

Peliyagoda Central Fish Market Complex Management Trust - 2015

The audit of the financial statements of Peliyagoda Central Fish Market Complex Management Trust for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets and cash flow statement and a summary of significant accounting policies and other explanatory information for the year then ended, 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. A detailed report had been issued to the Secretary on 21 March 2017.

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 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. Eventhough the Management Trust had been established in terms of the said decision, necessary action had not been taken to legalize as a Statutory Institution even up to 30 November 2016.

1.5 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 matters described in paragraph 2.2 of this report, the financial statements give true and fair view of the financial position of the Peliyagoda Central Fish Market Complex Management Trust as at 31 December 2015 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) Sri Lanka Public Sector Accounting Standard 01

- (i) The value of assets aggregating Rs. 101,359 had been set off against the values of creditors and other liabilities, even though it is not permitted to set off such balances.
- (ii) The effect of the future events required to be considered to determine the carrying value of the assets. However, the provisions had not been made on risks on recoverability of Rs. 54,238,648 receivable on renting out of stalls.

(b) Sri Lanka Public Sector Accounting Standard 07

- (i) The useful life time of non-current assets had not been reviewed annually as required by the Sri Lanka Public Sector Accounting Standard 07. As a result, 02 items of fixed assets procured at a cost of Rs. 153,790 which fully depreciated had been remained in use. Further, as per the Sri Lanka Public Sector Accounting Standard 03, action had not been taken to rectify the estimation error made thereon. Further, provisions for depreciation amounting to Rs. 10,756 had been made exceeding the costs of such assets.
- (ii) The provision for depreciation had been made on full year of assets acquired, instead date of the assets become usable condition. Therefore, the provisions for depreciation had not been made for the year under review on assets procured at a cost of Rs. 58,053.

2.2.2 Accounting Policies

Action had not been taken to recognize the cost of buildings and machinery separately which included in the cost of Rs. 38,598,438 of sewerage cleaning plant. Therefore, the provisions for depreciation at a rate of 05 per cent on the total cost had been provided instead of being determined suitable rates for provisions for depreciation. Further, the Ice Manufacturing Plant had been considered as a building and provisions for depreciation had been provided at a rate of 03 per cent. In addition the compression machine of the Ice Manufacturing Plant had been replaced within 04 years of the commencement of the operations of the plant and a sum of Rs. 2,656,080 had been spent up to the end of the year under review since 2011. Considering the above matter the life time of the Plant had not been determined.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Provision for depreciations for the year under review had been remained understate by Rs. 1,293,531 due to calculation errors.
- (b) The fair value of the T-shirt stock amounting to Rs.57,255 had been stated as Rs. 127,988 and as a result, the value of the T-shirt stock had been overstated by Rs.70,733 in the financial statements.
- (c) The ownership of the 02 trade stalls rented by the Ceylon Fisheries Corporation had been vested in June 2015. The rent receivable since then up to 31 December 2015 had been accounted as receivable by a journal entry as result, rent income and receivable rent had been overstated by Rs. 924,000.
- (d) The action had not been taken to capitalize the cost of Rs.1,461,440 incurred during the year under review for installation and repairing compressor machine of Ice Manufacturing Plant.
- (e) A sum of Rs 2,314,760 spent for the Trading Complex had been capitalized in the previous year without considering its recurrent nature. As the error had not been rectified during the year under review, the value of the respective assets had been overstated by that amount and the provision for depreciation thereon had been overstated by Rs. 69,443.
- (f) The provisions had not been made for audit fees for the year under review and audit fees amounting to Rs. 129,870 for year 2011 paid during the year under review had been charged as the expenditure of the year under review, inserted of being debited to the provisions account. As a result, deficit of the year under review had been increased by that amount.
- (g) Rent income amounting Rs.750,000 receivable on hiring of Mobitel tower had not been brought to the account during the year under review.

- (h) Income amounting to Rs. 16,480,355 receivable to the Trust, from hiring Motor Vehicle Park to the Ceylon Fisheries Corporation had not been accounted as receivables.
- (i) A sum of Rs.500,000 receivable from outside parties on saling ice cream at the premises belongs to the Trust had not been accounted under the receivable income.
- (j) The Trust had agreed to pay a penalty amounting to Rs. 2,451,250 in 6 installments based on a decision of a legal case raise against the Trust by a private company. Eventhough all the installments had been paid as at 04 November 2015, an additional amount of Rs. 388,989 had been shown in the financial statements, as payable to the Company.
- (k) A stock of T-shirt valued at Rs. 556,705, according to the inventory records had been shown under the debtors and other receipts of Rs. 603,115 in the financial statements for the year under review. As a result, value of the assets had been over stated by Rs. 46,410.
- (l) The Central Fish Market building had been rented out to the Sri Lanka Telecom and Mobitel Company to establish a signal tower at a rent of Rs. 75,000 per month since January 2015 without entering in to a written agreement. However, action had not been taken to account rent income amounting Rs. 750,000 receivable from March to December of the year under review.

