

Ceylon Fisheries Corporation - 2017

The audit of operations of the Ceylon Fisheries Corporation for the year ended 31 December 2017 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 Section 13(1) of the Finance Act, No 38 of 1971 and Section 29 of the State Industrial Corporation Act, No 49 of 1957. The financial statements for the year 2017 which should be presented as per the Section 13 (6) of the Finance Act had not been presented even up to the date of this report. My observations, which I consider should be presented to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka relating to the functions of the Corporation during the year under review appear in this report.

1.2 Responsibility of the Management for Financial Statements

Management is responsible for the preparation and fair presentation of financial statements of the Corporation in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

2. Financial Statements

2.1 Presentation of Financial Statements

According to the Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements and the draft annual report should be furnished to the Auditor General within 60 days after the close of the financial year. However the financial statements and the annual reports for the year 2016 and 2017 had not been furnished to the Auditor General even up to 18 October 2018.

2.2 Maintaining Accounting Books and Records

Although the activities of the Corporation had been carried out continuously, accounting books, records registers and ledger accounts had not been completed.

2.3 Existence of Assets and Liabilities

A summary of assets and liabilities of the Corporation shown in the audited financial statements which had been prepared finally by the corporation as at 31 December 2015 is given below.

Assets -----	Value ----- Rs.
Non- current Assets	1,713,458,355
Current Assets	449,150,463

Total Assets	2,162,608,818
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 Liabilities -----	
Current Liabilities	864,474,891
Non- current Liabilities	205,984,946

	1,070,459,837
Net Assets/Equity	1,092,148,981

Total Liabilities	2,162,608,818
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Total Income	2,597,580, 607
Total Expenditure	2,857,498,081

Deficiency	(259,917,474)
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2.3 Accounts Receivable and payable -----

The following observations are made.

- a) The receivable outstanding loan balance as at 31 December of the year under review was Rs. 216,613,249 and in this balance a sum of Rs. 30,442,205 over than 2 years, a sum of Rs. 52,602,126 over than 5 years, a sum of Rs. 13,912,440 over than 10 years and a sum of Rs. 939,937 which could not be analyzed were included.

- b) A proper methodology had not been introduced for receiving and issuing stock of fish when supplying deep freezer facilities to external institutions and individuals from a cool room of the Fisheries Corporation and a sum of Rs. 3,358,995 receivable over a period more than 5 years and a sum of Rs. 3,261,535 receivable over a period from 1 to 5 years were included in the receivable balance of Rs.6, 629,237 as at 31 December 2017.
- c) The outstanding credit balance as at 31 December of the year under review was Rs. 217,387,304 and a sum of Rs. 2,881,212 receivable over a period from 1 to 2 years and a sum of Rs. 73,952,086 receivable more than a period of 2 years were included in the said balance.

2.4 Legal cases commenced against to the Corporation

The following observations are made.

- a) Three cases by Public Health Inspectors for selling fish which had expired and not suitable for consumption, 5 cases requesting compensation of Rs.9,500,000 for accidents of vehicle of the Corporation, 8 cases by employees requesting reemployment and compensation and salaries, 01 case by requesting Rs. 5 million as compensation by a female employee and 2 cases for violation of fundamental rights by employees of the Corporation had been filed in Magistrate Court ,District Court and Supreme Court against to the Corporation.
- b) Nine cases had been filed by the Fisheries Corporation against to external parties as at 31 December 2017 for recovering sum of Rs. 16,987,572.

3. Operating Review

3.1 Performance

3.1.1 Planning

The following observations are made.

- a) According to the Section 5.1 of the Public Finance Circular No. 01 / 2014 dated 17 February 2014, the Board of Directors are responsible for preparing corporate plan for 3 years at least and operate the enterprise as to be achieved proposed targets accordingly because activities of state owned enterprises should be managed with a short term and long term vision. However the corporate plan for coming periods since the year 2017 had not been prepared and presented for the approval of the Board of Directors even up to the audited date of 12 October 2018.

