

## **Ceylon Fisheries Corporation – 2016**

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The audit on operations of the Ceylon Fisheries Corporation for the year ended 31 December 2016 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 29 of State Industrial Corporations Act, No.49 of 1957. The financial statements for the year 2016 to be presented in terms of Section 13(6) of the Finance Act had not been presented even by the date of this report. My observations on the operations of the Corporation during the year under review which I consider should be presented to Parliament in terms of Section 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1:2 Management’s Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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.

## **2. Financial Statements**

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### **2:1 Presentation of Financial Statements**

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Even though the financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the close of the year of accounts in accordance with Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, financial statements and the draft annual report for the year 2016 had not been furnished to the Auditor General even by 19 April 2018.

### **2.2 Maintenance of Accounts, Books and Registers**

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Although the operations of the Corporation had been continuously maintained, accounts, books and registers pertaining to the year under review had not been completed.

### **2.3 Existence of Assets and Liabilities**

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Details on the assets, liabilities, income and expenditure stated in the last prepared and audited financial statements as at 31 December 2015 by the Corporation are as follows.

<b>Assets</b>	<b>Value</b>
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	<b>Rs.</b>
Non-current assets	1,713,458,355
Current Assets	<u>449,150,463</u>
Total Assets	<u>2,162,608,818</u>

## Liabilities

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Current Liabilities	864,474,891
Non-current Liabilities	<u>205,984,946</u>
	1,070,459,837
Net Assets/Equity	<u>1,092,148,981</u>
Total Liabilities	<u>2,162,608,818</u>
Total Income	2,597,580,607
Total Expenditure	<u>2,857,498,081</u>
Deficit	<u>(259,917,474)</u>

## 2.4 Accounts Receivable

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The following observations are made.

- (a) The outstanding loan balance as at 31 December of the year under review amounted to Rs.214,407,034. The above balance included Rs.44,144,301 older than 02 years, Rs.44,703,875 older than 05 years, Rs, 7,251,427 older than 10 years and unanalyzable amount of Rs.18,768,308.
- (b) A proper procedure had not been introduced with regard to the receipt and issue of fish stocks handed over by external institutions and persons seeking deep freezing facilities in the cold room of the Fisheries Corporation. It was observed in audit that a sum of Rs.4,014,847 receivable as cold room charges as at August 2016 was further remained receivable despite lapse of more than 02 years.

## 2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Instances of following non- compliances with Laws, Rules, Regulations and Management Decisions were observed.

### Reference to Laws, Rules, Regulations,etc.

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### Non compliances

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- (a) Paragraph 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. In case the employees of the Corporation are released to the line ministry or another institution, approval of the Cabinet should be obtained therefor. Nevertheless, without obtaining such approval, two officers had been released to a private institutions and a sum of Rs.397,446 had been paid as salary and wages during the year under review.
- (b) Public Administration Circular No.24/2014 dated 12 November 2014 and No.5/2015 dated 11 February 2015. A retired public officer had been appointed as the General Manager of the Corporation and that officer had been paid the Cost of Living Allowance along with the pension and the General Manager allowance had been paid while Adding Cost of Living Allowance of Rs.249,200 from November 2015 up to December 2016.

## **2.6 Legal Action Instituted Against the Corporation**

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External parties had filed 04 cases against the Corporation in Magistrate Courts by the end of the year under review regarding sale of fish unfit for the consumption and the sale of expired fish.

## **3. Operating Review**

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### **3.1 Performance**

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The prime objectives of the Ceylon Fisheries Corporation established by the Extraordinary Gazette No.14/186 dated 01 October 1964 and the Extra Ordinary Gazette Notification No.1712/21 dated 30 June 2011 under the State Industrial Corporations Act, No.49 of 1957 are summarized below.

