

Ceylon Fisheries Harbours Corporation - 2013

The audit of financial statements of the Ceylon Fisheries Harbours Corporation for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 2 of the State Industrial Corporations Act, No. 49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Ceylon Fisheries Harbours Corporation as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

The following observations are made

- (a) When the manner of action to be taken on a specific accounting activity is not covered by the accounting system adopted for the preparation of financial statements, in such instances, action should be taken according to the Best Practice and an accounting policy should be prepared by stating the position and follow such policy. Nevertheless, the Corporation had not taken action accordingly in accounting for Government grants.
- (b) Even though a provision of Rs.6, 070,562 as doubtful debts had been made in the year under review, the policy on making provision for doubtful debts had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The provision made for gratuity in the year under review had been understated by a sum of Rs.150, 703 due to an error in computation.
- (b) Action had not-been taken even during the year under review for the rectification of the excess computation of depreciation amounting to Rs.641, 277 and shown in the financial statements in the preceding year.
- (c) The depreciation on the grants received in the preceding years as well as the sum of Rs.8,331,362 which should have been adjusted to the deferred income had been adjusted to the income thus overstating the income, for the year by a sum of Rs.164, 998,596.
- (d) The amortization on the assets valued at Rs.3,668,944 received as grants during the year under review had not been brought to account.
- (e) The unidentified sum of Rs.81,769,596 brought forward over a period exceeding 05 years as the balance for write off had been shown under the non-current assets.
- (f) The Bank overdraft of Rs.23,807,545 as at the end of the year under review had been shown as a deduction from current assets instead of being shown separately.
- (g) The unidentified receipts amounting to Rs.2,215,769 existing over a period exceeding 04 years had been shown under the capital and reserves and unidentified liabilities amounting to Rs.1,653,400 had been shown under the non-current liabilities.

- (h) Even though the assets, the fair value of which changes at levels beyond materiality such assets should be revalued once in 03 years or 05 years, the Corporation had not revalued assets costing Rs.4,473,127,854 since the year 2007.

2.2.3 Dormant Accounts

The debit and credit balances of dormant Bank Accounts appearing continuously in the financial statements presented amounting to Rs.15,602,519 and Rs.89,388,044 respectively.

2.2.4 Lack of Evidence for Audit

The Registers, documents and detailed schedules in support of four items of accounts receivable totaling Rs.9,668,104 had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken for the recovery of a sum of Rs.7,565,194 receivable in connection with the security services provided by the Corporation to the Ministry of Fisheries and Aquatic Resources.
- (b) Special salary advances amounting to Rs.180, 201 and other advances amounting to Rs.15,155 granted to the staff remained without being recovered over a period exceeding one year.
- (c) The vessel “Weligowwa” belonging to the Corporation had been leased out to a private company on the monthly lease basis with effect from October 2012 and the company concerned had not been paying the lease rent regularly. The arrears of lease rent as at the end of the year under review amounted to Rs.11,977,345.
- (d) Eight items of Creditors, Deposit obtained and Advance Accounts totalling Rs.93,901,599 older than 04 years had been shown under current liabilities without taking action for settlement.
- (e) Even though sum of Rs.2,150,000 and Rs.305,142 had been shown over periods exceeding 04 years receivable from the Ministry and other contractors under current assets and under office debtors respectively action had not been taken for the recovery of the money.

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

Instances of non-compliance with the following laws, rules, regulation and management decision were observed.

Reference to Laws, Rules, Regulation and Management Decisions

Non-compliance

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- (a) Employees’ Provident Fund Act, No.15 of 1958
- Even though the contribution to the Employees Provident Fund should be remitted before the end of the month following the relevant month, a sum of Rs.35,748,941 relating to the year under review had not been remitted to the Fund even by 31 December

2013. Surcharge of Rs.410,098 had been paid in the year under review for the failure remit contributions of the Provident Fund on due dates.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 104(3)

As soon as a loss or damage occurs the nature of loss or damage, and the value thereof should be reported to the Auditor General. Nevertheless, such action had not been taken in connection with the losses and damage caused to two motor vehicles by accidents during the year under review.

(ii) Financial Regulation 756

The reports of Board of Survey for the year under review had not been furnished to audit even by 15 March 2015.

(c) Treasury Circular No.1A1/2002/2 of 28 November 2002

Even though a Register of Fixed Assets for Computers, Accessories and Software should be maintained such register had not been maintained for computers valued at Rs.5 million.

(d) Treasury Circular No.842 of December 1978

19 A Register of Fixed Assets had not been maintained for the assets of the Corporation valued at Rs.4, 468 million.

(e) Public Finance Circular No.353(5) of 31 August 2004

An overpayment exceeding the limits specified for procurement of motor vehicles on hire basis amounting to Rs.380,000 had been made.

(f) Public Enterprisers Circular No. PED/58(2) of 15 September 2011

An over payment of Rs.450,000 had been made as allowances for members of the Board of Directors and allowances of the Managing Director.

(g) Public Enterprisers Circular No. PED/12 of 02 June 2003

(i) Salaries and wages amounting to Rs.7,318,140 had been paid to 17 officers/employees deployed in service without approval.

(ii) Sums of Rs.1,202,273 for fuel and Rs.298, 435 for servicing charges had been paid in the year under review in respect of motor vehicles belonging to the Ministry of Fisheries and Aquatic Resources.

