

## **Ceylon Fishery Harbour Corporation - 2020**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Ceylon Fishery Harbour Corporation including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position at 31 December 2020, Income Statement, Cash Flow Statement and statement of changes of equity for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 provision of the National Audit act No 19 of 2018 and Finance act No 38 of 1971. My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Corporation. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements because of the significance of the matters discussed in the disclaimer of opinion section of this report.

#### **1.2 Basis for Disclaimer of Opinion**

My opinion is disclaimer based 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. It is unable to obtained sufficient and appropriate audit evidence to provide a basis for an audit 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 Public Sector Accounting Standards for Local Authorities, 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 preparation the financial statements, management is responsible for the assessing the Corporation stability 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 intends to liquidate the corporation or to cease operations or has no other alternative but to do so.

Those charged with governance are responsible for the overseeing the Corporation's financial reporting process. As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 corporation.

#### **1.4 Responsibility of the Auditor for the audit of Financial Statements**

My responsibility is to conduct an audit of the Corporation's financial statements in accordance with Sri Lanka Auditing standard and to issue an auditor's report. However because of the matters

described in the basis for disclaimer of opinion section, I was not able to obtain sufficient and appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

## **1.5 Audit observations regarding the preparation of Financial Statements.**

### **1.5.1 Non- compliance with Sri Lanka Public Sector Accounting Standards.**

<b>Non-compliance with the relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to paragraph 47 of Sri Lanka Public Sector Accounting Standards 03, when correcting prior year errors, those comparative values should be restated and adjusted retrospectively, adjusted to the year-end accumulated profit and loss balance were accordingly, ministry grants amounting to Rs.10,406,175, liquidity losses amounting to Rs.273,346 and capital amortization amounting to Rs.1,893,257 Respectively.	Arrangements have been made to submit detailed schedules for prior year adjustments when preparation of financial statements for the year 2021,	The comparative values should be retroactively adjusted when correcting prior year errors,.

### **1.5.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>Recommendation</b>
(a) Financial activities in the cash flow statement had increased by that amount due to Rs.10,406,125 adjusted to the retained profit as prior year adjustments to the cash flow statement as a decrease in the ministry grants in the year under review to correct the accounting of consultancy services income as ministry grants in previous years.	Noted to the correct.	Adjustments should not be made to retained earnings as prior year adjustments reconciled to the cash flow statement.
(b) To the loss of the year under review is the Capital grant amortization Rs.127,404,158 and capital grants used for recurrent expenditure Rs.57,449,328 the total value of Rs.184,853,486 should be adjusted to operating cash flow although Rs.185,446,753 was adjusted to the profit as capital grants amortization. Since operating cash flow was understated by Rs.593,267.	Noted to the correct.	Adjustments should be made correctly to the cash flow.

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| (c) | Rs.12,603,032 paid for purchase of property plant equipment in previous years Rs.56,841,558 was included in the cash flow statement as purchase of property plant and equipment in the year under review and so the purchase of property plant and equipment was overstated by that amount.  | Noted to the correct.  | Should not adjusted the previous year's payments to the cash flow for year under review. |
| (d) | Action had not been taken to capitalized construction of 06 numbers of fuel tanks worth of Rs.9,924,000 the fuel tanks were in used when the date of 28 <sup>th</sup> of December 2020 but stated under work in progress as of 31 <sup>st</sup> of December in year under review.  | The amount related to the 6 numbers of fuel tanks worth 9,709,000 million rupees has been capitalized under Journal No. 294 in the year 2021   | Action should be made to capitalize the fuel tanks that are in used.                     |
| (e) | Although the construction of the breakwater at Pereliya anchorage had been completed and handed over to the Corporation on 1 <sup>st</sup> of August 2018, the construction cost of Rs.314,162,431 was not included in the financial statements. Due to this, non-current assets were shown in the financial statements less than by above amount.                   | After the completion of the breakwater construction at Peraliya anchorage, the basic documents related to those values have been obtained from project division of Ministry and accounted. | The assets belonging to the corporation should be properly entered in the accounts.      |
| (f) | The Ministry has incurred construction cost for 8 works including construction of buildings, installation of kerosene tanks, construction of side walls in Milady Fishery Harbour 1 <sup>st</sup> section of Northern Province in Jaffna District Rs.107,427,407 and submitted to the corporation in the year 2019, but that value was not included in the accounts. | After the completion of constructions at Milady Fishery Harbour the basic documents related to those values have been obtained from project division of Ministry and will be accounted.    | The assets belonging to the corporation should be properly entered in the accounts.      |
| (g) | In the year under review, the rental fees of Rs.9,653,000 to be collected from the Department of Aquatic Resources for the use of Sayura dredging vessel for the work of a project and chargers of Rs.871,560  | Accounted in the financial statements of the year 2021.  | The income relating to the year under review should be correctly accounted               |

for inspecting the deepening of the lagoon had not been accounted under the income of the year under review and due to this the loss stated in the financial statements of the year under review was shown overstated from those amounts.