- Fishing in deep sea either directly or through authorized agents using trawlers, processing and sale of fish in retail or wholesale or distributing, construction and maintenance of fisheries harbours and anchorages including cold rooms, import and export of fish and fish productions, import and sale of fishing gear and other necessary equipment.
- Engaging in the activities related to the development of fishing industry for and on behalf of the Fisheries Department or the other Government Department, construction of boats and other small vessels for the fishing industry, provision of facilities for repairing and maintenance of boats and production and sale of fishing gear and necessary equipment.

The following observations are made in this connection.

- (a) With the establishment of Ceylon Fisheries Harbour Corporation, Cey-Nor Foundation Ltd. and National Aquaculture Development Authority of Sri Lanka under the Ministry of Fisheries, although the above statutory objectives assigned to this Corporation had been assigned to the scope of the other institutions established under the Ministry, necessary steps had not been taken regarding the revision of functions assigned to the Corporation in the establishment of Fisheries Corporation.
- (b) The following observations are made in connection with the achievement of targets of the key functions of the Corporation during the year under review in terms of the Performance Report.
  - (i) Although it had been targeted to purchase 7200 metric tons of fish at a cost of Rs.2,592 million during the year under review, only 3329 metric tons of fish had been purchased at a cost of Rs.1,381 million according to the progress reports. Accordingly, it had not been possible to meet fish requirement of 3871 metric tons or 53 per cent of the requirement. Further, it had been targeted to earn an income of Rs.3,375 million by selling 7200 metric tons of fish, whereas an income of Rs.1915 million only had been earned by selling a stock of 3329 metric tons of fish. Accordingly, it had not been possible to reach the sales targets by 46 per cent and as such, the Corporation had failed to fulfil its main objective to meet the daily fish need of the consumer at a concessionary price.

- (ii) Although it had been planned to earn sales income of Rs.107.76 million by selling 26064 metric tons of ice, an income of Rs. 44.95 million only had been earned by selling 11843 metric tons of ice by the end of the year under review. Accordingly, it had not been possible to reach the sale target of 55 per cent, as planned.
  - (iii) Although cold room income of Rs.60 million had been targeted, an income of Rs.14.47 million only had been earned. It was accordingly observed that the available cold room facilities had been underutilized.
  - (iv) Although it had been planned to construct 32 fish stalls by spending Rs.22 million and vest them with the public during the year under review, only 11 stalls had been constructed at a cost of Rs.4.28 million during the year under review.
- (c) The market share of the Ceylon Fisheries Corporation had decline from 1.1 per cent to 0.7 per cent during the period of past 05 year and action had not been taken to find out the reasons behind it and to increase the market share. As a result, the achievement of the objectives of acting as a representative for the stabilizing of fish price and the maintenance of high standard consumer services showed a least possibility and it had adversely affected existence of the Corporation.

### **3.2 Management Activities**

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The following observations are made.

- (a) At the disciplinary inquiry conducted against the Manager of the Stores Division who should be responsible for the shortage of packaging stocks valued at Rs.2,558,028 caused in the year 2011, it had been decided to recover the value of that shortage from the respective officer on 09 March 2016. Nevertheless, that amount had not been recovered even by the end of the year under review.
- (b) It could not be satisfied in audit regarding the replies given for the charge sheets issued to three officers under the fault of negligence of duties or engaging in acts of misconduct which is coming under the Schedule “a” of the Disciplinary Order of the Ceylon Fisheries Corporation with regard to causing a debt balance of Rs.13.9 million by 12 August 2014 due to a fault committed in the supply of fish to the hospitals. Further, at the Board of Directors meeting held on 19 February 2015, it had been decided to conduct a formal disciplinary inquiry against them. Nevertheless, those decisions had not been implemented even by 31 December 2016.
- (c) An assistant manager of the Corporation who had been interdicted without conducting a formal disciplinary inquiry in February 2001 on the charges of 12 irregularities including a financial irregularity of Rs.192,000 had been reinstated on 03 September 2001 and given opportunity to proceed abroad to take part in a training programme. Further, the above officer had been promoted to the post of Executive Manager, Grade II with effect from 03 October 2011 and to the post of Executive Manager, Grade I with effect from 20 October 2011 and he had been appointed as the Cold Room Manager of the Head Office with effect from 21 September 2015.