- b) According to the Section 5.2 of the above mentioned Circular, action plan which is expected to be implemented in the following financial year should be prepared based on the corporate plan. However the action plan for the year 2017 had been prepared by the Corporation without being prepared the corporate plan. As a result annual action plan had not been prepared as to be achieved the long term objectives.
- c) The physical performance relating to activities such as construction of mega trade centers, construction of new sales outlets of fish, creating business partnerships with Cargils, Keels and laugfs Super Markets , construction of new cool room complex and modernization of store facilities, reorganization of packing section as per HAACAP regulations, purchasing of vacuum pack and computerizing business activities had not been furnished to audit.

3.1.2 Operating and Review

- a) Out of the business activities directed by the special gazettes No. 14/186 dated 01 October 1964 and No.1712/21 dated 30 June 2011, actions had not been taken to fulfil the following activities by the corporation.
 - I. Fishing in the deep sea directly by the Corporation or by agents.
 - II. Fish processing.
 - III. Wholesale and retail business through authorized agents.
 - IV. Import and export of fish and fish products.
 - V. Selling fish in foreign markets.
- b) Business activities such as construction and maintain of fishery harbours and ports, importation and selling of fishing equipment , manufacturing of fishing boats, supplying services for maintenance of fishing boats, manufacturing and selling necessary equipment on requests of fishermen had been assigned to the Corporation in the establishment of Fisheries Corporation. However after the establishment of Lanka Fishery Harbour Corporation, Cey- Nor Foundation Ltd and National Aquaculture Development Authority under the Ministry of Fisheries, those activities had been assigned to said institutions. Nevertheless actions had not been taken to revise the business activities of the Corporation accordingly.
- c) The following observations are made in connection with the performance of achievement of targets relating to the key functions of the Corporation as per the performance report.
 - (i) It had been targeted to purchase 6000 Metric Tons incurring sum of Rs. 2,211 Million and to earn revenue of Rs. 2,911 Million through sales of 6,000 Metric Tons of Fish. However according to the progress reports, only 4264 Metric tons of fish had been purchased incurring a sum of Rs. 1,621 Million and only a sum of Rs. 2,059 Million had been earned through sale of 3914 Metric Tons of fish. Accordingly 35 per cent of targeted requirement of purchasing fish and 65 per cent of sales target could not be achieved. According to the statistics of the Ministry of Fisheries, out of the entire production of 531,310 Metric Tons of Sri Lanka for the year 2017, only 3,914 Metric Tons represented 0.73 per cent had been sold by the

Corporation. As a result the corporation had failed to achieve the main objective of supplying fish in a concession price in order to fulfil the daily fish requirement of customers.

- (ii) Provisions of Rs.350 Million for construction of new cool room complex and modernization of store facilities and Rs. 3 million for computerization of business activities (ERP) of the Corporation had been made during the year under review. However those activities had not been fulfilled during the year under review.
- d) Although it had been planned to make trade partnerships with Cargills, keels Super and Laugfs super during the year under review for selling fish, only one trade partnership had been made with the Cargills.
- e) When preparing annual action plan, expected result, budgeted provision and performance indicators for each activity had not been presented and even though an income of Rs.45 Million had been earned by selling ice cubes in the previous year, the said activity had not been included in the action plan for the year under review.

3.2 Management Activities

The following observations are made.

- a) According to the Section 7.4.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a Senior Management Committee should be appointed by the Board of Directors to evaluate the annual performance. However such Senior Management Committee had not been appointed to evaluate the annual performance. Hence attention had not been paid by the Board of Directors to evaluate the performance of the Corporation. As a result, out of 32 executives selling fish, 28 executives in the year 2014 , 30 executives in the year 2015, 27 executives in the year 2016 had occurred losses and total losses occurred in those years were Rs. 180,538,573 , Rs.138,040,828 and Rs. 68,184,221. All 8 cool rooms had occurred losses as Rs. 33,364,965 for the year 2015 and Rs.17,581,153 for the year 2016 and plans for minimizing losses had not been prepared by the Corporation even up to the end of the year under review.
- b) A volunteer retirement scheme had been implemented in accordance with a Cabinet Decision in order to restructure the Corporation to be a profitable commercialize business and according to the Public Enterprises Circular No.02/2016 dated 18 March 2016, number of 102 employees had got retired on 20 May 2016 incurring sum of Rs. 109,906,261. However necessary plans had not been prepared to achieve the objective of the Corporation to be a profitable commercialize business.