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| (h) | Although the statutory payments should be calculated correctly and paid in due time but calculation of employee provident fund without considering living cost allowance arrears of Rs.85,059,367 and surcharges of Rs.42,529,684 from 2006 to 2013 was fixed to pay in 72 monthly installments as a relief but accounted only from the arrears of Rs.21,896,628 and surcharges of Rs.7,118,475. Accordingly the arrears of Rs.63,162,739 and surcharges of Rs.35,411,209 were not accounted for in the financial statements. | Accounted in the financial statements of the year 2021.     | Statutory payments must be calculated accurately and accounted in a timely manner for in the financial statements. |
| (i) | The value of 2 platforms at Tangalle and Negombo fishery harbours worth of Rs.7,735,227 was not capitalized in the year under review and was adjusted to the expenses of the respective harbours which were repaired during the year under review. Due to this, the loss was overstated in the financial statements for the year under review.  | Arrangements have been made to capitalize in the year 2021. | The cost of platform repair should be accounted as capital expenditure and not as recurring expenditure.           |
| (j) | The amount of Rs.10,734,231 which was the value of the reconstruction of internal road system at the Kirinda fishing harbour completed in the year under review, was debited to the recurrent expenditure of the Kirinda fishing harbour instead of being capitalized.  | Arrangements have been made to capitalize in the year 2021. | Road system should be capitalized.   |

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| (k) | The 10 items of radio message (Wallkie Talker) which had been purchased during the year under review for the use of Codbey Fishery Harbour and Head Office Rs.500,000 and had been debited to the recurrent expenditure of the port without being debited to the equipment account.                | Under Journal No. 292, it has been transferred to the equipment account in the year 2021 and corrected.   | Capitalized assets should not be accounted as recurring expenses.  |
| (l) | A difference of Rs.1,116,402 was observed between the rent income ledger account balance and the closing account balances of Mirissa, Codbay and Kudawella fishery harbours, but the necessary actions were not made to identify the differences and adjustments made to the financial statements. | In addition to the income due from rent the property, the amount charged for keeping the boats on land on a daily basis has been included in the rental income in the final account balances. | Differences between the values shown in the financial statements and the ledger account balances should be investigated and corrected. |

### 1.5.3 Documentary Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The total cost is Rs.6,679,408,834 fixed asset records for 23 types of fixed assets, detailed schedule relating to the provision for Tsunami damaged assets amounting to Rs.945,559,937, source documents and schedules related to verifying creditor balances valued at Rs.9,824,409, ministry grants amounting to Rs.90,193,518 and Rs.835,175,606 capitalized assets related to other grants, grant agreements, work done detailed schedules and source documents, balance confirmations for Rs.2,150,000 due from contractors for up to 10 years were also not submitted for audit. Also, the source documents regarding the balances to be written off with the value of Rs.83,985,365 and the deferred liabilities of Rs.1,653,400, The working progress files for computer software and office floor setups amounting to Rs.4,254,111, the	Agreed.	Written evidence such as schedules, balance confirmations, agreements, detailed schedules and source documents, files, etc., should be provided to the audit to confirm the account balances stated in the financial statements.

details of the work done were also not submitted to the audit. Because of this, these subjects could not be satisfactorily examined in the audit.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivable Accounts