- (d) Although 15 lands of 12.47 acres in extent situated in 08 districts were being occupied by the Corporation, management had not taken action to legally take over them from the relevant parties.
- (e) According to the Letter No.NPC/1/2/6 dated 06 March 2013 of the National Programme Instructor of the Ministry of Fisheries and Aquatic Resources Development addressed to the Chairman of the Fisheries Corporation, it had been informed to take over the Trincomalee Fish Stall valued at Rs.15 million to the Corporation from 09 March 2013. Nevertheless, action had not been taken to take over the above stall even up to the date of audit in December 2017.
- (f) In comparing the physical stock of trade fish according to the survey conducted by the Board of Survey of the Corporation with the book value as at 31 December 2015, a shortage of 5,939 kilograms of fish was observed. Nevertheless, action had not been taken to find out the reasons behind that and recover the value from the relevant parties even by December 2016.
- (g) While an officer functioned in the capacity of the Operating Manager of the Corporation was on interdiction after being found guilty of 11 charges, he had been reinstated with effect from 07 July 2009 subject to a disciplinary inquiry and appointed for the posts of manager in 06 executives.
- (h) The management had not taken action to implement the recommendations made to recover the losses and recoverable balances of Rs.8,356,253 and Rs.5,139,900 respectively pointed out by 03 internal audit reports in the year 2015.

### **3.3 Operating Activities**

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The following observations are made.

- (a) The existence of excess cadre in the Corporation and changes of the officers in the top management posts within short periods had resulted in constant changes in the plans of the Corporation and a working capital crisis and it had mainly attributed to sustain continuous losses by the Corporation from the year 2005.
- (b) With the objective of converting the Corporation into a profitable commercial business by restructuring the same through the implementation of a voluntary retirement scheme upon a Cabinet decision, retirement of 102 employees only had been carried out on 20 May 2016 in terms of the Public Enterprises Circular No.02/2016 of 18 March 2016. The other plans for reaching the objectives of converting the Corporation into a profitable business had not been prepared.
- (c) Although two multiday fishing boats of the Corporation valued at Rs. 66,715,516 had been leased out to a private institution for a period of 2 years on a monthly lease rent of Rs.200,000 with effect from 20 January 2010, the legal action taken for the recovery of the lease rent in arrears amounting to Rs.6,000,000 for the 02 boats from January 2011 to November 2013 computed by the legal officer had been still in progress.

The above two boats had been leased out to a selected single lessee without calling for competitive bids during the year 2014 and action had not been taken to recover the lease rent amounting to Rs.1,125,000 relevant to the period from January to September 2014. Instead of recovering the lease rent in due amounts, those two boats had been sold at Rs.5,626,500. Therefore, it had not been possible to achieve the objective of fishing in the sea directly using the vessels, that is, one of the objectives of the establishment of the Corporation.

- (d) Out of 32 executives engaged in the sale of fish, 28, 30 and 27 executives had sustained losses in the years 2014, 2015 and 2016 respectively and the total loss incurred in those years had been Rs.180,538,573, Rs.138,040,828 and Rs.68,184,221 respectively. Losses incurred by 08 Ice-factories amounted to Rs.33,364,965 and Rs.17,581,153 in the years 2015 and 2016 respectively. The Corporation had not prepared plans for minimizing losses even by the end of the year under review.
- (e) As gratuity had not been duly paid, interests of Rs.186,678, Rs.1,665,963 and Rs.2,534,850 had been paid in the years 2013, 2015 and 2016 respectively.
- (f) For the purpose of achieving the targeted requirement of constructing 250 fish stalls by the end of the year under review, a loan amounting to Rs.100 million had been obtained from a state bank during the years 2010 and 2011 without conducting a feasibility study and a sum of Rs.26,283,673 had been paid as the interest. Only 172 stalls had been constructed by spending Rs.136,092,354 by the year 2016. Due to the matters such as lack of sufficient fish sale and widening of roads, 75 of the above stalls had been closed down by 31 December 2017. Moreover, as a result of failure in taking over the ownership of the lands before carrying out the constructions, higher expenditure had to be incurred for the settlement of legal issues.