- (h) Public Administration Circular No.01/2002 of 25 February 2002 Even though the State Emblem should be printed on all motor vehicles owned by the Corporation, State Emblem had not been painted on the motor vehicles of the Corporation.
- (i) Public Administration Circular No.06/97 of 03 February 1997 The Corporation had paid acting allowance amounting to Rs.263,011 to 15 officers contrary to the provisions in the circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Corporation for the year ended 31 December 2013 had resulted in a deficit of Rs.41, 511,370 as compared with the corresponding deficit of Rs.258,826,672 for the preceding year. The financial results for the year under review as compared with the preceding year indicated an improvement of Rs.217,315,302. The increase of operating income and the increase of capital grants for recurrent expenditure and the decrease of repair costs and finance costs had been the main reasons for the improvement.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Out of the 20 Fisheries Harbours belonging to the Corporation, 09 Fisheries Harbours had been sustaining losses ranging from Rs.4 million to Rs.11 million.
- (b) The operating losses of two Fisheries Harbours, as compared with the preceding year had decreased by 32 per cent and 43 per cent.

4.2 Management Inefficiencies

The following observations are made.

- (a) A sum of Rs.1,943,406 had been paid during in year under review as legal expenses to outside parties despite the Corporation having 03 Legal Officers and one Legal Consultant.
- (b) Prepaid advances amounting to Rs.46,378,763 granted over a period exceeding 5 years by the Supply Division for purchase of goods had not been settled even by the end of the year under review.
- (c) Debit balances amounting to Rs.88,055 and credit balances amounting to Rs.224,749 had remained without any change in 08 Bank Accounts over a period exceeding one year. The Corporation had not taken action to close down those accounts which were dormant by the end of the year under review.
- (d) The final concurrence had not been reached even up to 30 April 2015 in connection with possibility of recovery of the Value Added Tax amounting to Rs.10,434,780 paid direct to the Department of Inland Revenue by a contractor.

- (e) Value Added Tax Payable and Receivable amounting to Rs.67,976,923 and Rs.36,535,669 respectively existed over a period exceeding four years and action had not been taken for the settlement of the amount.
- (f) The reserves amounting to Rs.82,815,786 which should have been adjusted in the financial statement had been adjusted under the investment activities in the cash flow statement and as such the cash generated from investment activities had been overstated by that amount in the financial statements.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) A person had been recruited in the year under review to the post of Co-coordinator of the Foreign and Local Project on Viewing of Whales and Dolphins contrary to the Scheme of Recruitment of the Corporation.
- (b) An examination of the premises from which invoices and bid documents had been issued by the institution which was awarded the bid for the supply of beacon lamps valued at Rs.2,611,128 had furnished bids under two addresses and that such an institution did not exist in the said premises which was a private house.
- (c) An overpayment of Rs.26,000 had been made as allowances to a Senior Investigating Officer during the year under review through the fraudulent alteration of two letter of same number and date signed by the Chairman.
- (d) Even though an officer receiving his first appointment to a post should be placed on the initial salary of the salary scale attached to such post, contrary to that requirement, five officers had been placed on different salary steps during the probationary period.
- (e) Even though a sum of Rs.1,691,215 had been paid as an advance to a private company in the year 2007 for the supply, transport and installation of 06 fuel tanks to Fisheries Harbours, the Corporation had not received those fuel tanks even by 20 March 2015. The payment made had become a fruitless expenditure and action had not been taken for the recovery of the money from the party concerned.

4.4 Idle and Underutilised Assets

The following observations are made.

- (a) A sum of Rs.13,455,059 had been spent in the year 2007 for the installation of an internal telephone system and in addition to that a sum of Rs.11,566,705 had been paid up to the end of the year under review to a private company as monthly charges. Nevertheless, the telephone system of the Harbours is not in working order and as such the cost and other expenditure incurred on that had become a fruitless expenditure.
- (b) Three motor vehicles of assessed value amounting to Rs.3,400,000 remained parked idling in the premises of the Corporation over a period exceeding one year without being used.

4.5 Uneconomic Transaction

The Fisheries Harbour at Chilaw had been constructed at a cost of Rs.224 million received as aid from the Asian Development Bank and the Coastal Resources Management Project. It is not in operation properly due to the unavailability of other infrastructure facilities required. As such that construction and the services of 27 officers/employees attached thereto had been idling.

4.6 Identified Losses

Even though the anchorage charges recoverable from a vessel anchored in the Modera Fisheries Harbour amounted to Rs.10, 520,113 a financial loss of Rs.5, 675,374 had been caused due to the release of the Vessel when only a sum of Rs.4,844,739 had been paid. A case in this connection is pending in the Colombo Commercial Court.

4.7 Staff Administration

The following observations are made.

- (a) The approved and the actual staff of the Corporation had been 1,015 and 1,258 respectively and as such the excess staff had been 243. The excess staff as compared with the approved staff exceeded 24 per cent.
- (b) The Scheme of Recruitment had not been prepared and forwarded to the National Salaries and Cadre Commission for obtaining approval.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of provision in the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year under review presented on 23 July 2014 had been withdrawn for amendment on 27 September 2014. The amended financial statements had been presented to the Auditor General only on 20 January 2015.

5.2 Action Plan

The Action Plan for the year under review had not been presented to audit.

5.3 Internal Audit

Even though an Internal Audit Unit is in operation, the post of Chief Internal Auditor remains vacant from 20 November 2013 and only two officers had been attached to the Internal Audit Unit. An adequate area had not been covered by the Internal Audit during the year under review.

5.4 Budgetary Control

Significant variances were observed between the budgeted amounts and the actual amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.5 Unresolved Audit Paragraphs

Replies to 08 audit queries relating to the year of accounts 2013 referred to the Chairman had not been received even by 20 March 2015.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention in need in respect of the following areas of control.

- (a) Budgetary Control
- (b) Income Control
- (c) Assets Management
- (d) Purchases