Audit Observation	Comments of the Management	Recommendation
(a) Out of the rent debtor balance of Rs.87,895,056, there were outstanding balances of Rs.25,710,618 for 1-2 years, Rs.45,295,723 for 2-5 years and Rs.16,888,714 for 5-10 years and Rs.84,581,542 out of 7 receivable balances, the over 5 year loan balance was Rs.60,637,315.	No comments	The receivables should be collected promptly and the working capital of the corporation should be increased.
(b) The Sayuri vessel belonging to the Corporation was deployed for dredging activities at the Oluwil Fishery Harbour of Port Authority from 16 <sup>th</sup> of December 2016 to 09 <sup>th</sup> of March 2017. However, an agreement was not signed for this and the financial statements stated that the corporation has to recover the amount of Rs. 24,840,000 from the port authority, but this balance has not been settled which has been paid over 05 years.	Written requests have been made on several times to recover the relevant money from the Port Authority.	The receivables should be collected promptly and the working capital of the corporation should be increased.
(c) Out of the prepayment balance of Rs.36,702,978 as on 31 December 2020, Rs.27,056,667 were balances older than 10 years and Rs.9,602,683 were balances older than 5 years. The balances worth Rs.15,528,683, which existed before the year 2004, were also included in the previous payments, but the schedules required to confirm those balances were not submitted for audit. Accordingly, no disciplinary action has been taken against the officers who had allowed the use of the corporation's money to third parties in this way irresponsibly.	A committee has been appointed to look into the balances that are more than 10 years old.	Prompt action should be taken to clear the advance payments and disciplinary action should be taken against the corporation and the officials who have allowed the misappropriation of funds.

(d) As of 31<sup>st</sup> of December 2020, 12 balances of rent debtors worth Rs.5,321,494 in the 5 harbours of Tangalle, Kudawella, Puranawella, Galle, Codbay have been outstanding for more than 5 years, but they have not been recovered so far.

Rs137,000 has not been paid by the Tangalle Fishery Corporation so far.

Prompt action should be taken to recover the arrears of rent and necessary legal action should be taken against the arrears.

The amount of Rs.928,852 is the arrears due from the lease of the canteen at the Kudawella fishery harbour, and lawsuit has been filed for this, a monthly payment of Rs.10,000 each will be paid to the port.

Rs.448,554 has not yet been paid by the Fishery Corporation, and would be like to inform you that has now left from the Kudawella rent premises.

Rs.364,872 is the amount to be charged for the lease of the fuel station at Puranawella Fishery harbour and no legal action has been taken in this regard.

Galle Rs.520,768 is a sum due from the Fishery Corporation. Would be like to inform you that the amount of Rs.22,515 has been collected from radio signal room center now.

A legal case has been filed in court to recover the amount of Rs.42,062 due from Codbay Trincomarine.

A legal case has been filed in court to recover the amount of Rs.155,250 due from Walkers

The amount of Rs.1,379,685 is the value of the fuel given for the multi-day boat belonging to Mrs. Galappatti.

Rs.1,053,000 this amount was paid on 23<sup>rd</sup> of June 2021 through cash receipt number 604272 by Solid Maritime.

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| (e) As of 31 <sup>st</sup> of December 2020, an employee loan balance of Rs.2,039,426 remained unpaid from 12 suspended, retired, retired and deceased employees. | The debtor analysis will be Presented. | Arrangements should be made to clear the outstanding employee loan balance. |
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## 1.6.2 Payable Accounts

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The economic taxes of Rs.10,512,971 as a balance to be paid in current liabilities continue from 2014 and the accrued expenses of Rs. 21,429,875 as of 01 <sup>st</sup> of January 2020 had not been settled.	The amount of Rs.10,434,783 which is the collected tax paid on sand income has been discussed and requested with the Inland Revenue Department to compensate for Economic Service Tax, but the Inland Revenue Department has not given approval for it till now.	Responsibilities should be settled promptly.
(b) Ten balances totaling Rs.112,669,731 included in creditors have exceeded 02 years but have not been settled. This also included Rs.76,261,312 due for refunds related to the amount of sand not delivered from the advance amount of Rs.80 million received from a private company to obtain sand from Kirinda Fishery harbour. According to the Attorney General's letter No. E/11/2017/CFHC dated 01 <sup>st</sup> of March 2017 the company had given instructions to repay the money deposited by the company as per the agreement in this regard but the management had not taken any decisions in this regard until the	It should be paid back to Western Lanka (Private) Company due to the inability to provide sand for 8.80 million rupees paid by Western Lanka (Private) Company to the corporation for obtaining sand at Kirinda Fishing Harbour. The amount of 76,261,312 has been stated in the creditors and the Attorney General's Department has asked to pay this money in 10 installments and accordingly this money is being paid in installments.	The outstanding should be settled and investigation should be conducted for the responsible officials of non-delivery of sand.



audit date of 20<sup>th</sup> of June 2022.

