

Cey-Nor Foundation Limited - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Cey-Nor Foundation Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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 scepticism 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;
- 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 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to paragraph 29 of Sri Lanka Accounting Standards 01, It was not disclosed in the financial statements that the lease period of the lease agreement with a private company for the lease of land worth Rs. 73,136,262 owned by the Foundation expires on 03 July 2018 and this private company had filed a lawsuit to get it back on lease basis.	It has been informed that action will be taken in the future.	Quantitative information that affects the economic decisions of financial statements users should be disclosed in the financial statements.
(b) No provision has been made for damages in respect of non-moving stocks amounting to Rs. 6,350,696 as per Sri Lanka Accounting Standards No. 02.	It has been informed that action will be taken in the future.	A new assessment of the net yield of stocks in accordance with the standard should be made and the necessary provisions made in the financial statements.
(c) Although impairment losses have to be identified for long standing debtors' balances as per paragraph 5.5 of Sri Lanka Accounting Standards 9, impairment losses have not been identified for a total debt balance of Rs. 2,439,293 for the period from 2005 to 2016.	Not answered to this paragraph is in the query.	Provision for bad debts should be made for recovering of uncertain debtor balances.
(d) According to the paragraph 34 of 16 of the Sri Lanka Accounting Standards 16, the lands and buildings utilized by the Foundation have not been recalculated after 2009 and the adjustments to be made to the accounts as at fair market value as at 31 December 2019 have not been made.	It has been informed that action will be taken in the future.	According to the standard, the fair market value of the lands and buildings used by the foundation should be recalculated and stated in the financial statement.

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| (e) | The basic principles to be used in calculating employee benefit allocations as per paragraph 120A of Sri Lanka Accounting Standards 19 are the current service cost related to employee benefit expenditure, interest expense for the year and the liability of benefit / loss due to changes in assumptions were not disclosed. The arithmetic benefit / loss liability due to the change in assumptions under paragraph 93A was not identified in the other comprehensive income. | It has been informed that action will be taken in the future. | According to the standard, liability of benefits / loss in the calculating employee benefit allocations should be disclosed and identified it in other comprehensive income. |
| (f) | The investment of Rs.1,961,850 in the Sri Bangla Boats Joint venture had been accounted as impairment losses on other payable balances in the statement of financial p the Sri Bangla Boats position. According to Sri Lanka Accounting Standards 36, the portfolio of damaged assets should have been disclosed in the statement of financial position, but as it was not so the value of the investment in the Sri Bangla Boats, which were listed as investments, was overstated. | It has been informed that action will be taken in the future. | According to the standard, The holding value of the assets subject to damage should be disclosed in the Financial Statement. |
| (g) | Although leased out assets of the land of Rs.135,000,000 of 2 roods and 12 perches in extent located the Cey-Nor Orient Pearl Seafood Restaurant Ltd. and 25,000 square feet warehouse of Rs.115,000,000 at Mattakkuliya Yacht respectively in terms of the paragraph 75 and 79 of No.40, were shown under the Property Plant and Equipment in the financial statements due to be disclosed as investment assets . | It has been informed that action will be taken in the future. | Assets should be disclosed in financial statements as investment assets. |
| (h) | Although a debtor balance of Rs.26,294,662 had been shown as North Sea Company in the financial statements for the year under review, only a balance of Rs.5,320,788 had been shown as Cey-Nor- Jaffna under the trade debtors in the financial statements of North Sea Company for the year ended 31 March 2020 and the reasons for the difference had not been identified by comparing the balances. Further, according to Sri Lanka Accounting Standards - Paragraph 5.5 of SLFRS 9, no impairment losses have been identified for this long standing balance. | It has been informed that action will be taken in the future. | The balance should be compared and the reasons for the difference should be identified and resolved. |

