

## **Ceylon Fisheries Corporation – 2012**

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### **1. Financial Statements**

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

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Because of the significance of the matters described in paragraph 1.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, I do not express an opinion on these financial statements.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Non – compliance with Sri Lanka Accounting Standards**

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In terms of Sri Lanka Accounting and Auditing standards Act No. 15 of 1995, the Ceylon Fisheries Corporation comes within the specified Business Enterprises and as such, the financial statements should be prepared in accordance with Sri Lanka Accounting Standards (LKAS) with effect from 01 January 2012. Nevertheless, the statement of financial position presented to audit had been deviated from these standards.

##### **1.2.2 Delays in Rendition of Financial Statements**

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Even though the financial statements should be presented to audit within 60 days after the end of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review had been presented to audit on 08 May 2013, after a delay of 2 months.

##### **1.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) The bank overdraft of Rs.90,872,046 that should have been included under current liabilities had been deducted from current assets.
- (b) As the cost of establishment of sales shops in the lands obtained by the Corporation on lease basis for a period of 5 years had been capitalized, the non-current assets in the statement of financial position had been overstated by Rs.27,276,238.
- (c) Employees gratuity had been overstated by Rs.7,762,590 in the statement of financial position.

#### **1.2.4 Unreconciled Control Accounts**

There was a difference of Rs.11,770,371 between the amounts shown in the financial statements and the schedules presented thereon. Particulars are given below.

Particulars	Balance as per Financial Statements	Balance per Schedule	Difference
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	Rs.	Rs.	Rs.
Payment of Gratuity	9,197,861	1,435,271	7,762,590
Trade Creditors	231,717,220	235,725,001	4,007,781
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			11,770,371
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#### **1.2.5 Accounts Receivable and Payable**

The following observations are made.

- (a) According to the age analysis of creditors presented, the total outstanding long term loan balances amounted to Rs.235,725,001 out of which the balance totalling Rs.25,326,266 had remained outstanding for over 4 years.
- (b) The debtor balances due to the Corporation as at the end of the year amounted to Rs.30,071,793 from hiring cool houses, comprising a sum of Rs.22,272,564 from

authorities and a sum of Rs.7,799,229 from external parties. An effective course of action to recover such debts had not been taken by the Corporation.

- (c) The recoverable debtor balance due for the supply of fish to hospitals during the year under review on credit basis amounted to Rs.36,707,887. An effective course of action to recover this debt had not been taken by the Corporation.

### 1.2.6 Lack of Evidence for Audit

Evidence indicated against each accounting item of the following, valued at Rs.1,013,502,501 included in the financial statements presented by the Corporation for the year under review was not made available for audit.

Item of Accounts -----	Value -----	Evidence not made available -----
	Rs.	
(a) Accounts Receivable	382,069,023	Schedule
(b) Accounts Payable	473,753,650	Schedule
(c) Fixed Deposits	200,000	Deposit certificates
(d) Disposable Assets	5,202,867	Schedule
(e) Other Investments	110,376,603	Investment Certificates and Schedules
(f) Balance receivable from Fishery Harbours Corporation	17,363,485	Schedule
(g) Other Authorities	24,536,873	Detailed Schedule
	----- 1,013,502,501 =====	

### 1.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----
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- (a) Value Added Tax Act No. 14 of 2002 Even though the value Added Tax should be remitted to the Commissioner General of Inland Revenue on or before 20<sup>th</sup> day of the month following the end of one quarter, the Value Added Tax totalling Rs.27,865,289 for the period 2002 to 2010 had not been remitted even by 31 December 2012.
- (b) Economic Service Tax Act No. 13 of 2006 As the Economic Service Tax had not been paid on due dates, a fine of Rs.1,843,905 had been imposed for the year 2010/2011 by the Department of Inland Revenue.
- (c) Paragraph 3 of the Public Administration Circular No. 26/2010 of 31 December 2010 A Marketing Manager had been recruited on contract basis for a period of 01 year from 01 June 2011 without the approval of the Department of Management Services.
- (d) Public Enterprises Circular No. PED/12 of 02 June 2003
- (i) Section 8.3.9 Fuel expenditure of Rs.171,531 and Rs.456,671 for 2 vehicles belonging to the Line Ministry had been paid during the year under review by the Corporation.
- (ii) Section 9.4 Thirteen officers of the Corporation had been released to Ministries, to an office and to one institute without the approval of the Cabinet of Ministers and a sum of Rs.2,582,549 had been paid to them as their salaries, overtime, Employees Provident Fund and Employees Trust Fund etc. by the Corporation.

- (iii) Section 8.3.6 As a proper control system over water, electricity, and fuel expenses had not been implemented by the Board of Directors under the supervision and control of the Managers, surcharges and fines totalling Rs.618,904 had been paid by the Corporation due to non payment of bills on time.
- (e) Paragraph iv of the letter No. DMS/C/3/FAR/8 dated 18 December 2006 of the Director General of Management Services Although the interim allowances should not be paid to the officers of the Corporation since January 2006, allowances totalling Rs.180,000 had been paid to the Engineering Service in the year under review.
- (f) Paragraph 2 of the Treasury Circular No. IAI/2002/02 dated 28 November 2002 A register of fixed assets in respect of computers and computer software valued at Rs.1,847,413 had not been updated.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the operation of the Corporation for the year under review had resulted in a deficit of Rs.41,763,563 as compared with the deficit of Rs. 68,969,869 for the preceding year. Accordingly, the deficit for the year under review had decreased by Rs.27,206,306. Increase in sale of fish, ice and canned fish had been the main reason therefore.

### **2.2 Profitability of Operating Activities**

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The Corporation had continuously incurred losses during the past several years and the comparative figures are given below.

Year	Loss	Percentage increase in the loss as compared with previous year
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	Rs. Million	%
2008	(56.175)	516
2009	(103.889)	85
2010	(59.424)	(43)
2011	(68.970)	16
2012	(41.764)	(39)

### **2.3 Working Capital Management**

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Although the current ratio of an efficient entity should be 2:1, the current ratio of the Corporation was 0.66:1 and as a result the Corporation had to meet working capital difficulties. Existence of a bank overdraft, obtaining a lot of short term loans and the availability of considerable value of trade and other payables had been the main reasons for this position. The liquid assets ratio of the Corporation was 0.5:1 although it should have been 1:1.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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Eight current accounts maintained in the Bank of Ceylon had been inoperative for a long time and the balance remained for a long period was Rs.789,771. Attention of the management of the Corporation had not been paid for these dormant accounts.

### **3.2 Idle and Underutilized Assets**

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A motor vehicle costing Rs.954,950 belonging to the Corporation which had technical defects had remained in the Corporation premises for a period of 4 years, without being repaired.

### **3.3 Identified Losses**

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The following observations are made.

- (a) Daily sales proceeds which had not been handed over to the Corporation amounted to Rs.90,096 and action had not been taken to recover this money from the officers responsible.
- (b) Electrical appliances valued at Rs.72,540 which had been purchased for the Deyata Kirula Exhibition had not been returned.

#### **3.4 Resources of the Corporation given to other Government Entities**

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Allowances totalling Rs.336,000 had been paid to 2 officers during the year under review who had been working in the Ministry of Fisheries and Aquatic Resources by the Corporation.

#### **4. Systems and Controls**

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

- (a) Purchase and sale of fish
- (b) Payment control
- (c) Collection of revenue
- (d) Accounting
- (e) Fixed assets control
- (f) Personnel control