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 102 and 760	At the 31 <sup>st</sup> of December of the year under review shortage of worth Rs.7,409,186 of a 67,831.86 liters of diesel and 8340.33 liters of kerosene was observed in relation to 19 fishery Harbours according to the stock ledger and fuel survey reports but the investigations were not conducted in this regard.	There are always minor differences with book value in fuel physical inventory checks. Physical stock testing is done with the help of dip sticks and there may be minor changes due to changes in small units. Also changes can be seen when checking of fuel stock with book values during morning and evening.	An investigation should be conducted regarding fuel shortages.
(ii) Financial Regulations 371(2)(b)	The ad hoc imprest that can be given to one officer is Rs.100,000 but 4 officers had been given the imprest beyond that limit.	Estimates were prepared for the total cost in considering the nature of the work and advance money was given. All the advances mentioned in the query have been settled by now.	Should not give the imprest beyond the limit of Rs.100,000 for one officer.
(iii) Financial Regulations 371 (5)	Although the ad hoc imprest should be settled within 10 days after the issuance of the ad hoc imprest and the completion of the related work and the value of ad hoc imprest that remained unpaid on 31 <sup>st</sup> of December of the year under review was Rs4,346,531.	As 01 <sup>st</sup> of January 2020 an amount of Rs.4,346,531 is shown as an unsettled balance due to the treasury allocations receipt at the end of December 2019 and advance payments for the works that had to be done at that time.	Ad hoc imprest must be settled within 10 days of completion of work.

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| (iv) | Financial Regulations 395(c)  | Bank reconciliation statements in respect of 58 bank accounts were not prepared and submitted for audit before the 15th day of the following month.   | Monthly bank reconciliations were properly prepared but due to the Covid epidemic in the country in the year 2020 our institution was also closed from time to time. As a result, it was not possible to submit the bank reconciliations to the audit on a monthly basis and all the bank reconciliation reports were forwarded at once.                    | Bank reconciliation statements should be submitted for audit before the 15th day of the following month.                              |
| (v)  | Financial Regulations 395(h)  | Distribution of work was not followed for writing the cash book, writing cheques, depositing the collected money in the bank and maintaining the cash book.   | Agreed with the Query.  | Work distribution system should be followed for cash book and related tasks.  |
| (b)  | Section 26 of the Value Added Tax Act No. 14 of 2002                                  | Although the value added tax (VAT) must be settled before the last day of the month in which the tax period ends quarterly or monthly, the value added tax was not settled until 31 <sup>st</sup> of December 2020 with an old balance of Rs.75,647,389 as of 01 <sup>st</sup> of January 2020. | Value added tax is paid as monthly installments in consultation with the Inland Revenue Department.   | According to the Tax Act, the value added tax must be settled on before the last day of the month in which the tax end of the period. |
| (c)  | Sections 2 (a) and (b) of Asset Management Circular No. 05/2020 dated 22 October 2020 | Although advised to dispose of vehicles that are not in running condition and are not economical to repair, no action has been taken to disposed or repaired till the end of the year under review for JCB machine No. 4502, which is not in running condition.                                 | This machine was used to load excavated sand into lorries at Kirinda Fishery Harbour .But this machine was inactive on several times and it was informed that a lot of cost would have to be incurred to repair the machine. Since this machine is not required for other harbours as well as the sale of sand in Kirinda Fishery harbour has stopped it is | Abandoned vehicles should be disposed or repaired and used or dealt with.   |

useless to repair this machine at such a large cost, so the renovation work was not done.

Therefore, after informing the Board of Directors and obtaining approval necessary actions will be taken to dispose of this machine.

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| (d) | Treasury Circular No. 842 dated on 19 <sup>th</sup> of December 1978. | Although as per the circular a updated asset register should be maintained for the fixed assets but the corporation had not maintained a fixed asset register for the fixed assets amounting to Rs.6,679,408,837. | Would be like to inform you that the fixed asset register has been updated till now and a 2020 copy has been forwarded to the government audit section.  | An updated fixed asset register should be maintained as per the circular. |
| (e) | Section 3.2.2(a) of the procurement Guideline                         | The tender for the purchase of 07 kerosene fuel pumps worth Rs.6,689,000 was not published in a national newspaper  | The advertisement related to purchase of fuel pumps and calling for quotations was published in Dinamina and Daily News newspapers on 21 <sup>st</sup> of December 2018. Accordingly the prices were presented by 06 recognized institutions. But the companies had not submitted the prices as per the correct specifications, the tender was called again on 11 <sup>th</sup> of July 2019. Accordingly, the quotations were called from 06 organizations that presented of prices on that day and the relevant tender was published on the official website of the corporation. | All purchases should be in accordance with the Procurement Guidelines.    |

## 2. Financial Review

### 2.1 Financial Result

The operation result for the year under review was a deficit of Rs.236,010,941 and correspondingly the previous year deficit was Rs.71,111,703. Accordingly an increase of the deficiency Rs.164,899,238 was observed in the financial result. The increase in this 233 percent shortfall was mainly due to the increase in operational losses of the harbours.