- c) The market share of the Corporation had decreased from 1.1 per cent to 0.7 per cent during the period of previous 6 years and actions had not been taken to look for the reasons affected and to increase the market share. As a result possibility to fulfill the objectives such as acting as an agent for stabilization of prices of fish and keeping high quality consumer services had minimized and it had adversely affected to the going concern of the Corporation.
- d) Although it had been decided in the disciplinary inquiry held against to the Manager of the stores section, on 9 March 2016 to recover the shortage of packing stock amounting to Rs.2,558,028 which was taken place in the year 2011 and done by the responsible officer, the said amount had not been recovered even up to the end of the year under review.
- e) Although disciplinary actions had been taken after a proper disciplinary inquiry against 3 officers charged under the negligence of duties or malpractices taken under the schedule "A" of the series of disciplinary directives of the Ceylon Fisheries Corporation, proper actions had not been taken to recover the outstanding balance of Rs. 13.9 Million recoverable for supplying of fish for hospitals.
- f) An assistant Manager of the corporation who had been charged for 12 irregularities including a financial irregularity of Rs 192,000 in the month of February 2001 and interdicted had been reinstated on 03 September 2001 without being carried out a proper disciplinary inquiry and had been given a chance to participate a foreign training programme as well. Further said officer had been promoted to grade II Executive Manager Post since 3 October 2011 and to grade I Executive Manager post since 20 October 2011 and to cool room manager of the head office since 21 September 2015. However this officer had been dismissed from the post in the year 2016 and actions had not been taken to recover the loss even up to the end of the year under review.
- g) Actions had not been taken to legally transfer the ownership of 15 lands 12.47 Acres in extent which were used by the Corporation in 8 districts.
- h) According to the letter of the National Programme Consultant of the Ministry of Fisheries and Aquatic Resources Development No NPC/1/2/6 dated 6 March 2013 addressed to the Chairman of the Fisheries Corporation, it had been informed that the Trincomalee Fish Stall valued at Rs. 15 Million is to be taken over by the Corporation since 09 March 2013. However actions had not been taken to take over the fish stall even up to October 2018.
- i) According to the stock survey carried out on 31 December 2017 a shortage of trade fish stock of 6940.64 kg was observed comparing the physical stock with the book value. However actions had not been taken to reveal reasons for the shortage and to make recovering from relevant parties even as at October 2018.
- j) An officer who had served as the operation manager of the Corporation and found guilty for 11 charges had been interdicted and had been reinstated since 07 July 2009 and appointed to the post of Manager in 6 executives.

- k) Actions had not been taken by the management to recover the receivable balances and losses of Rs. 8,356,253 and Rs.5,139,900 which had been pointed out in 03 internal audit reports in the year 2015 and to implement relevant recommendations.
- l) Legal actions were being proceeding for recovering outstanding lease rent of Rs. 6,000,000 for the period from January 2011 to November 2013 relating to 2 multi day fishing boats valued at Rs.66,715,516 which were belonged to the Corporation and leased out to a private institute on monthly lease rental of Rs. 200,000 since 20 January 2010. The above mentioned boats had been leased out again in the year 2014 to a lessee who was selected without following competitive bidding process. Further multi day boats had been given to the lessee before signing agreements and actions had not been taken to recover the lease rent of Rs. 1,125,000 relating to the boats for the period from January to September 2014. However these 2 boats had been sold at Rs. 5,626,500 in the year 2016 and as a result, an objective of establishing the Corporation of fishing directly using boats in the sea could not be achieved.

3.3 Operational Activities

The following observations are made.

