

Ceylon Fisheries Corporation - 2019

The audit of the operational activities of the Ceylon Fisheries Corporation for the year ended 31 December 2019 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 and the Financial Act No. 38 of 1971. This report indicates my comments and observations which I intend to submit to Parliament .

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Each audit entity should maintain its own books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements on that entity in terms of Section 16 (1) of National Audit Act No. 19 of 2018 . The Annual Financial Statements for each audit entity should be submitted to the Auditor General by the Chief Accounting Officer along with the Annual Performance Report of such instances as may be specified by the rules in terms of Section 16 (2) of the Act. It should be ascertained to prepare Annual Reports and other financial statements within the required time period in terms of Section 38 (1) (d) of the Act and in addition to that the Chief Accounting Officer should responsible for presenting of the Annual Reports related to the entity which was being audited to Parliament. Although the Financial Statements of the Statutory Boards should be submitted to the Auditor General within 60 days after the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED /12 of 02 June 2003 and the Treasury Circular No. 01/ 2004 of 24 February 2004 , the financial statements of 2016 on 20 November 2019 and the financial statements of 2017 on 08 February 2022 had been presented and the financial statements for the years 2018, 2019, 2020 and 2021 had not been submitted for audit even by the date of this Report .

02. Audit Observation

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

Audit Observation	Comments of the Management	Recommendation
(a) Even though the General Manager had been instructed to implement the money received from the General Treasury for the pension compensation scheme be credited to a separate account and hand	Accept. Necessary arrangements have been made to take required disciplinary actions by interdicting the Acting Finance Manager as well	The Board of Management should take actions to utilize the provisions made by the General Treasury for the relevant purposes in

over the responsibility to the Acting Finance Manager with regard to the utilizing of funds receive from the General Treasury as per the decisions taken in the discussion held on 26 September 2016 with the Chairman and the Voluntary Pension Compensation Committee held on 26 September 2016, a separate bank account was not maintained for pension compensation in respect of Rs. 379 Million received during the year 2016. Accordingly, the Acting Finance Manager had not made arrangements in accordance with the instructions and it was also observed that the General Manager had not taken action to implement it.

- (b) Although the arrears of contribution to the Employees Provident Fund amounting to Rs. 174,927,250 and arrears to the Employees' Trust Fund amounting to Rs. 15,520,274 and surcharges amounting to Rs. 82,367,893 and Rs. 7,663,632 respectively should be paid as at 31 August 2019, actions had not been taken in accordance with the provisions set out in Paragraphs 3.1 to 3.5 of the Public Enterprise Circular No. 02/2013 dated 11 September 2013 in connection with these statutory payments.

as Deputy General Manager Finance (Acting General Manager) in respect of the non-implementation of the Financial Regulations and other Internal Circulars of the Institution including this fact.

Accept. Due to the continuous losses incurred by the Ceylon Fisheries Corporation over the past years, the financial difficulty of making these statutory payments has arisen.

accordance with the instructions of the Treasury and in a proper manner.

Actions should be taken to follow and implement the circular instructions pertaining to statutory payments.

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| <p>(c) Out of the specified business functions made by Gazette Extraordinary No. 14/ 186 dated 01 October 1964 and No. 1712 /21 dated 30 June 2011 , the functions such as engaging in deep sea fishing operations directly or through agents, engage in fish processing, trading wholesale and retailing of fish through authorized agents, import & export of fish and fish products and selling fish in foreign markets had not been performed by the Corporation.</p> | <p>Accept. The responsible officers have already left the institution and the officers work at present as well as management are also new appointments. However, further operations are being done as per the Corporate Plan from 2020 to 2025, Budget for the years 2020/2021, Procurement Plan and Action Plan. The approval of the Board of Directors have also been obtained for all the relevant plans .</p> | <p>Actions should be taken to achieve the objectives of the Corporation.</p> |
| <p>(d) Formal actions had not been taken in respect of the following deficiencies.</p> <p>(i) Failure of the Board of Directors to appoint a Senior Management Committee to evaluate the Annual Performance in terms of Section 7.4.2 of the Public Enterprise Circular No. 12 dated 02 June 2003 .</p> <p>(ii) All the 08 ice plants had incurred a loss of Rs. 33,364,965 in the year 2015 .</p> <p>(iii) The answers for the 07 audit queries of the preceding year and 05 queries of the year under review had been provided.</p> | <p>There are only 10 audit queries to be answered. It is expected to answer other audit queries as soon as possible. Although there were losses for Regions in 2014, 2015 as well as in previous years, the Regions have been combined and established new District Offices in the year 2021 , and accordingly, several loss-making Regions have been turned into profitable atmosphere. Only the current Regions such as Ampara, Badulla, Tangalle, Ratnapura, Hambantota, Galle and Kalutara are remaining at a loss and other Regions have been made profitable.</p> | <p>The Board of Directors should take actions to appoint a Senior Management Committee to evaluate the Annual Performance of the Corporation.</p> |

