

## **Peliyagoda Central Fish Market Complex Management Trust - 2014.**

---

The audit of the Financial statements of Peliyagoda Central Fish Market Complex Management Trust for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the approval of the Cabinet of Ministers, No. අම/10/0958/438/001 of 03 June 2010. My comments and observations for the said financial statements appear in this report.

### **Establishment of the Management Trust**

---

The approval of the Cabinet of Ministers had been received on 03 June 2010 to the Cabinet memorandum for the establishment of Peliyagoda Central Fish Market Complex Management Trust forwarded on 14 May 2010 by the Minister of Fisheries and Aquatic Resources Development. Even though the Management Trust had been established in terms of the said decision, necessary action had not been taken to legalize it as a Statutory Institution even up to 30 November 2015.

### **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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that, I comply with the 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Management Trust'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 Management Trust'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.

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 Qualified Opinion**

-----

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

-----

#### **2.1 Qualified Opinion**

-----

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Peliyagoda Central Fish Market Complex Management Trust as at 31 December 2014 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 Sri Lanka Public Sector Accounting Standards**

-----

The following observations are made.

- (a) Even though the effect of future uncertain events should have been estimated in determining the carrying value of assets in terms of Sri Lanka Public Sector Accounting Standard 01, provisions in accounts had not been made for bad debts which would be arisen on the receivable income of trade stall rent amounting to Rs.49,433,863.
- (b) Even though making provision for depreciation should be commenced at the event of making an asset in to a useable state in terms of Sri Lanka Public Sector Accounting Standard 07, depreciation had been calculated based on the balance as at the beginning of the year, contrary to it.

##### **2.2.2. Accounting policies**

-----

Instead of identification of the cost of buildings and the cost of machinery of the Waste Treatment plant separately and depreciation of them on suitable rates, total cost of machinery and buildings amounting to Rs.38,078,646 had been depreciated at the rate of 5 per cent.

##### **2.2.3 Accounting Deficiencies**

-----

The following observations are made.

- (a) Even though the period of validity of a stock of identity cards amounting to Rs.83,588 purchased to issue for the external suppliers had been expired as at 30 April 2012, it had been shown as a balance receivable without taking action to eliminate it from the accounts.

- (b) Instead of being brought to accounts a sum of Rs. 194,208 incurred for repairing activities of the Waste Treatment Plant in the year under review as expenses, it had been capitalized.
- (c) Income from interest on fixed deposits for the year under review and income of interest receivable for the year had been understated in accounts by Rs.803,924 and Rs.408,414 respectively due to erroneous calculations. In addition, action had not been taken to account withholding tax on the income of interests on fixed deposits amounting to Rs.761,214.
- (d) Even though the error in posting capital expenditure amounting to Rs. 433,950 of the preceding year as revenue expenditure had been rectified, action had not been taken to adjust its effect retrospectively.
- (e) A sum of Rs.3,244,760 had been spent for painting the floor of the wholesale Market Complex as permanent carpet in the preceding year and it had been capitalized. The necessary adjustments had not been made in the accounts as it remained in good quality condition only for less than 03 months.
- (f) Instead of disclosing the income of suspense rent amounting to Rs.588,000 in the financial Statements separately, the net value had been shown after deducting it from the income of rent receivable.

**2.3 Accounts Receivable and payable**

-----  
 Action had not been taken even in the year under review to settle the balances totalling Rs.5,446,663 of 05 Companies existing under creditors and other liabilities since the preceding year.

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

-----  
 The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>
--	-----------------------

- |  |  |
|--|--|
| -----  | -----  |
| (a) Management Trust Document 8(9)                     | Even though Management Trust Meetings should have been held at least once in every month, only 06 meetings had been held in the year under review. |
| (b) Section 2 of the Inland Revenue Act, No.10 of 2006 | Even though “the Trust” is liable to Income Tax in terms of the referred Act, it had not been complied with it.                                    |

(c) Value Added Tax Act, No. 14 of 2002 as amended by Act, No.17 of 2013

(i) Section 10

The Trust had not taken action to register for Value Added Tax.

(ii) Section 22(2)

(i) Action had not been taken to obtain tax credits for input tax of the Trust.

(ii) Value Added Tax paid on input had not been disclosed in the Financial Statements separately.

(d) Government Procurement Guidelines of 2006.