1.5.2 Accounting Deficiencies

----- Audit Issue -----	Management Comment -----	Recommendation -----
(a) Purchases in 2019 by Rs. 2,738,898, goods and services tax by Rs. 250,311 and creditors balance by Rs. 2,989,209 were understated in the financial statements due to accounting the purchases amounted to Rs. 2,989,209 in the year 2019 as purchases in the year 2020.	It has been informed that action will be taken in the future.	Purchases must be properly accounted for.
(b) The debtor balance had been understated by Rs.38,452,338 in the financial statements as at 31 December 2019 due to record crediting the sales advance receipts in the debtor's ledger instead of being credited to a sales advance account.	It has been informed that action will be taken in the future.	Sales advance receipts must be properly accounted for.
(c) Payable balance of Rs. 2,466,894 and the loss for the year were understated by that amount due to debiting to the payable account of Economic Service Charge instead of being deducting as an expense for the year under review as the balance of Economic Service Charge amounted to Rs.2,466,894 included in the other receivables balance relevant to the years from 2007 to 2014 has exceeded the income tax deduction period by the year 2019.	No answers provided.	It should be deducted as an expense and properly accounted for.
(d) The other payable balance was understated by Rs. 1,827,225 as the economic service charge paid Rs. 1,313,488 and Rs. 385,973 to the Inland Revenue Department for the year ending 31 December 2018 and for the first three quarters ending 31 December 2019 respectively by the Foundation was recorded as a negative balance in the payable account of economic service charge and as the non-accounting of Economic Service Charge payable of Rs.127,764 relevant to the 4th Quarter of the year ended 31 December 2019.	No answers provided	Accounting must be done correctly.
(e) Although the sum of Rs.2,700,000 had been stated as the investment income of Mattakkuliya land as at 31 December 2019, no such investment asset was stated in the financial statement.	It has been informed that action will be taken in the future.	Value of the investment income property should be stated in the financial statement.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
(a) Balance confirmed from three Debtors	5,647,537	0	5,647,537	One debtor balance received in 2020.	Correct answers should be given and the value should be calculated by comparing the values between the financial statements and the corresponding reports and examining the reasons for the difference.
(b) Staff Loan	8,903,732	9,563,759	660,058	No answers provided.	The value should be compared between the financial statements and reports, the reasons for the difference should be checked and the correct value should be taken into account.
(c) 06 Creditors' Balances	2,195,541	3,142,633	947,092	It has been informed that action will be taken in the future and the Foundation has no evidence for the existing credit balance of Rs. 842,270.	The values should be compared between the financial statements and reports and the reasons for the difference should be checked and the correct value should be taken into account.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Audit Evidence not available	Management Comment	Recommendation
	Rs.			
(a) Balances of 06 Bank Accounts	17,003,598	I. Monthly Bank Statements II. Bank Reconciliation Statement for December 2019 III. Balance Confirmation Letters	No answers provided.	Written evidence required to verify the balance of 06 bank accounts shown in the financial statement should be submitted to the audit.
(b) Fixed Deposits	13,169,713	Certificate of Fixed Deposit	No answers provided.	The Fixed Deposit Certificate should be submitted to the audit to confirm the Fixed Deposit Balance shown in the Financial Statement.
(c) Material Advance Receivable	115,736	Written evidence to prove existence	It has been informed that action will be taken in the future.	Written evidence required to verify the existence of receivables advance balances due from 2007, 2012 and 2014 should be submitted to the audit.
(d) Other Receivables Balance	1,941,584	Written evidence to prove existence	It has been informed that action will be taken in the future.	Written evidence must be submitted to the audit to confirm the existence of other receivables that have not been confirmed.
(e) Land	8,500,000	A relevant deed or legal document to prove the existence	It has been informed that action will be taken in the future.	Written evidence required to confirm the existence of the land balance shown in the financial statement should be submitted to the audit.

(f)	Stock of Raw materials	9,833,369	Evidence of use of raw material 56057 kg	No answers provided.	Evidence related to the use of the raw material should be submitted for audit.
(g)	Refundable deposits	2,110,317	Relevant information other than the person's name	Released at the request of the relevant supplier.	Written evidence required to confirm the refundable deposit should be submitted to the audit.
(h)	Receivable Withholding Tax	1,119,030	Tax certificates related to withholding tax balance	No answers provided.	Tax certificates should be submitted to verify the accuracy of the balances.
(i)	Rent Income	728,550	Lease agreements	No answers provided.	Lease agreements should be submitted to ensure the accuracy of the balances.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
No action had been taken to recover the receivable advance balance of Rs. 8,878,273 due from 2013 to 2018 and the balance of Rs. 3,527,824 due from the Ministry of Fisheries from 2011.	It has been informed that action will be taken in the future.	Action should be taken to recover the money due for a long time.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
No action had been taken to settle the Retention Payable outstanding amounting to Rs. 3,030,118 for the years 2008 to 2017.	It has been informed that action will be taken in the future.	Action should be done to settle the money that has to be paid for a long time.