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| <p>(e) Even though the Board of Directors advised in the Minute of the 1040 (I) Board Meeting held on 25 June 2019 if the Corporation sells fish to external parties on a credit basis, credit limits should be imposed and to develop a suitable methodology for it, to carry out the issuing fish to external parties by obtaining bank guarantees in accordance with the circular regulations, it was observed that it had not functioned accordingly.</p> | <p>Comments have not been given.</p> | <p>Actions should be taken to carry out the issuance of fish to external parties in terms of the circular regulations and in accordance with the instructions of the Board of Directors Meeting Minutes.</p> |
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2.2 Management Activities

Audit Observation

Comments of the Recommendation Management

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| <p>(a) A sum of Rs. 65,000,000 had been provided to the Corporation on 20 February 2017 for the renovation of the Fisheries Processing Unit constructed at the Head Office to make essential improvements to attract investment under the Public Private Partnership for the restructuring of the Ceylon Fisheries Corporation. Out of that, an amount of Rs. 24,230,565 had been spent for the direct expenses and due to the fact that the procurement work was done without proper process, and because of the construction works had been stopped part of the way without being completed, the intended objectives had not been achieved.</p> | <p>Comments have not been given.</p> | <p>Procurement activities should be carried out in accordance with the Government Procurement Guidelines 2006 and the activities such as continuing construction works, design, required contract documents and construction supervision should be carried out in terms of Sections 26 and 28 of the Construction Industry Development Act No. 33 of 2014 .</p> |
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| <p>(b) A sum of Rs. 3,732,498 had been incurred by the Corporation to remove the asbestos sheets from the old roof of the Fish Processing Unit and to roof the new sheets. The removal of old sheets had been done without the recommendation of a Civil Engineer and the old asbestos sheets had not been returned to the warehouse and those sheets were not available even in the work area.</p> | <p>Comments have not been given.</p> | <p>Actions should be taken to recover the losses by conducting an investigation in this regard by identifying responsible officers.</p> |
| <p>(c) It was observed during the physical inspection of the fish processing unit conducted on 02 September 2019 that the 155 newly laid asbestos sheets had cracked and it was further observed by audit that the existence of the ceiling was also at risk due to the leakage of rain water.</p> | <p>Comments have not been given.</p> | <p>The responsible officers should be identified and actions should be taken to recover the losses.</p> |
| <p>(d) Even-though an amount of Rs. 10 Million had been provided to the Corporation in December 2016 for the purchase of 02 electric fork lift machines for the ice factories which are functioned at Modara Fish Complex, due to the unnecessary delay of procurement process and the fork lift machines had not been purchased, the objective of improving the revenue could not be met as a result of the less efficiency of the factory .</p> | <p>Comments have not been given.</p> | <p>Actions should be taken by the Board of Management and top management to achieve the objectives of improving the activities of the Corporation efficiently and increasing the revenue.</p> |

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| <p>(e) It had been decided at the Meeting of Cabinet of Ministers held on 23 August 2016 to enter into a joint venture with local or foreign parties to transform the Ceylon Fisheries Corporation into a profit making entity under a public-private partnership. Although a Cabinet Appointed Negotiation Committee had been appointed on 26 January 2017 in accordance with that decision, the Cabinet Appointed Negotiation Committee had not met though 04 years and 06 months had elapsed by July 2021 .Similarly, a project committee consists of 05 members had also been appointed by the Department of Public Finance on 26 January 2017 to restructure the Ceylon Fisheries Corporation. Nevertheless, even though more than 04 years had elapsed since the appointing of the Cabinet Appointed Cabinet Appointed Negotiation Committee(CANC) and the Project Committee (PC) , at least calling for proposals to select a local or foreign investor to run a joint venture by the Ceylon Fisheries Corporation under state private ownership had not been carried out and the procurement work pertaining to that had also been halted.</p> | <p>Comments have not been given.</p> | <p>The Board of Management should act to implement the Decisions of Cabinet of Ministers and to meet the intended objectives.</p> |
| <p>(f) Even though it had attempted by Fontus Ocean Holdings, a Korean Company since 19 May 2016 to enter into an agreement to start a public-private partnership to process and export fish as a joint venture with the Ceylon Fisheries</p> | <p>Comments have not been given.</p> | <p>Arrangements should be made to expand the business activities of the Corporation through new investments being functioned according to a specific plan.</p> |

Corporation, as a result of failure to proper evaluation of the specified procurement methodology pertaining to that and the suitability of the joint venture company, the joint venture which was also planned to be started with Fontus Ocean Holdings had failed and stopped at some point.