Guideline 3.2

Cleaning service of the Market Complex Premises and maintenance of Canteen had been entrusted to private institutions without inviting competitive bids. It had also been entered into long term Agreements with such Institutions for 5 years with effect from 14 February 2012 and for 10 years with effect from 01 April 2011 respectively.

(e) Public Finance Circular No.PF/423 dated 22 December 2006

Paragraph 4.1

Even though the Annual Budget of the Trust should be presented to the Director General of National Budget before 30 September of the preceding year with the approval of the relevant Minister before 15 September, action had not been taken accordingly.

## **2.5 Transactions not supported by appropriate authority**

-----

The Board of Trustees had decided to set off the income of annual rent amounting to Rs.5,148,000 receivable for 4 stalls and ice plant provided for business activities of the Ceylon Fisheries Corporation as a management fee.

## **3. Financial Review**

-----

### **3.1 Financial Results**

-----

According to the financial statements presented, the financial result of the Trust for the year under review had been a deficit of Rs. 27,815,592 as compared with the corresponding deficit of Rs.25,873,482 for the preceding year, thus indicating a deterioration of Rs. 1,942,110 in the financial result of the Fund for the year under review. Even though the repair and maintenance expenses and security charges had decreased by Rs. 1,650,711 and Rs.

1,766,265 respectively, the decrease of income on fixed deposit interest by Rs.1,835,740 and income in the vehicle yard by Rs.687,256 and the increase of salary and allowances by Rs. 2,969,012 had mainly attributed to this deterioration.

#### **4. Operating Review**

-----

##### **4.1 Management inefficiencies**

-----

The following observations are made.

##### **(a) Collection of income of the vehicle yard**

-----

- (i) The activities of collecting income of the vehicle yard of the Market Complex premises had been entrusted to the Ceylon Fisheries Corporation. The Fisheries Corporation had entered into a long-term agreement for 10 years with a Company being a third party for such purpose without the approval of the Trust
- (ii) Even though it had been planned to amend and implement this Agreement up to March 2014 and subsequently to call for quotations and to select a suitable Institution again at the meeting of the Board of Tender on 10 December 2013 necessary action had not been taken accordingly even up to the date of Audit.
- (iii) Since the copies of the financial statements of the Company for the years 2013/2014 and 2014/2015 had not been presented to audit, the accuracy of the income of parking vehicles of the Management Trust amounting to Rs.4,930,948 could not be established.
- (iv) Even though the Value Added tax amounting to Rs.1,703,342 and Nation Building Tax amounting to Rs.283,890 paid by the Company for the income of Vehicle Section had been deducted as expenses, the relevant payments had not been ensured by Tax remittance reports.
- (v) Necessary action had not been taken to recover a sum of Rs.18,398,680 from the Fisheries Corporation receivable to the Trust from the income remitted to the Ceylon Fisheries Corporation by the Company related to the years 2011, 2012, and 2013.

##### **(b) Collection of rent income from trade stalls**

-----

The following observations are made.

- (i) A loss amounting to Rs. 36,960,000 had been incurred in the year under review due to being recovered lease rent, less than the value estimated by the Department of Valuation for business premises. .
- (ii) Even though action had been taken to obtain a refundable security deposit in renting out the properties of the Trust, the Trust had to bear the risk of recovering outstanding lease rent and settle the damages caused to such properties due to not taking action to obtain

security amounting to Rs.14,020,000 from the relevant parties in renting out the properties affiliated to the Ceylon Fisheries Corporation and the wholesale market.

- (iii) A loss amounting to Rs.504,000 had been caused for the year under review as two trade stalls with a monthly estimated value of Rs.14,000 each of the building of Retail Market Complex constructed for the purpose of renting out had been given free of charges for the use of Police Officers and another stall for the use of employees of the canteen.

**(c) Removal of garbage of the premises**

-----  
The following observations are made.