### **3.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) A by-products factory situated at Anuradhapura, 02 Ice Factories at Polonnaruwa and Rathnapura, an ice factory, an office quarters and dried fish processing yard at Puttalam, net manufacturing centre at Trincomalee, dried fish processing yard at Mannar and 03 sections of container cold-rooms at Batticaloa belonging to the Corporation had remained idle without being utilized during a period ranging from 02 years to 29 years.
- (b) An internal audit report had disclosed that 20 motor vehicles owned by the Corporation had remained idle within the Corporation premises and in the relevant executives.

#### **4. Accountability and Good Governance**

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##### **4.1 Corporate Plan**

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The following observations are made.

- (a) The Corporate Plan prepared by the Corporation had not included the strategic plans for the achievement of the objectives of engaging in fishing operations within and outside the “Self Resources Zone” in keeping with the recognized international rules, sale of fish for the foreign markets, representing local and foreign productions and distributors.
- (b) Though it was possible to recognize the target market as institutions and the domestic consumers in the Corporate Plan pertaining to the period from 2014 to 2016, marketing plans had been prepared targeting domestic consumers only.
- (c) Targets had not been recognized for the achievement of each objective in a manner able to evaluate the progress of the Corporate Plan.

##### **4.2 Action Plan**

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Although Annual Action Plan should be prepared based on the Corporate Plan, activities had not been planned for the achievement of the objectives of the maintenance of high standard consumer service, increase in the resources utilization and management efficiency and to act as a representative for the fish price stabilization, as included in the Corporate Plan.

##### **4.3 Unresolved Audit Paragraphs**

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The following directives made by the Committee on Public Enterprises of Parliament had not been executed.

- (a) As businesses of the joint venture established with a private company in the year 2006 had broken down by the year 2010, repossession of the ownership of the land in which the investment thereof had been made.
- (b) Taking action to recover the outstanding debtor balance of Rs.214.4 million.
- (c) Preparation of Corporate Plan including the plans relating to the period from the year 2017 onwards and obtaining approval by forwarding the same to the Board of Directors within a period of one month.

- (d) Failure in furnishing a comprehensive report to the Auditor General even by 31 December 2016 on the matters such as discussing the recommendation of the Minister by the Board of Directors according to the directive made by the Committee on Public Enterprises, carrying out a feasibility study for the Tuna project, determination of prices, appointment of a Committee for the determination of prices in connection with the loss of Rs.47,359,695 incurred for a period of two weeks due to purchase and sale of stocks of fish upon the approval of then Deputy Chairman while deviating from the expected prices of the Tuna Project initiated on the Treasury provisions for the purchase of excess fish harvest of the fishermen until the ban imposed by the European Union is lifted.

## 5. Systems and Controls

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

### Area of Systems and Controls

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### Observations

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| (a) Revenue Control       | Collection of income relating to the sale of fish by the executives remained at a poor position and action had not been taken to recover the income in arrears over a number of years.  |
| (b) Budgetary Control     | Not presenting the approved budgeted accounts to Audit.   |
| (c) Stock Control         | Failure in determining the optimum stock limits and failure in introducing a methodology relating to issue of stocks.<br>Existence of stocks unfit for consumption.<br>Absence of proper system relating to issue of fish stocks of the Corporation to the market.<br>Storage of fish unfit for consumption together with the fish in good condition.     |
| (d) Utilization of Assets | As the fish stocks owned by external parties had not been properly frozen in deepfreezes , an additional expenditure had to be incurred on electricity in order to re-freeze such stocks of fish.<br><br>In storing fish in cold rooms, the Quality Control Officers had not certified the stocks of fish received by the stores to be in good condition. |