- a) Frequent changes in the plans of the Corporation and working capital issues due to the surplus of the staff of the Corporation and short term changes of officers of top management posts had mainly affected to continuous losses of the Corporation from the year 2005.
- b) A loan of Rs. 100 Million had been obtained from a state bank in the years 2010 and 2011 for a target of construction of 250 fish stalls up to the end of the year under review without carrying out a feasibility study and a sum of Rs. 38.5 Million had to be paid as interests for the said period. However only 91 sales outlets had been constructed incurring a sum of Rs. 47.2 Million during the period from the year 2010 to the year 2014 and even though 172 sales outlets had been constructed up to the year 2016, 75 outlets had been closed as at 31 December of the year 2017 due to non- availability of sufficient fish and widened roads. Further a huge cost had to be incurred to settle legal issues because the ownership of lands not being obtained before carrying out constructions.
- c) Although importation of fish from foreign countries was a business activity of the Corporation, 535.091 Metric Tons of fish had been purchased at Rs. 309,090,621 from agents of importation of fish during the year under review instead of being imported directly from foreign countries by the Corporation. As a result the Corporation was failed to control the market price of fish in periods of shortage of fish in the market as an objective of the Corporation.
- d) The following observations are made in connection with sale of fish by the Corporation.

- (i) The Corporation was failed to act as a pilot institution for stabilization of price of fish due to actions not being taken to sale fish covering all districts of the Country through agents.
- (ii) Although there were 10 agents for selling fish as at 31 December 2017, number of active agents were only 3. Further actions had not been taken to recover a balance of Rs.1,471,890 older than 10 years from inactive agents as at 31 December 2017 and a sum of Rs. 785,591 should be recovered from 3 active agents as at 31 December 2017.
- (iii) Although the cost can be reduced by selling fish through agents, the Corporation had paid more attention to construct outlets and sale fish for which a high cost method. Further it was observed in audit that operational expenses of the Corporation had increased due to construction of new sales outlets and recruiting new staff.
- (iv) Fishing in the deep sea directly by the Corporation or through agents by using troler boats was a business activity in the establishment of the Corporation. However as a result of which the corporation had failed to carry out such duty and delays in payments for suppliers, the Corporation was unable to buy fish in lower rates.
- (v) Even though there were 50 Lorries with deep freezers belonged to the Corporation, freezer system of 46 Lorries out of that were out of order. Nevertheless those Lorries had been used for selling fish.
- (vi) Purchased fish had been entered in to the stock book without signing good received notes by the Store keeper, Security Officer, Quality Controller, Supervisor and Food Technician. As a result, 5542 kg of fish had become to make dried fish as at 31 December 2017 and a loss of Rs.1, 549,308 had occurred to the Corporation. Further 3244 kg of fish had become to dried fish as at 31 December 2016 and a loss of Rs.920, 068 had occurred to the Corporation.
- (vii) Although fish should be frozen in deep freezers (40 Celsius) before freezing wet fish in the cool room,74961 kg of fish had been purchased from October 2017 to August 2018 without having deep freezers in the Corporation. It was observed in audit that it takes 04 to 05 days period of time to freeze fish in normal cool rooms without having deep freezers and it affects to less the weight of fish and to spoil fish.
- (viii) It had been mentioned in the internal audit report No. CFC/A/S-OP/17-16 issued by the Internal Auditor of the Corporation on 09 November 2017 that in the examination carried out by the Internal Auditor for testing imported swordfish, it had found that 4 kg of ice had included in 100kg of fish. Hence it was observed that the Corporation had paid money for suppliers including the ice weight. Further it was observed that if 3kg of ice include in 100kg of

fish, 16,052kg of ice were included in 535091kg of fish purchased during the year under review. Accordingly the gross value of ice weight was Rs.9, 149,640 and a loss of Rs.9, 149,640 had occurred to the Corporation in purchasing fish with ice. However the attention of the Management had not been paid in this regard.

3.4 Idle and Underutilized Assets

The following observations are made.