### 2.2 Trend analysis of major income and expenditure

The profit/loss earned from the operations of the harbours was as follows.

Fishery harbour	Operation Profit or Loss (Rs)		Percentage of Increase or Decrease
	2020	2019	
1. Beruwala	764,410	1,873,194	(59)
2. Galle	(3,084,949)	(10,686,069)	71
3. Mirissa	1,878,008	7,237,363	(74)
4. Puranawella	(7,496,629)	(8,189,577)	8
5. Thagalle	(43,142,804)	(39,310,703)	(10)
6. Kirinda	(25,615,510)	(16,720,969)	(53)
7. Codbay	(5,750,505)	(37,645)	(15,176)
8. Dodanduwa	(11,884,864)	(11,601,386)	(2)
9. Hikkaduwa	(15,386,764)	(11,892,984)	(29)
10. Kalpitiya	(3,794,502)	(9,025,468)	58
11. Kudawella	7,352,427	7,672,889	(4)
12. Panadura	(14,475,168)	(12,315,480)	(18)
13. Negombo	(12,218,701)	(6,040,409)	(102)
14. Hambantota	(26,012,473)	(22,898,194)	(14)
15. Ambangoda	(5,966,434)	(11,220,653)	47
16. Clilaw	(12,567,229)	(13,036,201)	4
17. Walachchenai	(17,312,954)	(17,388,158)	0
18. Nilwella	(6,416,508)	(3,241,308)	(98)
19. Dikkovita	119,213,816	170,622,402	(30)
20. Suduwella	(12,429,764)	(10,035,988)	(24)
21. Mylady	(9,651,469)	(17,499,801)	45
22. Kalametiya	(8,176,856)	No	No

(Started at 2020)

- (a) Due to the increase in fuel income compared to last year, several harbours showed a favorable situation. However out of 22 fishery harbours 18 fishery harbours had losses of Rs.112,175,422 in the year under review and a loss of Rs.33,735,144 in the previous year as well. Accordingly the loss had increased by Rs.78,440,278 in the year under review.
- (b) In the reviewed year, Beruwala work shop had a loss of Rs.26,649,965 and last year it was Rs.24,735,590 and it was observed that the loss had increased by Rs.1,914,366.

## 2.3 Ratio Analysis

	2018	2019	2020
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Current Assets Ratio	3.1:1	3:1	2.8:1
Quick Assets Ratio	2.7: 1	2.67: 1	2.5: 1
Gross Profit Ratio	1.46%	(10.02%)	(43%)

The gross profit ratio of the corporation for the year ended 31<sup>st</sup> of December 2018 was 1.46 percent and it was minus 10.02 percent for the year 2019. The percentage had increased up to minus 43 percent due to increase the loss of year under review

Although there was a decline in current assets ratio and quick assets ratio during the year under review, this represented a different situation from the generally accepted ratio of 2:1 and 1:1.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) A land of 15.12 perches in the Kudawella Fishery Harbour premises was leased on 07 <sup>th</sup> of November 2019 at a monthly rent of Rs.115,000 for the cub ice factory, but the date of entering into the lease agreement was delayed until 11 <sup>th</sup> of June 2020. The operations of the cub ice plant had not started and rent income had not been collected even though it had been over a year since the lease was granted till the date of audit 27 <sup>th</sup> of April 2021. Thus the corporation had lost a rent income of Rs.690,000 for 6 months from the agreement date of 11 <sup>th</sup> of June 2020 to 31 <sup>st</sup> of December 2020.	<p>It was delayed because there were petitions that there was some irregularity in the awarding of rent and we had to wait for the investigation to be completed.</p> <p>The agreement was entered on 11<sup>th</sup> of June 2020 based on the instructions given by the Ministry to the Chairman.</p> <p>They are informing that the business activities could not be started due to the Corona epidemic and lessee requested relief in this regard and a directors board paper was submitted to the board of directors held on 07<sup>th</sup> of December 2021.</p> <p>Since the information mentioned in it is not sufficient, the Board of Directors mentioned that should submit a paper with sufficient information to the Board of Directors meeting to be held in the coming days.</p> <p>Accordingly, will inform you of the decisions taken in the upcoming Directors Board meeting.</p>	Has to lease to someone else and earn income if the lessee does not start the operations.