2.2.4 Un-explained Differences

The following observations are made.

- (a) According to the financial statements of the Trust, balance payable to the Ceylon Fisheries Corporation had been shown as Rs. 2,424,665 whilst the corresponding receivable amount was shown as Rs.99,302 in the financial statements of the Ceylon Fisheries Corporation. Action had not been taken to reconcile the differences of Rs. 2,325,363 and settle the balance.
- (b) As per the financial statements of the Trust, balance receivables from Ceylon Fisheries Corporation had been shown as Rs. 16,480,355. However, the corresponding payable balance had been shown as Rs. 5,361,333 in the financial statements of Ceylon Fisheries Corporation. Action had not been taken to reconcile the difference of Rs. 11,119,022 and settle the balance.

2.2.5 Lack of Evidence for audit

The following observations are made.

- (a) Fixed deposit certificates related to 03 fixed deposits valued at Rs. 116,752,402 had not been furnished for audit.

- (b) Operations of the vehicle yard of the Trust had been leased out to a private Company and 40 per cent of the net income required to be received to the Trust, as per the lease agreement. However, the financial statements of the Company had not been furnished for audit to confirm the income of vehicles parking amounting to Rs. 4,996,052 shown in the financial statements of Trust for the year under review.

2.3 Accounts Receivables and Payables

The action had not been taken during the year under review to settle the 03 balances aggregating Rs. 1,026,505 shown under the creditors and other liabilities since the preceding year.

2.4 Non –compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, Rules, Regulations and Management Decisions are observed in audit.

Reference to Laws, Rules and Regulations etc	Non –compliance
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(a) Paragraph 10 of the Value Added Tax Act No 14 of 2002, amended by No 17 of 2013 Act	Eventhough the rent income amounting to Rs. 88 million and Rs. 95 million had been earned during the year 2014 and during the year under review respectively, action had not been taken to register for payment off Value Added Tax.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulations 756,757 and Circular No 5/2016 dated 31 March 2016 of Public Finance	The Board of Survey for the year 2015 covering all the Divisions of the Trust had not been conducted and reports therein had not been furnished for audit.
(ii) Financial Regulation 371	Advances aggregating Rs. 870,000 obtained in 08 instances for payment of allowances for the members of Management of Trust meeting had not been settled. Further, confirmations had not been furnished for the receipt of allowances by the members.
(iii) Guideline 3.2 of the National Procurement Agency Circular No. 8 of 25 January 2006	A private firm had been selected for cleaning of the premise without inviting competitive bids. As per the agreement entered with the firm for 5 years, monthly fees amounted to Rs.1,250,000. However, overpayment amounting to Rs.3,960,000 had been paid due to additional monthly payment of Rs.330,000 made during the year 2015.

- (c) Paragraph 4.1 of the Circular No. PF/423 dated 22 December 2006 of Public Finance As per the provision of the Circular, the Annual Budget of the Trust for the year 2015 had not been prepared and furnished as at 31 December 2016.
- (d) Public Enterprise Circular No. PED/95 of 14 June 1994 Monthly allowance amounting to Rs. 768,124 had been paid during the year under review to the Chairman of the Trust, Treasury Representative of the Trust, administration coordinator, an Accountant and Account Assistant appointed for the Trust by the Treasury without obtaining approvals of General Treasury.
- (e) Public Enterprise Circular No. PED 1/2015 of 25 May 2015 A sum of Rs. 760,800 had been paid as fuel allowances to 04 officers based only on the approval of the Board of the Trust during the year under review, contrary to the provisions of the Circular.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year under review was a deficit of Rs. 32,284,953 and the corresponding deficit of preceding year amounted to Rs. 27,815,592. Thus, indicated that a deterioration of the operating result of Rs. 4,469,361 as compared with the operating result of preceding year. The rent income of stalls had been increased by Rs. 6,381,150 and the expenses of security services was also decreased by Rs. 1,085,516. However, the increase of salaries and allowances by Rs. 8,961,902 whilst the increase of cost and repair and maintenance expenses by Rs. 2,941,315 had been mainly attributable for the deterioration.

The review of the financial results of previous 04 years had indicated the deficits of financial results since year 2011 to 2015. However, a significant contribution of Rs. 63,908,465 had been made in 2012 after adjusting of the provisions for retaining gratuity and depreciation on non-current assets. Therefore, attention had not been paid to apply mechanisms to maintain the level of contribution in the following years.