- (g) Because of the actions were taken to give every officer the opportunity to retire, instead of retiring the excess employees as per the Public Enterprises Circular No. 2/2016 dated 18 March 2016, the required key positions which are required to maintain the day to day running of the Corporation had also been in vacant. Therefore, as a result of the lack of officers with the required capacity to make management decisions, these retirements without a plan had caused to achieve the objective of making the Corporation a profitable commercial enterprise.
- Accept. Because this process had to be done very quickly, it was impossible to carry out the retirement of the persons thus identified. Although the officers have been appointed to all the vacant posts, the vacancies have occurred due to various factors and circumstances. It is intended to solve these issues very quickly and to make necessary arrangements to transform the Ceylon Fisheries Corporation into a profitable commercial state corporation through a competitive restructuring process .
- Actions should be taken to adhere with the instructions of the Circulars. Arrangements should be made to appoint suitable officers for the key positions which had already remained in vacant.
- (h) Although activities such as construction and maintenance of fishing harbours and anchorages entrusted to the Corporation, importation and sale of fishing gear, construction of fishing vessels, provision of maintenance facilities for fishing vessels, manufacture and sale of equipment required on request by fishermen had been assigned at the
- Due to non-availability of sufficient quantity of fish (Sail fish / Kopro) in the local market, it is intended to carry out the activities required to be directly involved in fish import activities in future based on the guidance of the Line Ministry under the new management.
- Actions should be taken to amend the Act by revising the business activities of the Corporation.

time of establishment of Ceylon Fisheries Harbor Corporation under the Ministry of Fisheries, Ceynor Foundation Limited and National Aquaculture Development Authority of Sri Lanka, the necessary steps had not been taken to revise the business functions of the Corporation accordingly.

Preliminary steps required to start a business as a partnership with certain projects restructuring the operations of the Fisheries Corporation and utilizing modern technology at present have already been taken.
Eg. Galle, Ice Plant

- (i) Even though the monthly rental of 03 acres 01 Rood 13.9 Perches business place belonging to the Corporation in Pesalai had been decided by the Procurement Committee on 17 October 2016 as Rs.150,000, a loss of Rs. 720,000 had occurred for 36 months from 14 December 2016 to the end of the year under review due to leasing out for Rs. 130,000 per month. At the beginning of the agreement a bank guarantee of Rs.500,000 should be given to the Corporation for a period of one year as per the Section 06 of the relevant lease agreement and although it needs to be updated annually, actions had not been taken accordingly. Similarly, as a result of failure to divide the land and the leased land, an extent of 20 acres, 01 Rood, 15 perches of land had been allowed to be misused to a private company.

Comments have not been given.

Arrangements should be made in a manner of avoiding losses in accordance with the Procurement Guidelines and Decisions of the Procurement Committee.

- (j) Although the two condensers belonging to the Cool Room at the Galle Ice Plant had been sold to a sum of Rs. 313,103 as scrap iron on 16 May 2018, the goods had not been identified as items

An internal investigation has been commenced on the sale of 02 old condenser iron at the Galle Ice Plant. Currently, the arrears to be paid for these two machines

It should act in accordance with the recommendations of the Technical Evaluation Committee Report and disciplinary actions

that could not be used by a Board of Survey in terms of Financial Regulations 770 and 771. Further, a report from a technologically skilled engineer for these goods had not been received and the approval of the Board of Directors had also not been obtained.

have been suspended based on the existing technicalities remained regarding the two new condenser machines.

should be taken against those responsible as per the investigation reports.

- (k) Further, although an advance of Rs. 2,547,500 was paid on 12 April 2018 for the purchase of two condensers for the Ice Plant and the two condensers had been connected to the system, it was observed that the poor quality condenser had been installed with the defects such as taking long time for freezing, leaking of the gas and water in the condenser.

An internal investigation has been commenced on the sale of 02 old condenser iron at the Galle Ice Plant. Currently, the arrears to be paid for these two machines have been temporarily suspended based on the existing technical matters remained regarding the two new condenser machines.

It should act in accordance with the recommendations of the Technical Evaluation Committee Report and disciplinary actions should be taken against those responsible as per the investigation reports.

