Rs. 149,274 had been received by the Foundation, necessary steps had not been taken to recover the balance amount of Rs. 4,909,775 since the year 2011.	Not replied.	Necessary steps should be taken to obtain the nets or recover the advance amount.
(c) Necessary steps had not been taken to recover the amount of Rs.3,527,824 which is receivable from the Ministry of Fisheries in relating to the using of building and premises.	Not replied.	Actions should be taken to recover the money owed from the Ministry of Fisheries.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
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Even though the balance confirmations have been called from debtors of Rs.65,029,996 and borrowers of Rs.53,712,377 remained as at 31 December 2018, the confirmation letters had been received from only one borrower of Rs.16,278,140	Not replied.	Balance confirmations should be obtained to confirm the correctness of the debtor balance and changes in balance confirmations should be checked and corrected.

and two debtors of Rs.8,189,309 by the date of 15 September 2019. Although there was a difference of Rs.10,212,612 with the confirmed balance and the balance stated in the Institution's books, the Foundation failed to furnish the reasons thereon.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 131 of the Companies Act No.7 of 2007	The annual report for the year 2018 had not been delivered to the Registrar of Companies as at 04 September 2019.	Not replied.	In accordance with the section 131 of the Companies Act relevant annual report should be sent to the Registrar of Companies.
(b)	Public Administration Circular No. 09/2009 dated 16 April 2009	The fingerprint machine had not been used only executives of the Foundation to confirm their arrival and departure.	Not replied.	The fingerprint machine should be used to confirm the arrival and departure of the public officers as per the Public Administration Circular.

1.8 Cash Management

	Audit Issue	Management Comment	Recommendation
(a)	The two non-operating bank accounts of Rs.29,764 prior to the year 2014 had not been checked and closed and the balance confirmations as at 31 December 2018 also had not been received by the audit.	Not replied.	The non-operating bank accounts should be check and closed.

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| (b) | Direct cash deposits aggregating Rs. 791,775 not available the sources documents and not settled from the month of July 2018 had been stated in the bank reconciliation statement. | Not replied. | Direct cash deposits in bank reconciliation statements should be identified and properly accounted for. |
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1.9 Non -compliance with Tax Regulations

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(a)	Adjusted Business loss carried forward to the future year had been reported overstating by Rs. 4,148,578 in terms of the Inland Revenue Act No.24 of 2017.	Not replied.	Tax calculations should be done correctly.
(b)	A sum of Rs. 4,071,220 had been deducted from the rent income as the maintenance allowance of 25% on the rent income not allowed by the Inland Revenue Act No. 24 of 2017.	Not replied.	Tax calculations should be done correctly.
(c)	The National Building Tax payable in respect of the tax period ending 31 December 2018 was paid less by Rs.660,472.	Not replied.	Tax calculations should be done correctly.
(d)	Action had not been taken to rectify the VAT Withholding Tax amounting to Rs.1,458,293 which was generated on the transactions from the years 2008 to 2011.	Not replied.	Action should be taken to rectify the VAT Withholding Tax which was generated on the transactions from the years 2008 to 2011.
(e)	Economic Service Charges of Rs.446,700 relating to the 4 th quarter had not been shown in the financial statements.	Not replied.	Economic Service Charges should be shown as a payable balance in the financial statements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs56,366,471 and the corresponding profit in the preceding year amounted to Rs. 6,188,352. Therefore, a deterioration amounting to Rs. 62,554,823 of the financial result was observed. The reasons for the deterioration is the increasing of the cost of sales by 158 per cent or Rs.124,463,754 comparing with the previous year.

2.2 Ratio Analysis

- (a) Current assets ratio of the current year comparing with the previous year was respectively 1:2.19 and 1:1.82. The drop in the ratio was mainly due to the shortfall of the stocks in hand by 31 per cent and short term deposits by 76 per cent in the current year.
- (b) Quick Assets ratio of the current year comparing with the previous year was respectively 1:1.23 and 1:1.14. The drop in the ratio was mainly due to the withdrawal of short term fixed deposits and call deposits of Rs.39.3 million remained in the preceding year.
- (c) Comparing with the previous year, gearing ratio was increased from 1:9.84 to 1:10.11 in the current year. The drop of the loan capital by 14 per cent compared to the equity was due to that.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The 13200 ltrs fuel bowser purchased at Rs.8,637,804 on 20 August 2012 without a required study and	Not replied.	After conducting a required study, control system should be introduced to

without using for the boat yard and had been handed over to the Harbor Corporation on 13 December 2012. The Harbor Corporation had handed over to the Puranawella Fisheries harbor and then again to the Ceylon Petroleum Corporation.

purchase high yield assets.

3.2 Identified Losses

----- Audit Issue -----	Management Comment -----	Recommendation -----
Although the fishing gear worth of Rs, 25,035,238 manufactured at the request of the buyers from the year 2015 to 2018 without entering into an any agreement, the buyers rejected to procure them. Thus it was an idle transaction.	Not replied.	The necessary contracting and obtaining advances should be made to minimize the risks that may arise before manufacturing at the request of the buyers.

3.3 Management Inefficiencies

----- Audit Issue -----	Management Comment -----	Recommendation -----
(a) The Value of Rs.73 million land belongs to the Cey-Nor Foundation had been leased to a restaurant and the lessee had obtained a writ order in order to obtain it again. Since the Foundation did not against it, the property could not be obtained again and the income could not be obtained.	Not replied.	All necessary steps should be taken to obtain again the land leased for a restaurant and to earn income.
(b) Even though 7 cameras were not operated out of 14 cameras installed at Mattakkuly Yachet 1 out of 58 cameras installed on 30 April 2017 at a cost of Rs.1,376,413 without entering an agreement with the suppliers, due to non-	Not replied.	Payments should be done by contracting with the supplier prior to spend money on obtaining long-term services.

contracting with the supplier, required back-up services could not be obtained.

