

## **Cey-Nor Foundation Limited - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Cey-Nor Foundation Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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**

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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**

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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 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's 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)**

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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 Foundation'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 Foundation'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 Foundation 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; and
- 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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standards**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) In accordance with Sri Lanka Accounting Standards No. 02 - Chapter 28 on Stocks, at the end of each year a new assessment of the net realizable value of the stock was made and the value of the stock was not adjusted accordingly.	The Board of Directors will be informed and action will be taken in the future.	A new assessment of the net realizable value of stocks in accordance with the standard should be made and the necessary provisions made in the financial statements.
(b) No provision had been made for damages in respect of non-moving and damaged stocks amounting to Rs. 8,803,275 as per Accounting Standards No. 02 of Sri Lanka.	The Board of Directors will be informed and action will be taken in the future.	The holding value of the assets subject to damage in accordance with the standard shall be disclosed in the Financial Statement.
(c) Although the residual value and useful life of an asset should be reviewed at least at the end of each financial year in accordance with paragraph 51 of Sri Lanka Accounting Standards 16 (LKAS 16-Property Plant & Equipment) , the residual value or useful life	That action will be taken in the future.	The standard is to review the residual value of an asset and the useful life at least at the end of each financial year.

span of the property plant and equipment which was the net book value zero of Rs. 78,324,381 as at 31 December 2020 had not been reviewed .

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| (d) | 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 were shown under the Property Plant and Equipment in the financial statements instead of being disclosed in financial statements as investments assets in terms of the paragraph 75 and 79 of No.40.   | That action will be taken in the future. | Assets that continue to earn income must be disclosed in the financial statements as investment assets in accordance with the standard. |
| (e) | The basic principles to be used in calculating employee benefit allocations as per paragraph 120 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.      | 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.                      |
| (f) | The investment of Rs.1,961,850 in the Sri Bangla Boats Joint venture had been accounted as impairment losses under non-current assets and other payable balances in the statement of financial 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. | 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) | According to Sri Lanka Accounting Standards - Paragraph 5.5 of SLFRS 9, no impairment losses have been identified for the balance of Rs. 9,204,498 which has been incurred since 2011 shown under the current assets in the financial position as at 31 December 2020 in the name of North Sea Company.   | 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.            |

## 1.5.2 Accounting Deficiencies

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Audit Issue -----	Management Comment -----	Recommendation -----
(a) Although the total negative balances of 39 debtors was Rs. 22,920,383 in the trade debtor balance of Rs. 34,354,796 as at 31 December 2020, the existence and accuracy of the relevant balances could not be ascertained during the audit.	Action has been taken on the existing negative balances in the year 2020 and action will be taken on these existing balances in the future.	Debtors must be properly accounted for.
(b) Instead of showing the total audit remuneration of Rs. 2,097,100 for the years 2015, 2016, 2017, 2019 and 2020 as the payable audit fees only Rs.586,000 shown as payable and Rs.1,511,100 had been stated as trade creditors.	No answers provided.	Audit fees should be properly accounted for.
(c) Although the total depreciation of property plant and equipment for the year under review was Rs. 34,468,137, due to the amount of depreciation written against the income as per the income statement is Rs.17,028,850 the annual loss was less than Rs. 17,439,287.	That action will be taken in the future.	Fixed asset depreciation must be properly matched.
(d) The Economic Service Charge amounting to Rs. 2,466,894 applicable from 2007 to 2014 should have been deducted as an expense since the time to pay off the income tax due in 2019 had expired but it had been debited to the Economic Service Charge payable account. As a result, the balance of the economic service charge account and the retained loss were less than that amount.	That the income tax payable account has been set off in calculating the income tax for the year 2019.	The deduction from the income tax payable account should be corrected and deducted as an expense.
(e) Value Added Tax on Other Payables Rs. 18,518,684 indicated as a balance to be received.	That will be corrected in the future.	Proper accounting must be done.

### 1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per correspon ding Record	Difference	Management Comment	Recommendation
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	Rs.	Rs.	Rs.		
(a) Income from investment of Property	16,030,000	16,200,000	170,000	No answers provided.	The notes in the financial statements must be accurate.
(b) Cash flow statement				No answers provided.	The cash flow statement must be matched correctly.
• Opening cash and cash equivalents	30,308,312	30,889,606	581,294		
• Closing cash and cash equivalents	118,876,125	8,210,239	110,665,886		
• Short-term investments	26,000,000	-	260,000,000		
• Depreciation related to Equipment of the property plant	29,051,182	17,028,850	12,022,332		
(c) Deposit accounts	38,632,259	40,582,517	1,950,258	That the value of the journal entry relevant to the end of the year is not included in the schedule.	Schedules should be submitted according to the value stated in the financial statement.
(d) 02 Credit balances confirmed	1,583,598	2,351,654	768,056	No answers provided	Compare the values between the financial statements and the balance sheet and examine the reasons for the difference and calculate the correct value.