- (i) The premises had been given to a Private Company on a monthly rental basis by an agreement on 20 August 2014 for the construction of a factory for production of animal foods and compost fertilizer using the garbage disposed from the Market Complex. The said agreement had been entered into for a long period such as 15 years and the monthly rental had been determined at the time of entering into the agreement without revising for a sufficient monthly rental recoverable for 15 years.
- (ii) Even though the opportunity had been provided to obtain garbage collected at the Market Complex as raw material of the products of the relevant Company, a sum of Rs.519,000 had been paid monthly to the relevant Company for the removal of such garbage.
- (d) The earth under the concrete layer of the foundation in several buildings situated in the Market Complex premises had been subsided. A sum of Rs. 628,120 had been paid to the National Building Research Organization in the year under review to investigate into it and to obtain a report. Neither the report so obtained had been presented to audit nor had action been taken to normalize the land.
- (e) The condition as to use high pressure water jetting equipment in cleaning the premises had not been included in the agreement entered into with the company which had been entrusted the cleaning service of the Market Complex premises. As a result of high consumption of water due to the usage of normal pipes for such cleaning purposes, a sum of Rs.7,077,668 had been incurred for water bills in the year under review.
- (f) According to the financial Statements of Trust, the amount receivable from the Ceylon Fisheries Corporation was Rs. 18,410,373 whereas according to the financial statements of the Ceylon Fisheries Corporation the amount payable to the Trust was Rs.8,527,521. Action had not been taken to identify the difference of Rs.9,882,852 and making necessary adjustments.

**4.2 Apparent irregularities**

-----  
**(a) Payments for security service**

- 
- (i) Even though the Private Security Service Company which provides security to the Market Complex had deployed 9-12 officers for a shift, the Trust had made an overpayment of Rs. 17,592,003 (with Tax) for the period from 01 June 2011 to 31

October 2013 and a sum of Rs.113,100 for 04 months in the year under review for the bills presented stating that 24 officers had been deployed. Even though this matter had been mentioned in the preceding audit reports any action whatsoever in this respect had not been taken to recover such overpayment.

- (ii) The Trust had entered into an agreement with this Security Service Company on 08 January 2014 as to cover a period of 4 years since 31 March 2011 to 30 March 2015. The period of this agreement had been extended up to 30 June 2015 with the approval of the Trust and up to 31 December 2015 without the approval of the Trust.

#### **4.3 Idle and Underutilized Assets**

-----

The following observations are made.

- (a) Three Refrigerators valued at Rs.1,143,868 purchased for the canteen in the year 2011 had been kept in the Canteen without utilizing since the date of purchase.
- (b) Ninety eight stalls out of 128 in the Retail Market Complex had remained unutilized even by 30 November 2015, the date of Audit.

#### **4.4 Identified losses**

-----

The following observations are made.

- (a) Action had not been taken to recover from the responsible parties the loss amounting to Rs.2,314,160 occurred due to the removal of paint within a few months as the floor of the wholesale building complex had been coated with substandard paints in the previous year.
- (b) The Trust had incurred a loss of Rs.747,917 due to removal of garbage tank, constructed by spending Rs.771,049 in the year 2012, for leasing out that land.

#### **4.5 Personnel Administration**

-----

The following observations are made.

- (a) Even though it had lapsed over 4 years after the commencement of the Market Complex, action had not been taken to identify and get approved the required posts and to prepare an organization chart.
- (b) Even though an appointment can be made only to an approved post in terms of Sub-section 1.2 of Chapter 11 of the Establishments Code of Democratic Socialist Republic of Sri Lanka, three officers of the Ministry of Fisheries and Aquatic Resource Development had been appointed in the years 2011 and 2012 on the basis of acting and covering up of duties for unapproved posts of the Trust. A sum of Rs.1,309,320 had been paid as remuneration during the year under review for the posts they held in the Trust. Further, these appointments had been made without complying with the provisions laid down in Chapter 6 of the Establishments Code and the remunerations had also been decided irrespective of the provisions in the Establishments Code and the other Circulars.

## **5. Accountability and Good Governance**

-----

### **5.1 Presentation of Financial Statements**

-----

Even though the Financial Statements should have been presented for audit within 2 months after the close of financial year in terms of paragraph 4.3 of the Public Finance Circular No. PF/423 dated 22 December 2006, the financial statements of the Trust for the year under review had been presented to audit only on 06 October 2015, after a delay of 8 months.

### **5.2 Action Plan**

-----

An Action plan had not been prepared for the year under review.

### **5.3 Internal Audit**

-----

An Internal Audit Division had not been established.

### **5.4 Unsolved Audit paragraphs**

-----

Necessary action had not been taken even up to 30 November 2015 in respect of 18 Audit queries totalling Rs.89,014,188 issued in respect of Income from Trade stall rentals, Collection of income of vehicle yard, Payment of salaries, Security services, Cleaning services, Expenses for disposal of garbage and Loss of the removal of garbage tank in the years 2014 and 2015.

## **6. Systems and Controls**

-----

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Secretary to the Ministry from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Payments
- (c) Maintenance of Assets