1.6.3 Advances

	Audit Issue	Management Comment	Recommendation
(a)	No action had been taken to settle the sales advance balance of Rs. 27,688,325 outstanding from the year 2017.	It has been announced that the year 2021 will be adjusted.	Action should be taken to settle the advance balance.
(b)	Necessary steps had not been taken to recover the advance of Rs. 4,909,775 given to a private company for the manufacture of fishing nets in 2011, the balance of Rs. 4,367,309 made advances to suppliers from 1 year to 5 years and the balance of Rs. 4,524,855 which had exceeded 05 years.	It has been informed that action will be taken in the future.	Action should be taken to settle the long outstanding advance balances.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Memorandum of Association Paragraph 3.3 and 3.5	Although the Cey-Nor Foundation Ltd. should be engaged in manufacture of ice, marine products, packaging, marketing and exporting, manufacturing of fishing nets and boats and distribution apart from the establishment of the Foundation, It was observed that only boat production was involved in.	No answers provided.	The objectives of establishing the foundation must be worked out.
(b)	Article of Association (i) Paragraph 53	Although it was stated that the Annual General Meeting should be held, those General Meetings were not held in 2018 and 2019.	No answers provided.	Annual General Meeting should be held in accordance with the Article of the Association.

(ii) Paragraph 58	Although the members of the Board of Directors were to appoint the Chairman of the Foundation at the Annual General Meeting, the Chairman was not appointed accordingly.	No answers provided.	The Chairman of the Foundation should be appointed by the members of the Board of Directors in accordance with the Article of the Association.
(c) Employees Provident Fund Act No. 15 of 1958 (Amendment)	(i) Although contributions to the Employees Provident Fund for one month were remitted on or before the 15th of the following month, Rs. 536,326 for the month of November 2019 had been remitted up to 18 days late.	Payment is due on or before the last day of the next month..	Action should be done in accordance with the Act.
	(ii) From July to December 2017, an employee's provident fund amounting to Rs. 36,740 had not been remitted until 20 October 2020.	No answers provided.	Action should be done in accordance with the Act.

1.8 Non -compliance with Tax Regulations

Audit Issue -----	Management Comment -----	Recommendation -----
The amount of Rs. 7,412,259 payable to the Inland Revenue Department from the years 2006, 2011 and 2012 was accounted for as other income for the year under review without the approval of the Board of Directors.	Confirmations have been called from the Inland Revenue Department.	Must be approved by the Board of Directors and accounted for as revenue.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 25,600,930 and the corresponding deficit in the preceding year amounted to Rs.56,366,471. Therefore an improvement amounting to Rs.30,765,541 of the financial result was observed. This was mainly due to an increase of 2742 percent or Rs. 31,769,243 in other income compared to the previous year.

2.2 Ratio Analysis

(a) The current asset ratio of the current year was 1: 1.82 and 1: 1.48 respectively as compared to the previous year. Current asset ratio was decline mainly due to increase the stock in hand by 42 per cent and other payments by 26 per cent, and decline cash and bank balances by 63 per cent in the current year.

(b) The quick ratio of the current year was 1: 1.14 and 1: 0.70, respectively as compared to the previous year,. The quick ratio was decline mainly due to decrease the bank balances by Rs. 28,724,251 from Rs. 45,857,849 in the previous year.

(c) The gearing ratio of the current year had decreased from 1: 10.11 to 1: 1.88 as compared to the previous year. This was due to a 395 percent increase in debt capital relative to equity capital.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
Although fishing gear worth Rs. 25,035,238 was produced from 2015 to 2018 based on the demand of the buyers without entering into any agreement, there was a marked loss due to those buyers refusing to buy them and an identified loss has occurred and the parties responsible had not been identified and damages had not been recovered up to 31 December 2019.	No answers provided.	Identify the parties responsible for the loss and take action to recover the loss.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
During the year under review, the Foundation's GDP and GDP were lower than budgeted, while production costs increased by 107 percent, administrative costs increased by 13.35 percent and other expenses increased by 473 percent, but management had not been taken action to control expenditure and increase revenue.	No answers provided.	Management must be taken action to control the rise in expenditure and increase revenue.