(e)	Allocation of Employee Benefits	2,508,538	3,622,717	1,114,179	No answers provided	The difference with the document should be compared and accurately accounted for.
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#### 1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) A total of 77 credit balances amounting to Rs. 3,653,360 were credited to miscellaneous income account without the approval of the Board of Directors during the year under review.	That the Board of Directors has submitted a paper and obtained the approval.	Since this balance is not covered by the Director Board paper submitted, approval must be obtained by submitting correct Board papers.
(b) Rs.1,950,258 from the deposit account payable had been credited to the miscellaneous income account without preparing a list of individual balances and without the approval of the Board of Directors.	A list of individual balances of Rs. 1,868,196 has been prepared and submitted with the answer.	Writs off should be done only by preparing individual lists correctly and a formal approval.

#### 1.5.5 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	<b>Rs</b>			
(a) Value Added Tax	11,719,949	Written evidence	That action will be taken in the future.	Written evidence required to substantiate the value added tax balance must be submitted to the audit.
(b) Nation building taxes	10,406,699	Written evidence	That the foundation has a certain amount of evidences.	Written evidence required to confirm the existence of the Nation Building Balance should be submitted to the Audit.

(c)	Other payables		Written evidence		
	i. Jaffna compensation account	118,570	}	It has been informed that action will be taken in the future	Necessary written evidences required to confirm the deposits payable should be submitted to the audit.
	ii. Retentions				
	iii. Unclaimed salaries and wages	2,938,166 364,711			
	iv. Unclaimed gratuity	412,620			
(d)	Sales advance	60,973,187	Schedules	No answers provided	Necessary written evidences required to confirm the sales advance payable must be submitted to the audit.
(e)	04 Other receivables balances from 2007 to 2016	2,285,437	Written evidence	As it is difficult to settle these balances, the Board of Directors will be informed and necessary provisions will be made.	Necessary written evidences required to verify the existence of the other receivables shown in the financial statement must be submitted to the audit.
(f)	64 individual creditors' balances	25,168,186	Balance confirmations	Letters have been sent to the creditors to retrieve the balance letters.	Action should be taken to call individual balances of creditors.
(g)	197 debtors' balances	34,354,796	Balance confirmations	No answers provided.	Debtors' individual balance confirmations should be called.
(h)	Other payables-C.F.H.C. Security	1,144,306	Balance confirmations	The Board of Directors will be informed and will act on those instructions in the future.	Balance confirmations should be called.
(i)	Receivable withholding tax	1,119,029	withholding tax certificates	That the foundation has no information.	Tax certificates must be submitted.

(j)	Investment income of Mattumagala land	2,700,000	Approval for transfer	The Board of Directors has been informed and informed that further action will be taken on those instructions.	Approval should be submitted relating to the transfer this land to the Ceynor Foundation Limited by the Ceylon Fisheries Corporation and to transfer it to a third party on a lease basis.
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

#### Audit Issue

The company had not taken any action to recover the total amount of Rs. 3,527,824 retained Rs. 1,757,057 and Rs. 1,770,766 respectively in 2015 and 2017 for activities related to the Dikowita Fisheries Harbor Project implemented under the Ministry of Fisheries shown under other receivables.

#### Management Comment

The Board of Directors will be informed and action will be taken in the future as inquiries have been made from the relevant institutions but no proper reply has been received.

#### Recommendation

Action should be taken to settle the long-standing arrears.

### 1.6.2 Payables

#### Audit Issue

No action had been taken to settle the balance amounting to Rs. 3,103,068 as withholdings payable for the period from 2008 to 2017.

#### Management Comment

That will work in the future.

#### Recommendation

Action should be taken to settle the long-standing arrears.

### 1.6.3 Advances

#### Audit Issue

- (a) Although there were advance balances of Rs. 8,878,264 out of the advance of Rs.14,140,125 as at 31 December 2020 for the period from 2003 to 2018, no effective action has been taken so far to recover the relevant balances.

#### Management Comment

That will work in the future.

#### Recommendation

Action should be taken to recover the advance balance.

- (b) Rs.4,909,775 out of the value of raw material given in 2011 under a subcontract basis to a

Although inquiries have been made from the

A formal inquiry should be held and

private company for the manufacture of fishing nets, which had remained in the financial statements for a period of 09 years, but the Foundation had not taken any action to recover the relevant balance.

relevant institution, they have been informed that they have not been able to make such a payment to Ceynor and the Board of Directors will be informed and necessary arrangements will be made in the future.

action should be taken to settle the advance balance which has not been settled for a long time.