Even-though it was stated that if the requested condenser does not meet the specification, it would be rejected without any conditions and the advance would be recharged as per the report of the Technical Evaluation Committee, actions had not been so taken.

- (l) An extent of 117.78 perches of land at Modara Head Office and 30 perches 02 plots of lands had been leased out by the Corporation on 28 March 2017 for a period of 04 years to a private institution on a monthly lease of Rs. 1,110,000 and Rs. 333,000 respectively and the arrears for the 08 month amounting to Rs. 5,487,450 had not been recovered by 16 August 2019. The private institution had encroached

Comments have not been given.

Actions should be taken to recover the arrears of taxes expeditiously.

an extent of 49.7 perches. The monthly lease assessment of the Chief Valuer for an extent of 29.7 perches was Rs. 178,333.

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| <p>(m) The contract had been awarded to a private company on 31 August 2017 for the purchase of Rs. 1,500,000 to a computer accounting system. Nevertheless, a contract agreement, a bid security and a bond for an advance of Rs. 300,000 had been obtained in terms of National Procurement Guidelines 5.2.1, 5.3.11, 5.4.4 . Although more than 02 years have passed by now, the computerized account management system had not been installed .</p> | <p>Accept.</p> | <p>The Management should make arrangements to establish a computerized accounting system and financial losses should be recovered.</p> |
| <p>(n) There were 32 Regions and 97 sales outlets for the Corporation as at 31 December 2016. There were 88 sales outlets and 21 Regions by 05 December 2019. The Corporation had not introduced a computerized accounting system to connect with the Head Office for the business activities of these Regions.</p> | <p>It is intended to install this computer system soon to coordinate all Regions and sales outlets.</p> | <p>The Management should make arrangements to establish a computerized accounting system.</p> |

2.3 Identified Losses

Audit Observation	Comments of the Management	Recommendation
<p>Even though it had been decided on 09 March 2016 during the disciplinary inquiry held against the Manager of the Warehouse Division who was responsible for</p>	<p>Comments have not been given.</p>	<p>Actions should be taken to recover the shortage from the responsible officers immediately as per the disciplinary inquiry reports.</p>

the shortage of packing stocks occurred in the year 2011 valued at Rs. 2,558,028 to recover the shortage from the relevant officer, the amount had not been recovered even by the end of the year under review.

2.4 Financial Control

Audit Observation

Comments of the Management

Recommendation

Although a sum of Rs.304,514 had become dormant bank accounts from the year 2016 up to now in respect of 4 current accounts maintained under the name of Ceylon Fisheries Corporation, because of the bank charges are levied every month as a result of failure to take necessary steps to close those accounts, those account balances had turned into overdrafts.

Comments have not been given.

Necessary steps should be taken to close dormant bank accounts.

2.5 Operating Activities

Audit Observation

Comments of the Management

Recommendation

(a) Although the grace period for the debtors was 45 days, there were debtors amounting to Rs.140,432,424 whose loan period was more than two months as at 31 December 2019 as per the schedule for age analysis submitted by the Corporation and it was

Comments have not been given.

Management should make arrangements not to exceed 45 days for the grace period provided for the debtors .

observed that it was 66 per cent of the total debtor balance. Further, the balance between 2-5 years was Rs. 43,309,524 and the balance for more than 05 years was Rs.65,569,605 . It was 20 per cent and 31 per cent of total debt respectively.

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| <p>(b) There were the unsettled creditor balances of Rs. 72,850,305 in between 03 months and 06 months, Rs. 50,967,824 between 06 months and 02 years and Rs. 82,842,846 for more than 02 years as at 31 December 2019 as per the creditors' age analysis.</p> | <p>Comments have not been given.</p> | <p>Arrangements should be made to investigate these credit balances and to take the loan balances which should not be settled furthermore into revenue. Actions should be taken to pay the existing statutory payments in accordance with the relevant laws.</p> |
| <p>(c) Since the balance confirmation letters of creditors totalled to Rs. 293,521,703 and debtors totalled to Rs. 191,845,870 were not submitted for audit on 31 December 2019 , the existence of those debtor and creditor balances could not be confirmed.</p> | <p>Comments have not been given.</p> | <p>Actions should be taken to obtain debtor and creditor balance confirmations.</p> |
| <p>(d) It had been ordered to pay a sum of Rs. 1,695,880 from 31 December 2019 in installments in connection with the case filed by the Department of Labor against the Corporation in the Colombo Magistrate's Court with regard to the case filed by the Department of Labor against the Corporation in</p> | <p>Comments have not been given.</p> | <p>Arrangements should be made to avoid surcharges by making statutory payments on time.</p> |

the Colombo Magistrate's Court.