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| (b) | According to the ledger on 01 <sup>st</sup> of January 2020 the value of Rs.8,610,910 which had been set aside as Fishermen's Dirisaviya Accounts, had not been utilized for that project and was shown as a continuous provision.          | It is a provision set aside for the welfare of the fisherman's families and since the welfare of the fisherman's families has been stopped and a balance is shown in the Dirisaviya provisions account.   | The money allocated for welfare should be used for the relevant purpose.   |
| (c) | As at 31 <sup>st</sup> of December 2020, there was a difference of Rs.12,770.988 between the bank balance according to the financial statements and the bank balance according to the bank reconciliations in relation to 09 bank accounts. | The bank balance according to the cash book as of 31 <sup>st</sup> December 2020 and the changes in the bank balances according to the financial statements were corrected using the journal while preparing the financial statements of the year 2021. | Bank reconciliation statements should be prepared correctly and if any differences should be investigated and corrected. |

### 3.2 Operational Inefficiencies

#### **Audit Observation**

40 perches in Ambalangoda Fishery harbour were leased at a monthly rent value of Rs.225,000 (with VAT) from June of 2011 and after 8 years without obtaining any provision of a government valuation report had been re-leased for a value of Rs.105,000 (with VAT) only at the request of the lease buyer institute from September 2019.

#### **Comments of the Council**

We leased only 40 perches of vacant land to the lessee and the related company constructed the ice plant and installed the machinery themselves. The lease has been given to this institution on the basis of the internal valuation report and the government valuation is to be obtained and accordingly the provision of the necessary condition has been used in agreement so that if the government valuation exceeds the internal valuation then the excess amount can be recovered from the date of the award letter.

#### **Recommendation**

Taxes for rent properties should be levied on a government assessment or a new lessee should be found following open tender procedures.

### 3.3 Transactions of Contentious Nature

#### **Audit Observation**

- (a) Although holding a plot of 5.11 perches in addition to 37.11 perches in lot Y leased to the lessee at a

#### **Comments of the Council**

In the year 2017, when leasing this premises to the concerned lessee it was leased on the basis

#### **Recommendation**

Rent should be charged under a new lease agreement or should be

value of Rs.70,000 per month with VAT, without demarcation on 11<sup>th</sup> of April 2017 at Kudawella Fishery Harbour. No action was taken to charge a separate rent for those additional plots under an additional agreement or to hand over the unauthorized portions to the harbour management.

of the old plan and later on and our corporation noticed that the lessee was acquiring more land than the amount of land mentioned in the plan. In that survey as it was determined that the lessee is holding more than 5.11 perches an internal assessment has been made for the additional land area and the letter of award has been forwarded to the relevant lessee on 07<sup>th</sup> of December 2021 for the property that is being holding more.

taken over of the holding plot.

- (b) In the lease of the above Kudawella Fishery harbour 37.11 perches rent for a period of 20 years at a monthly rent of Rs.70,000 from 10<sup>th</sup> of April 2018 after granting a one-year grace period for converting the building where the fish processing center into an ice plant in accordance with the revised lease grant letter on 30<sup>th</sup> June 2017. The building including the above land was leased without following the tender procedures and the government value was not obtained.

Also, from 07<sup>th</sup> of November 2019, 15.12 perches of SSP 327 in plan lot (X) were leased to an ice manufacturing company at a rent of Rs.115,000 for a ice cube manufacturing and in both cases were not followed the open tender procedures.

The requests submitted regarding this rent premises were considered and referred to the procurement committee and awarded based on its recommendations.

The land should be leased at the government assessed value.

- (c) A contract was awarded to a private company on 23<sup>rd</sup> of October 2018 for the removal of 20,581 cubes of sand for 03 years despite the availability of required vessels for removing sand from Peraliya fishery harbour but no contract agreement was signed with the contractor. From 23<sup>rd</sup> of October 2018 to

The corporation had signed the relevant agreement with the contractor. According to the conditions and recommendations of the Department of Coastal Conservation an agreement has been entered with a new contractor to remove sand from the basin of this harbour and so

Investigation should be done on outsourcing of sand removing.

August 2020 only 3,426 cubes of sand as a percentage 16 percent had been removed although the total amount of sand should be removed 20,581 sand cubes and the objective of the corporation is maintenance of harbour basin were not also fulfilled because the sand was not removed to enter allow vessels to the fishery harbour.

far 2750 cubes of sand have been removed from the basin.