4. Operating Review

4.1 Performance

According to the decision of the cabinet of Ministers No.අමප/10/0958/438/001 dated 03 June 2010, the objectives and functions of the Management of the Trust are as follows.

- (a) Undertaking of full controls and management of Central Fish Market Complex, continuation of the control and management in efficient manner attending for the affiliated works thereon.
- (b) Taking of unlimited action to achieve the above mentioned objectives and functions mentioned in the above paragraph and undertaking of all other related functions.

The main source of income of the Central Fish Market is hiring out of its assets since the commencement of its operations in 2011. The following observations proved that the adequate action had not been taken to collect the income in optimum manner.

- (i) Action had not been taken to generate income from hiring of ice manufacturing plant remained at the premises.
- (ii) The income generate from renting out stalls had been declined by 39 per cent during the year under review when compared with the operations of 2014. Further, rent income amounting Rs. 88,377,350 remained outstanding at the end of the previous year whilst increased upto Rs. 54,238,648 at the end of the year under review.

4.2 Management Activities

The following observations are made.

- (a) Eventhough a statement or a deed for the management of the Trust had been sign by 15 Trustees who approved by the Cabinet of Ministers at the time of formation of the Trust, the action had not been taken to certify by an Attorney –at- Law and register in order to ensure its legality.
- (b) It was observed that one of Trustee had not attending for the meetings of the Board of Trust continuously for several years, action had not been taken to make a replacement for him.
- (c) The revenue collection activities of the vehicle yard of the Market complex had been vested by Ceylon Fisheries Corporation and entered into a long-term agreement on 07 March 2011 for 10 years with a private company. Eventhough a decision had been taken at the meeting of the Board of Trust held on 10 December 2013 to revise the validity period of the agreement upto March 2014 and select other company after being called competitive bid. The action had not been taken accordingly even up to December 2016.
- (d) The operating activities of the Plate Ice Production Factory at the Central Fish Market Complex had been rented out to the Ceylon Fisheries Corporation at a monthly rent of Rs. 325,000 without entering into a written agreement. However, the revenue generated by the Factory had been totally collected by the Corporation and action had not been taken by the Trust Fund to collect the rent amounting to Rs. 3,900,000 receivable as at 31 December 2015.
- (e) A Compressor Machine obtained by the Ceylon Fisheries Corporation on rent basis had been repaired by the Corporation at a cost of Rs. 2,656,080 in 2014 and out of that Rs. 1,461,440 had been recovered from the Trust. However, the Board of the Trust Fund had decided at its meeting held on 26 May 2015 to recover the amount paid to the Corporation by Rs.10,000 per day since 01 June 2015. However, the action had not been taken to implement the decision even as at 28 December 2016 as well as to brought the receivable in to account.

- (f) In order to fulfill the daily requirement of ice for the Central Fish Market Complex, the Board of Trust Fund had granted permission at its meeting held on 17 July 2015 to award the contract to the Trade Association at a monthly payment of Rs. 250,000 for 03 months period.
- (i) The Trade Association had continued to supply ice exceeding the period of 03 months up to December 2016, no payments had been made to the Trust Fund as agreed.
 - (ii) As decided by the Board of Trust Fund at its meeting held on 17 July 2015, to construct a factory for the production of ice cubes had not been commenced even as at 28 December 2016.
- (g) It was observed that the Central Fish Market Complex comprised with 218 outlets for whole sales and 64 stalls for retail sales as at the end of the year under review and the Trust Fund had not possessed any rent agreement which legally entered.

4.3 Transactions in Contentious Nature

The following observations are made.

- (a) An agreement had been entered in 20 August 2014 with a private company to construct building at the premises of the Market Complex to produce animal feeds and organic fertilizer by using garbage and waste material of the Complex. As a huge investment of Rs. 100 million was expected to be invested by the company and as a result, it was agreed to sign the agreement for a long period of 10 years. The Trust Fund had paid a monthly fees of Rs. 519,000 to the company to dispose wastage eventhough no such a payment had been agreed.
- (b) According to the Assessment Report of GM/RP/1288 of 03 August 2010, the monthly rents of Rs. 28,000 and Rs. 625,000 for retail outlets of the Market Complex and Ice Plant respectively were determined. However, contrary to the decision of the monthly rents of Rs. 10,000 and Rs.325,000 for retail outlets and Ice Plant had been charged respectively.

4.4 Apparent Irregulaties

The fish sales outlets had been rented out to the businessmen who engaged in businesses at the time of fish market operated in Pettah. However, the conditions stipulated in the lease agreement entered at that time had been violated and sold the sales outlet to outside parties. The following observations are made in this connection.