3.3 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 on 01 January 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, no action had been taken for 10 years to identify the officials responsible as at 31 December 2019.	No answers provided.	The responsible officials should be identified and appropriate action should be taken against those who have squandered the assets purchased at the expense of the government.
(b) The Gel Coat Spray Gun Machine purchased for Rs.5,395,137 on 20 August 2012 had been idle for more than seven years without any use.	No answers provided.	The responsible officials should be identified and appropriate action should be taken against those who have squandered the assets purchased at the expense of the government.
(c) The Plasma Cutter Machine purchased for Rs.4,166,964 on 5 March 2013 had been stored idle and unsafe for more than 6 years without any use.	No answers provided.	The responsible officials should be identified and appropriate action should be taken against those who have squandered the assets purchased at the expense of the government.

3.4 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
(a) Although the value of Rs. 30,321,342 is stated in the financial statements as work in progress on the two multi-day fishing vessels that began operations in 2017, no action had been taken to complete the production of these two vessels and hand them over to the relevant parties for the use of fishing vessels.	No answers provided.	Action should be taken to complete the production on time. No action had been taken to deliver.
(b) The value of the vessel, which commenced production for the state of Mauritius in 2017 at Rs. 34,225,000, had not been completed by 31 December 2019 and cost was Rs. 9,096,352 as that day.	No answers provided.	Arrangements should be made to complete the production on time.

3.5 Procurement Management

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Although the submitting of national competitive bids should be granted for a minimum of 21 days for procurement of raw materials valued at Rs. 47,543,238 for the products of Mattakkuliya Shipyard in accordance with the guidelines 1.2.1 (c), 1.2.1 (f), 5.3.1 (c) and 5.3.2 of the Procurement Guidelines No. 08 of 25 January 2006, but the time limit was limited to 14 days, and when using of other bidding documents, they had not been examined and approved by the technical evaluation committee and the procurement committee. Further, the bidding documents were prepared outside the criteria and eligibility requirements of the winning bidder in the bidding invitation.	No answers provided.	Procurement guidelines should be followed.
(b) According to 2.8.1 (b) of the Procurement Guidelines Revised by Supplement No. 27 dated 08 August 2012, three Procurement Entity's Officers were present and no subject matter expert was appointed.	No answers provided.	Procurement guidelines should be followed.

3.6 Defects in Contract Administration

Audit Issue -----	Management Comment -----	Recommendation -----
IMUL - A- 0061 - KMN had paid Rs. 3,264,560 more than the contractual value and Rs. 630,632 had been paid for the generator for the vessel, but the generator had not been fitted to the vessel by 31 December 2020. Condition 2 of the agreement stipulates that the vessel should be completed and delivered to the beneficiary on or before 15 December 2016, but despite a delay of nearly three years, only one hull was created on the vessel, which is only 18% of the total work value. There was also no formal extension of the contract.	It has been informed that a new agreement will be reached	The contract must comply with the agreement.

3.7 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
Although the personal approval of the Secretary to the Ministry should be obtained regarding the repair of vehicles exceeding Rs.200,000, according to paragraph 9.3.1 (b) of the Procurement Guidelines for Supplement No. 19 dated 06 September 2010 , the vehicle bearing number LK-2629 had been repaired at a cost of Rs. 502,373 without obtaining such approval.	No answers provided.	Approval of the Secretary to the Ministry should be obtained regarding the repair of vehicles.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Although the draft annual report and financial statements are required to be submitted to the Auditor General within 60 days of the end of the financial year as per paragraph 6.5.1. of the Public Enterprises Circular No. PED / 12 of 02 June 2003, the financial statements for the year under review were submitted to the audit on 17 March 2021, after an 11 months delay.	No answers provided.	According to the Public Enterprise Circular, the draft annual report and financial statements should be submitted to the Auditor General within 60 days of the end of the financial year.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
The Foundation had not submitted a Cooperate Plan for the Year 2019/2023 in accordance with Paragraph 5.1.3 of the Public Enterprise Circular No. PED / 12 dated 02 June 2003.	No answers provided.	A Cooperate Plan should be submitted in accordance with the circular.

4.3 Annual Action Plan

Audit Issue

Management Comment

Recommendation

(a) According to the action plan for 2019, four 60-foot multi-day fishing vessels were planned to be manufactured, but no orders were received for the production of new vessels and the top management had not paid attention to that.

No answers provided.

Top management should focus on obtaining orders for the planned vessel production.

(b) According to the action plan for the year 2019, it was planned to increase the revenue by constructing a floating boat house and a floating restaurant, but no order was received in the year 2019.

No answers provided.

Top management should focus on getting orders for planned products.