- a) A byproduct factory located in Anuradhapura, 7 ice factories in Pollonnaruwa, Rathnapura, Puttlem, Welani, Syndamarudu, Beruwala and Hambanthota, an official residence, a yard of drying fish, a net processing center in Tricomalee, an old yard of drying fish in Mannar and an ice factory located in Pesalei land, 3 parts of container freezers in Baticoloa, Kareipoor land and cool room building in Jaffna, the land and the old circuit bungalow in Kurunagala had remained idle without being used over a period of 2 to 29 years.
- b) According to the internal audit report it was observed that 20 vehicles belonged to the Corporation had remained idle in the corporation premises and executives.
- c) Seven compressors, 13 cool rooms, 4 freezing rooms and 2 condensers had remained idle in Modara, cool room.

3.5 Resources of the Corporation released to other Institutions

Five officers of the Corporation had been released to other 4 government institutions during the year under review and a sum of Rs. 1,662,930 had been paid from funds of the Corporation as salaries and wages.

3.6 Staff Administration

There were 17 vacancies as at 31 December 2017 in 13 posts consists with posts of General Manager, Deputy General Manager, Human resources Development and Administration, Management Procurement, Accountant Costing and Accountant Management in the senior level which were needed to be carried out daily business activities of the Corporation and 35 vacancies of 12 posts in junior level. Such a situation had affected adversely to the administration and performance of the Corporation.

4. Accountability and Good Governess

4.1 Internal Audit

Although there was an internal audit unit consisted with 16 officers in the Corporation, a chief internal auditor had not been appointed. Further attention had not been paid by the management for the matters pointed out by internal audit reports such as purchasing being made over than the prices of the price committee, purchasing being made on credit basis by fraud names, cash books not being updated, and outstanding amount of Rs. 7,846,780 relating to 17 sales outlets, recovering not being made, credit balances of Rs. 11,209,369 and debit balances of Rs. 7,730,607 in metro executive, and actions not being taken to settle those balances.

4.2 Unresolved Audit Paragraphs

- a) The Committee on Public Enterprises had directed to take actions to transfer the right of the land invested in the consolidated business carried out with a private company in the year 2006 due to the fact that the business was inactivated as at the year 2010 and to recover outstanding debit balance of Rs.214.4 Million. However actions had not been taken as per the directives.
- b) A loss of Rs. 47, 359,695 had been occurred in 2 weeks period due to purchasing and selling being made on the approval of then Vice Chairmen deviating the expected prices of the Tuna Project which had been commenced on the Treasury provisions for purchasing surplus fish harvest of fishermen until the ban enacted by the Uropian Union was removed. A complete report in this regard for explaining reasons that the recommendation of the Minister not being discussed with the Board of Directors and feasibility study not being carried out for the Tuna Project had not been furnished to the Auditor General even as at 31 December 2017.

5. Sustainable Development

5.1 Achieving Sustainable Development Goals

According to the letter of the Secretary to the Ministry of State Policies and State Defense No. SP/SG/SDG/17 dated 14 August 2017, All Statutory Institutions should be functioned in accordance with the 2030 Agenda for Sustainable Development adopted by the United Nations and the Lanka Fisheries Corporation had not aware as to how to act with respect of activities under their purview for the year under review. Hence the Corporation had not taken actions to identify sustainable development goals and targets under their purview and achievements for that targets and indicators to measure the achievements.

6. Systems and Controls

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

Areas of Systems and Control	Observation
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(a) Revenue Administration	Recovering of revenue for selling fish in executives was in a feeble condition and actions not being taken to recover the outstanding revenue over a number of years
(b) Budgetary Control	- Approved budget not being presented to audit.
(c) Stock Control	Optimal stock level not being decided, methodology for issuing stocks not being introduced. There were stocks not suitable for consumption. - There were low quality stocks in stores - No proper methodology for issuing fish to the market - Stock of fish suitable for consumption were stored with stocks not suitable for consumption.
(d) Vehicle Utilization	- Additional electricity cost had to be incurred to freeze fish which had not been frozen properly by external parties. - Stocks of fish received to the stores not being assured by Quality Control Officers