- (a) According to the paragraph 14 of the lease agreement, the hirer has no rights to offer to sub lease the respective sales outlet or part of it to other party, conduct a partnership, mortgage, sell or exchange. However, contrary to the above condition, 26 sales outlets were sold at Rs. 103,400,000 and transfer the rights to third parties as at 31 May 2016. Further, the Trust Fund had allowed to transfer the rights of the sales

outlet to the third parties without recovering the management fees aggregating Rs.1,446,000 from the businessmen who sold the outlets and transfer the rights.

- (b) Action had not been taken to recall bids and re-award the tenders for the sales outlets which terminate lease agreements by the businessmen, according to the paragraph 20 of the lease agreement. It was observed that the rental value of a wholesale sales outlets of the Central Fish Market had remained at the range from Rs 2.1 million to Rs.4.7 million and the Trust Fund had missed the opportunity to collect a large amount of income through calling competitive bids, as stipulated in the procurement guidelines.
- (c) It was observed that 02 sales outlets allocated in 2010 for the Ceylon Fisheries Corporation had been returned on 22 June 2015 and Board of Trust had reallocated such outlets to the persons who nominated by the Chairman of the Ceylon Fisheries Corporation without calling bids as required by the procurement guidelines.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) It was observed that 03 refrigerators procured at a cost of Rs. 1,143,868 in 2011 for the use of canteen of the Central Fish Market had remained idle since the date of procurement.
- (b) The retail shopping area of the Market Complex comprised with 128 sales outlets and out of that 64 outlets had been converted in to wholesale outlets in 2011 and 2012 and at a cost of Rs. 9,625,540. However, those wholesale outlets and other 34 retail outlets stalls had remained idle at the date of audit on 30 November 2016.

4.6 Identified Loss

The stock of identity card valued at Rs. 83,588 written off due to expiration of the validity period, had been charges to the printing and stationary account instead of being disclosed in the financial statements.

4.7 Cadre Administration

The carder requirements of the Central Fish Market had been fulfilled by deploying the officers released from of the Ceylon Fisheries Corporation and Ministry of Fisheries and Aquatic Resources Development, after lapse of 5 years from the date of commencement of the activities of Trust. Action had not been taken to prepare a Scheme of Recruitment for 43 posts of the cadre approved for the Central Fish Market.

4.8 Commencement of Projects in the Lands ownership is not acquired properly

Action had not been taken to transfer the legal rights of the land of the Market Complex comprised with 07 acres, 03 roots and 14.9 perches to the Ministry of Fisheries and Aquatic Resources Development, even after lapse of 5 years from the date of commencement of the operations of the Market Complex as at 31 December of the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Eventhough the financial statements of the Trust Fund required to be submitted for audit within 02 months after end of the financial year in terms of the paragraph 4.3 of the Public Finance Circular No. PF/423 dated 22 December 2006, the financial statements had been submitted with the delays from the commencement of the activities of the Trust Fund in 2011. The financial statements of the Trust Fund for the year under review had been prepared and presented for audit only on 07 November 2016 with the delays of 08 months.

5.2 Action Plan

According to the paragraph 05 (02) of the Public Finance Circular No.01/2014 of 17 February 2014 the Action Plan had not been prepared for the year under review.

5.3 Internal Audit

As per the paragraph 05 (02) (e) of the above mention Circular, the Internal Audit Plan had not been prepared for the Trust Fund and no appointment of internal auditor.

5.4 Audit and Management Committee

An Audit and Management Committee had been appointed for the Trust Fund and meetings of the Committee had been held in 3 instances during the year under review. It was observed that the expected result had not been achieved from the Internal Audit Section as the replies to 26 audit queries and lack of audit trails after appointing of an Internal Auditor had not been received.

5.5 Environment and Social Responsibility

Eventhough an application had been forwarded to obtain an Environmental Protection License for the Central Fish Market from Central Environmental Authority, the action had not been taken even as at 01 February 2017 to fulfill the necessary requirements such as dispose of waste water after being purified and maintaining of the market premises according to the specification etc as enable to obtain the license.

6. Systems and Controls

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

Areas of system and control

Observation

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| (a) | Financial control | (i) | Bank Reconciliation Statements had not been prepared properly and entries of the cash book not match with the cheque counterfoil. |
| | | (ii) | Entries of the cash book recorded in twice. |
| | | (iii) | Entries relevant for the next year had been entered. |
| (b) | Hiring of sales outlets, control of income and accounting | (i) | The action not being taken to hire all outlets and hiring under sub lease. |
| | | (ii) | Invoices not issued for paying of rentals. |
| | | (iii) | Issuing of Receipts before realizing of cheques and recording of transaction in the cash book without issuing receipts. |
| | | (iv) | Recording of transaction in the cash book using journal entries, no use of journal entries when required and lack of supporting documents attached with the entries made. |