### 3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) After a technical report dated 30 <sup>th</sup> of September 2020 regarding the repairing cost and current condition of the vessel "Weligovwa" owned by the corporation the Board of Directors approved to dispose the vessel but the said vessel was not disposed until the end of the year under review. At present the vessel is dilapidated and idle for more than 05 years and in the year under review a crew was assigned at a vessel to maintenance and running of salary cost was Rs.3,670,247.	I agree with the points mentioned in the audit query and to prevent the ship from sinking and if the ship capsizes or sinks in the harbour basin it will have to bear a lot of cost to recover it. Therefore several employees have been temporarily detained on the ship for the safety of the ship. The valuation department has been directed to get an valuation report for the scrapping of this ship and since the department has not assessed such a dredger before it has been informed that sufficient time is needed to value the ship. Accordingly after receiving the assessment reports necessary arrangements will be taken to dispose the ship.	Ideal assets should be disposed of promptly.
(b) In the years 2018/2019 it was revealed that the management has not taken steps to get electricity for the 02 fuel tanks installed at Chilaw and Ambalangoda harbours and will not be used until 30 <sup>th</sup> of March 2022 as from 8000 gallon fuel tanks installed at fishery harbours worth Rs.3,380,000.	At present 5 fuel tankers working of releasing fuel and the electrical connection at Chilaw fishery harbour has been provided but due to the current fuel crisis it has become difficult to start the work of releasing fuel.	The management should focus on providing the necessary electrical facilities and using the assets with full utilization.



### 3.5 Procurement Management

Audit Observation	Comments of the Council	Recommendation
(a) Although 40 perches of land in Ambalangoda fishery harbour of the Corporation has been leased to a fishing line company for a period of 25 years for the construction and operation of an ice plant for a monthly rent of Rs. 126,670 with effect from 19 <sup>th</sup> of March 2019 the national competitive bidding method was not followed for awarding the lease. Both parties agreed to obtain a government valuation for the leased property according to the lease agreement reached on 04 <sup>th</sup> of April 2019 but up to the date of the audit no government valuation report had been obtained for the land of the 40 perches leased.	According to the newspaper notice sent in December 2017 a private company requested to lease the vacant land of 30 perches in Ambalangoda harbour for the construction of an ice plant. Accordingly after obtaining an internal assessment report the property was leased for a long period according to the board papers dated on 06 <sup>th</sup> of December 2018 and 11 <sup>th</sup> of December 2018. Would like to inform you that we have received the government's valuation reports also.	A government valuation should be obtained for the leased property and arrangements should be made to collect the rent.
(b) In 2019 were leased 40 perches again for 25 years in Valachchena Fishery harbour and 30 perches in Beruwala Fishery harbour were leased for 25 years in 2019 there was no call for proposals or not followed national competitive bidding method also.	The private institutions of South Lanka North East and Lanka Ice are branches operated under the same board of directors and these institutions have been maintaining ice factories in the Fishery harbours of Galle, Beruwala and Valachchena for a long time and also making the payments properly so the demands of the concerned parties are met it was considered and referred to the Tender Board and the lease agreement was extended as per the approval of the Tender Board.	The National Competitive Bidding method should be followed when lease of property.
(c) Although the inspection of technical specifications supposed to take place before the signing of the contract, relating to the award of tender for diesel pumps to checked the specification of fuel issuing speed between 120 – 180 liters per minute of 10 diesel pumps purchase worth	On 26 <sup>th</sup> of February 2019 an agreement was entered into with Colombo Machinery and Equipment (PVT) Ltd for the purchase of diesel fuel pumps and a period of 120 days was given for the delivery and installation of the relevant pumps.	An investigation should be conducted on overseas training not included in the tender conditions and disciplinary action should be taken for non-receipt of goods as per required specifications.

of Rs.30,993,264 two officials had gone to China for overseas technical specification inspection and training after the signing of the contract on 26<sup>th</sup> of February 2019. It was also observed that it was not included in the tender conditions.

Due to this, the whole process of supply and installation of diesel pumps was delayed for another 6 months beyond the scheduled 120 days and during the extension of time, according to the tender conditions the amount of late fee amounting to Rs.59,391,744 had not been collected and these fuel pumps had various technical defects including fuel leaks, dual functionality had not worked.

These 10 fuel pumps were to be imported from China and two officers of our corporation were to be sent to China to obtain a technical training before import the fuel pumps.

Accordingly, technical training and verification of the given specifications and obtaining a certificate as to whether the specifications are correct and it had become an absolute requirement of the tender conditions. There was a delay of about 04 months in the issuance of visas by the Chinese Embassy. The entire process of purchase, supply and installation of the 10 fuel pumps was delayed as the shipment of fuel pumps without checking specifications and without training was against the tender conditions. An extension of time was given until 3<sup>th</sup> of January 2020 to complete the job.