(c)	As per the 7(a) condition of the agreement entered with a private company, the Cey-Nor Foundation was contracted to be charged a 3 per cent of each years' turnover or the minimum rent from the motor vehicle repairing workshop. Only the minimum rental had been charged without calculating the monthly rental in respect of the period of the 13 years from 2006 to 2018.	Not replied.	According to the 7(a) condition of the agreement entered into between the two parties, receivable monthly rental should be recovered after checking audited accounts calculating.
(d)	A disposal process had not been done in respect of the value of Rs. 666,000 boats molds which had been removed from use from previous years	Not replied.	A disposal process should be done in respect of the boats molds which had been removed from use.
(e)	Approval for the Administration Procedure Manual prepared by a private company after paying Rs.317,000 in the year 2016 had not been obtained.	Not replied.	Approval for the Administration Procedure Manual should be obtained and executed.

3.4 Idle or underutilized Property, Plant and Equipment

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Although there were not a enough staff to use in maximum capacity of the Lathe Machine purchased in the year 2009 for Rs.940,000, such a equipment had been purchased further incurring of Rs.1,658,705 in the year 2012 and stored idle without any utilization.	Not replied.	Proper future actions should be taken to identify the responsible officers on the assets purchased by the government funds and stored idle without utilizing.
(b) Although a Para Marine software had been purchased for Rs. 9,664,514 on 16 December	Not replied.	Proper future actions should be taken to identify the responsible officers on

2013 by the Foundation for the process of analyzing the stagnation of boats and for the design of the boats, Rs.2.25 million had been paid to a Private Institution to obtain the relevant service without using it.

the assets purchased by the government funds and stored idle without utilizing and on additional cost incurred for.

- (c) The Gel Coat Spray Gun Machine purchased for Rs.5,395,137 on 20 August 2012 and the Plasma Cutter Machine purchased for Rs.4,166,964 on 5 March 2013 were idle without any utilizing. Not replied.

Proper future actions should be taken to identify the responsible officers on the assets purchased by the government funds and stored idle without utilizing.

3.5 Defects in Contract Administration

Audit Issue -----	Management Comment -----	Recommendation -----
<p>(a) (i) An advance amounting to Rs.14,320,000 had been paid to the contractor to be manufactured three multi day boats in accordance with the clause of the agreement signed on 16 November 2016 by the Cey-Nor Foundation Ltd.. Any advances paid to the contractor had not been recovered and the vessels had not been completed and handed over until 31 August 2019 though the bank security value of Rs. 14,320,000 deducted up to Rs.3,705,000 in extending its period without manufacturing and handing over the boats.</p>	<p>Not replied.</p>	<p>Required steps should to be taken to extend the period of bank security for manufacturing and delivering the boats and to recover the advances paid to the contractor.</p>
<p>(ii) Recoverable late charges of Rs.7,416,000 had not been recovered since the boats were not delivered till 31 August 2019 to be delivered by 31 March 2017 in accordance with the Article 8 of the above agreement.</p>	<p>Not replied.</p>	<p>Recoverable late charges should be recovered as per the agreement.</p>

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| (b) | Rs.2,884,750 had been overpaid per vessel in excess of the contract amount of Rs.24,700,000 without an approval on manufacturing multy - day fishing vessels through a contractor by the Cey-Nor Foundation Ltd.. | Not replied. | Over payments made in excess of the agreed amount should be recovered. |
| (c) | Although the Department of Fisheries and Aquatic Resources had paid Rs.6,500,000 to the Cey-Nor Foundation as the consulting fees on the five vessels manufactured by the private sector, the Cey-Nor Foundation had not taken action to encourage the manufacturer to hand over the vessels until 30 November 2019. | Not replied. | The manufacturer should be encouraged to manufacture and deliver the vessels. |

3.6 Utilization of Resources of Other Organizations

Audit Issue

Although the Cab no. PB-8393, the Prime Mover no. LY-0107 and the Crew cab no. 50-4414 belonging to the Ministry of Fisheries and Aquatic Resources Development had been used for the purpose of the Foundation since 2006, actions had not been taken over to the Foundation or handed over to the Ministry.

Management Comment

Not replied.

Recommendation

Actions should be taken to take over or hand over the vehicles belonging to Ministry of Fisheries and Aquatic Resources Development.

3.7 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>-----</p> <p>A qualified person has left and a unqualified person was appointed on 3 November 2015 due to not giving marks by the interview board for appointing the General Manager of the Foundation in accordance with the criteria laid down in the Scheme of recruitment and Rs. 1,684,660 as his salary and allowance and Rs. 144,398 as contributions to the provident fund had been incurred from then until 31 December 2018.</p>	<p>-----</p> <p>Not replied.</p>	<p>-----</p> <p>Actions should be taken against the officers responsible for not giving marks as per the criteria laid down in the Scheme of Recruitment.</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
<p>-----</p> <p>Although the financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the close of the financial year, in terms of the section 6.5.1 of the Public Enterprises circular no.PED/12 dated 02 June 2003, financial statement for the year under review had been furnished to the audit after 5 months delay on 29 July 2019.</p>	<p>-----</p> <p>Not replied.</p>	<p>-----</p> <p>According to the Public Enterprises circular, the draft annual report and the financial statements should be furnished to the Auditor General within 60 days from the end of the financial year.</p>

4.2 Environmental Issues

Audit Issue

Approximately 10 tons of very hazardous waste to the environment was buried in the yard without a proper approval.

Management Comment

Not replied.

Recommendation

Action should be taken to remove hazardous waste from the environment with the proper environmental records and a proper approval.