**1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**  
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<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Memorandum of Association Paragraphs 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.	Action should be taken to achieve the objectives of establishing the Foundation.
(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, 2019 and 2020.	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.

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| (c) | Employees Provident Fund Act No. 15 of 1958 (Amendment) | Although contributions to the Employees Provident Fund for one month were remitted on or before the 15th of the following month, an amount of Rs. 36,740 of the Employees Provident Fund for the period July to December 2017 had been withheld without remitting from July 2019. | EPF / ETF has not been set up as the relevant officer is considered as a non-performing employee due to non-reporting to work. | An inspection should be carried out and contributions should be remitted in accordance with the Act. |
| (d) | Employees Trust Fund Act No. 46 of 1980 (Amendment)     | Although contributions to the Employees Trust Fund for one month are to be remitted on or before the last day of the following month, an amount of Rs. 5,510 applicable for the period from July to December 2017 had been withheld without remitting.                            | EPF / ETF has not been set up as the relevant officer is considered as a non-performing employee due to non-reporting to work. | An inspection should be carried out and contributions should be remitted in accordance with the Act. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 24,403,823 and the corresponding deficit in the preceding year amounted to Rs. 25,600,930 . Therefore an improvement amounting to Rs. 1,197,107 of the financial result was observed. This was mainly due to a decrease of 34 percent or Rs. 20,854,252 in administrative expenses compared to the previous year.

### 2.2 Ratio Analysis

(a) The current asset ratio of the current year was 1: 1.48 and 1: 1.30 respectively as compared to the previous year. The main reason for the decline in the rate was the decline in cash and bank balances by 230 per cent and the increase in other payables by 33 per cent in the current year.

(b) The quick ratio of the current year was 1: 0.70 and 1: 0.58, respectively as compared to the previous year. The quick ratio was decline mainly due to decrease the bank balances by Rs. 39,516,333 from Rs. 17,133,599 in the previous year.

(c) The gearing ratio of the current year had increased from 1: 1.88 to 1: 1.93 as compared to the previous year. This was due to a 6 per cent decline in equity capital and a 9 per cent reduction in debt capital.

### 3. Operational Review

#### 3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Though the vacant land owned to the Cey-nor Foundation Ltd and located at 335 D.R Wijewardena Mawatha, Colombo 10 was leased to Orient Pearl Hotel Ltd. from 4 July 1998 for a period of 20 years, The Foundation had lost the economic benefits of the property for more than two years from 2018 to date due to the crisis caused by the Foundation's deviation from the government procurement process after the expiration of the lease agreement. Further the Foundation had not recovered a profit of Rs. 323,515 from the company's profit for the year 2018 and had to take legal action to obtain the land.	No answers provided.	Management must take action to recover the profit share and acquire the land.
(b)	Although a total of Rs.109,080 had been spent on newspaper advertisements for recruitment for 4 posts during the year under review, the amount of Rs. 109,080 spent had been a idle expense as the relevant recruitments had not been made by 30 November 2021.	No answers provided	Management should take action to avoid incurring idle expenses.
(c)	The bank overdraft had a credit balance of Rs. 31,572,644 as at 31 December 2020 and overdraft interest of Rs. 874,659 had been paid for obtaining bank overdrafts for the year 2020. Furthermore, as there was a total balance of 4 bank accounts and 2 imprests accounts with a debit balance of Rs. 9,189,907 by 31 December 2020 the cash and bank balance for that day was shown in the financial statements as a bank overdraft of Rs. <b>22,382,735.</b>	No answers provided	Actions should be done to maintain bank accounts not to be paid bank overdrafts interest.
(d)	Differed liability of Rs.136,818,381 without adequate presentation in the financial statements had been shown as differed liabilities combined with employee benefits liability in the statement of financial position.	That will work in the future.	Differed liability and employee benefits liability should also be distinguished in the statement of financial position.

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

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

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###### **Audit Issue**

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Although the corporate plan for the year 2020-2024 should have been submitted for audit 15 days before the commencement of the financial year 2020, it was submitted on 19 June 2020.

###### **Management Comment**

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No answers provided.

###### **Recommendation**

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The corporate plan should be submitted in accordance with the circular.

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

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###### **Audit Issue**

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According to the action plan of 2020, Rs. 16,680.91 million has been allocated for the implementation of 15 activities, but according to the progress report submitted as at 31 December 2020, only Rs. 57.33 million had been spent on several activities outside the action plan.

###### **Management Comment**

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No answers provided.

###### **Recommendation**

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Management should focus on implementing the activities planned according to the action plan.