(d) After the company that had been given for sand dredging in Panadura Fishery harbour defaulted, according to the tender board paper No. CFHC/FD/DPC/2019/6/15 the procurement was given for the sand dredging works in the fishery harbour to a company established by a different name consisting of its board of directors. According to paragraph 2.4 of the Procurement Guidelines the members of the Technical Evaluation Committee (TEC) and the members of the Procurement Committee (PC) are individually and collectively responsible for formally preparing the bid documents and formally evaluating the bidders to include the necessary determinants of the

RI Developers (pvt) Ltd has been directed to take legal action to collect the money due from the institution and accordingly informed that the Attorney General's Department is currently drafting the complaint and will proceed to file the case as soon as the arrangements are made.

A copy of the registration certificate of the concerned institution is obtained when issuing tender documents and tender documents are issued. Accordingly RI Developers (pvt) Ltd company is registered under PV 8109 and Sakshal Natural Products company is registered under PV 15011. Accordingly the tender papers were issued.

Disciplinary action should be taken against the members of the Procurement and Technical Evaluation Committees who illegally dereliction of responsibility for selection of bidders and legal action should be taken to recover dues.

bidder's information, ability, experience, etc. for the procurement. Accordingly the Procurement Committee and the Technical Evaluation Committee had carelessly offered the procurement to an organization that had not settled the advance amount of Rs.16.8 million which was contracted for the sand dredging in previous and violated in later the said agreement. The advance amount of Rs.16,894,356 was not charged also.

- (e) During the procurement process for the purchase of 7 kerosene pumps at a value of Rs.6,689,000 for Ceylon Fishery Harbour Corporation there was no confirmation that it was suitable for the sea and coastal environment and the Pattern of the pumps had changed with basic deviations but the procurement had been awarded on 19<sup>th</sup> of November 2019 to a bidder.
- The awarding letter was issued on 05<sup>th</sup> of November 2019 to the Auto Engineering (Pvt) Ltd but signed the contract on 07<sup>th</sup> of January. After that due to the covid epidemic in the country the installation of fuel pumps was delayed.
- The procurement process should be followed to purchase the goods and disciplinary action should be taken against the officers who acted contrary to it.
- Contracts with contractors in future will also be arranged to include a section regarding late chargers.
- (f) According to the technical specification the speed of a fuel pump should be 150 liters per minute but the speed of the fuel pumps supplied to the fishery harbours was 138 liters per minute and due to the non-use of 08 fuel pumps installed in the fishery harbours on 11<sup>th</sup> of March 2019 paid Rs.3,824,200 to the supplier had been ideal. Further no action was taken against the supplier for non-supply of goods as agreed and supply of inappropriate fuel pumps.
- The concerned institute has installed 08 pumps at Codbay, Dikovita, Beruwala, Galle, Mirissa, Puranawella, Kudawella, Ambalangoda harbours. Accordingly the corporation has used those pumps and only the advance amount has been paid to the institution but no any other amount has been paid to the said institution. Accordingly informed that the value of the relevant pumps has exceeded the advance amount.
- Disciplinary action should be taken against officer who made payments to non-specified fuel pumps and legal action should be taken against the supplier for non-delivery of goods as agreed.

### 3.6 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) According to the appointment letter No. CFHC/HR/Permanent dated 17 <sup>th</sup> of January 2012 a female officer was appointed to the position of President's Confidential Secretary with a monthly salary of Rs.37,405 and no approval was obtained for this position from the Department of Management Services.	Arrangements have been made to establish the correct pay scales from February 2022.	Appointments should be made only to posts approved by the Department of Management Services. This should be treated as an illegal appointment.
(b) According to the approved carder of the corporation 01 post of Deputy General Manager Operations was approved and in addition to that another officer was appointed for the same position from 02 <sup>nd</sup> of September 2014 to August 2016 without the approval of the Management Services Department and salary Rs.1,622,000 had been paid.	In September 2014 Corporation Authority had been appointed another Deputy General Manager through a director's board paper. As per the approved carder there is only one post of Deputy General Manager, has management services departmental approval been sought to amend it? was not revealed. Now he has retired.	Appointments should be made only to posts approved by the Department of Management Services. This should be treated as an illegal appointment.
(c) Ceylon Fishery Harbour Corporation was carrying out the work of the institution as act without recruiting qualified officers in relation to 16 positions.	A detailed report has been submitted regarding the acting related to the posts.	Permanent employees should be recruited for vacant posts.