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| (e) | Although the dates had been fixed to make submissions for the case filed by the Inland Revenue Department in connection with the defaulting of payment of VAT amounting to Rs. 8,153,155 by the Corporation, the current status therein was not explained to the audit. | Comments have not been given. | The Corporation should not default on statutory payments and actions should be taken in accordance with judicial proceedings . |
| (f) | A compensation of Rs. 500,000 for the damages occurred to a van caused by an accident involving a lorry belonging to the Corporation, 08 cases by employees for seeking re-employment and salary compensation of Rs. 6,516,871 , two cases seeking compensation of Rs. 2,378,795 due to non - payment of gratuity, 3 cases for payment of Rs. 232,702,066 due to non - payment of EPF contributions and surcharges, a case because of non-payment of VAT amounting to Rs. 8,153,155 by the Inland Revenue Department, a request for compensation of Rs. 11,782,513 for non- payment of fish obtained during the period from December 2013 and January 2015 have been filed against the Corporation in the Magistrates' and | Comments have not been given. | The current situation under the Section 42 (a) of the National Audit Act No. 19 of 2018 should be disclosed to the auditor |

District Courts and in the Labor Tribunals. Further, 10 cases to recover a sum of Rs. 17,514,049 for fish receivable to the Corporation, 02 cases for assault and to recover the damages, one case for acquisition of lands and two cases for recovery of taxes amounting to Rs. 14,826,226 had been filed by the Corporation against the external parties as at 31 December 2019 .

Nevertheless, the current situation in this regard was not revealed to the audit .

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| <p>(g) As a result of the failure of the Corporation to sell fish through agents in all Districts of the country through agents the Corporation had failed to act as a regulatory institution of price stabilization in the fish market.</p> | <p>Comments have not been given.</p> | <p>Since the functioning as a price stabilizing regulator in the fish market, is a duty of the Corporation, necessary actions for that should be taken .</p> |
| <p>(h) There were 50 lorries with freezers belonging to the Corporation and despite refrigeration systems 46 lorries out of that had remained inactive, those had been used for sale. Due to this, good quality fish could not be provided to the consumer at a reasonable price.</p> | <p>Comments have not been given.</p> | <p>Actions should be taken to make the refrigeration systems of lorries functional conditions.</p> |

2.6 Staff Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) It was observed that the 04 key positions such as Deputy General Manager (Marketing), Deputy General Manager, Human Resource Development and Administration, Deputy General Manager (Engineering) and Deputy General Manager (Finance) in the staff of the Corporation are in acting basis. Operational weaknesses, operational inefficiencies, and poor management of planning and implementation were observed due to the vacancy of Deputy General Manager (Finance) for more than 03 years.</p>	<p>Although new recruitments have been made on a number of occasions because of the vacancies remained in key positions, there is a possibility of recurring these vacancies on the fact that those officers did not stay in the institution for a long time. The Deputy General Manager (Finance) had already been recruited and applications have been called for the post of Deputy General Manager Human Resource Development and General Manager. The Negombo Executive Manager has already been appointed to oversee the post of Deputy General Manager Marketing.</p>	<p>Actions should be taken expeditiously to appoint to key positions which are in vacant.</p>
<p>(b) Existing of the post of Chief Internal Auditor in vacant for a long time since 2016, failure to conduct internal audit examinations continuously, retirement of officers without a plan, and adherence to the system of delegation of duties had not been carried out .</p>	<p>The Chief Internal Auditor has been recruited.</p>	<p>Actions should be taken to recruit for the post of Chief Internal Auditor and strengthening of internal audit activities by following proper procedures.</p>

3. **Accountability and Good Governance**

Audit Observation	Comments of the Management	Recommendation
<p>Every government institution should act upon the Letter of the Secretary to the Ministry of Public Policy and Defense No. ST/ST/ MDP / 17 dated 14 August 2017 in accordance with the United Nations 2030 Agenda for Sustainable Development and the Ceylon Fisheries Corporation had not made aware on how to be active in its scope of activities for the year under review .Actions had not been taken by the Corporation to identify the milestones to achieve the Sustainable Development Goals and Objectives related to its and the indicators for measuring achievements on those goals.</p>	<p>Comments have not been given.</p>	<p>Actions should be taken to identify the indicators to measure to achieve goals in terms of United Nations 2030 Agenda for Sustainable Development.</p>