

Ceylon Shipping Corporation Ltd – 2015

The audit of the financial statements of the Ceylon Shipping Corporation Limited for the year ended 31 March 2015, comprising the statement of financial position as at 31 March 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and explanatory information 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. In carrying out this audit I was assisted by a firm of Chartered Accountants in Public Practice. A detailed report was issued to the Chairman of the Company on 30 June 2016.

1.2 Management’s Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements 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.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Incorporation of the Company and the ownership

The Ceylon Shipping Corporation Limited had been incorporated as a Limited Liability Company under the companies Act No.17 of 1982. Similarly, this company had been

registered under the Conversion of Public Corporations and Government Owned Business Undertakings in to Public Companies Act No.23 of 1987 and the Companies Act No.07 of 2007. Furthermore, this is a fully owned government Company and the entire shareholding owns by the General Treasury.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Ceylon Shipping Corporation Ltd. as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Winding up of the Subsidiary Company

The Ceylon Shipping Agency (pvt) Ltd which was a Subsidiary Company of the Shipping Corporation Ltd. had suspended its operations in accordance with the decision of the Board of Directors on 20 March 2006 and appointed a liquidators. However, winding up activities had not been completed even by the end of the year under review.

2.2.2 Sri Lanka Accounting Standards

Sri Lanka Accounting Standard 39

Impairment provision in respect of receivable balances comprising bank security deposits, security deposits and 3 advance accounts totaling Rs.2,486,989 remained receivable to the company for periods ranging from 4 to 37 years had not been made in the accounts.

2.2.3 Accounting Deficiencies

Eventhough there would have been a zero balance as at 31 March 2015 in the “Transfer of Fund Account” which was maintained to transfer of funds between bank accounts, there was a payable balance of Rs.2,908,878 as at that date.

2.2.4 Unexplained Differences

There were differences totalling Rs.4,657,971,103 between the balances shown in the financial statements as at 31 March 2015 and the related schedules, relating to 7 items of accounts.

2.2.5 Contingent Liabilities

The Company had agreed to obtain a loan of US\$ 80 million through a State Commercial Bank for the purchase of 2 ships. The Department of Treasury Operations had issued a Treasury Security Bond for 15 years with a grace period of 2 years and 6 months since 26 August 2014 on this loan. The company had arisen a contingent liability to the Treasury in this regard.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Ten debtor balances totalling Rs.162,050,121 remained outstanding for 3 to 17 years had not been settled even by the end of the year under review. Further, confirmations in respect of these balances had not been received.
- (b) An unidentified deposit of Rs.519,516 had appeared since July 2009 in the bank reconciliation statement relating to a bank account of the Company.
- (c) Goods and Services Tax and National Security Levy totalling Rs.21,549,126, said to be over remitted to the Department of Island Revenue by the Company had been shown in the financial statements as statutory receivables. There was an uncertainty in recovering this amount brought forward for about 15 years.
- (d) Debit balances totalling Rs.69,544 in 7 accounts remained since 2012 and credit balances totalling Rs.4,355,641 had remained unsettled even by the end of the year under review.
- (e) Six balances totalling Rs.601,949,080 payable to foreign Trade creditors and foreign agents had not been settled and the confirmations of those balances had also not been received.

2.4 Transactions not Supported by adequately authority

The following observations are made.

- (a) The Company had made a payment of Rs.1,256,119 for the foreign travel expenses and air tickets of 3 officers who were not in the Company's service who had participated in the "Steel Cutting Ceremony" held in a foreign country from 01 September to 13 September 2014 to initiate the preliminary work of 2 ships being built, on behalf of the Company.
- (b) In terms of Public Enterprises Circular No.PDF 58(2) dated 15 September 2011, the monthly allowances payable to the Chairman and the Executive Director of the Company amounted to Rs.60,000 and Rs.45,000 respectively. Contrary to that, Rs.85,000 and Rs.75,000 respectively had been paid.

- (c) Without the Treasury approval, credit card allowances subject to monthly maximum limits of Rs.100,000 and Rs.50,000 had been approved to the Chairman and the Executive Director respectively by the company in the year under review. A sum of Rs.774,048 had been paid by the company on these credit cards during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus of the Company for the year ended 31 March 2015 amounted to Rs.124,942,025 as compared with the surplus of Rs.250,477,673 for the preceding year thus indicating a deterioration of Rs.125,535,648 or 50 per cent in the financial results as compared with the preceding year. Even though the gross profit had increased by Rs.198,576,852, decrease in other income by Rs.120,234,383 and increase in administrative expenses and tax expense by Rs.137,155,480, and Rs.56,321,280 respectively had mainly attributed to this deterioration.

In analyzing the financial results of the year under review and the 4 preceding years, the financial results had continuously improved from 2010/11 to 2014/15 whereas the financial results had deteriorated by 50 per cent in the year of accounts 2014/15 as compared with that of the year of accounts 2013/14. However, in considering employees remuneration, taxes paid to Government and depreciation for non-current assets, the contribution of Rs.117,415,000 in the year of accounts 2010/11 had continuously increased up to Rs.485,953,000 in the year of accounts 2014/15.

3.2 Analytical Financial Review

- (a) Eventhough the operating income had shown an increase as compared with that of the previous year, voyage income and charter hire income obtained on hire basis had decreased by 23 per cent and 100 per cent respectively.
- (b) As 1,859,738 metric tons of coal had been imported during the year under review for the Norochchale Thermal Power Station, the transport income of coal vessals had improved by 54 per cent as compared to the previous year.
- (c) The administration expenses of the Company had increased by 71 per cent as compared to the previous year. Provision made for impirement for the long outstanding debtor balances had mainly attributed to increase this expenditure.
- (d) Significant ratios and percentages for the year under review and the preceding year are given below.

	Year of accounts 2014/15	Year of accounts 2013/14
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Gross Profit Ratio- percentage	78	55
Net Profit Ration -percentage	39	59
Return On Capital Employed - percentage	3	21
Debt collection period- days	684	884
Debt settlement period -days	1922	1222
Long Term Loans Capita Ratio	0.69	0.0019
Loans to Equity Capital Ratio	3.66	0.0034

- (i) The Gross Profit Ratio had increased by 41 per cent in the year under review as compared with the preceding year. Decrease in direct expenses of vessel operations the increase in coal transport income and landing income had mainly attributed to this increase.
- (ii) The Net Profit Ration had decreased by 34 per cent as compared with the preceding year. As the increase in administration expenses due to making impirement provision for more than Rs.138.8 million in respect of trade debtors had been the reason for this decrease.
- (iii) As the company had obtained loans of Rs.4,862 million for the purchase of 2 ships, loans to Equity Capital Ratio and loans to Total Assets Ration had shown improvements.

4. Operating Review

4.1 Performance

In terms of the Memorandum of Association of the Ceylon Shipping Corporation Ltd. the primary objects are as follows.

- To carry on the business locally and internationally as ship owner, ship operators, ship brokers, merchants, shipping agents, ship managers, consultants insurance, passenger and general brokers, ship store dealers and carriers.
- To establish, maintain and operate shipping air transport and road transport service.

- To purchase, sell, charter, hire, build or otherwise acquire ships or other vessels or any other mode of transport with all equipment and furniture and to employ the same on the high seas or on rivers, canals or lagoons in the conveyance and of all kinds of cargoes of dry, bulk, Liquid and gaseous cargo of any kind.
 - To carry on business as tourist agents and contractors and to facilitate travelling and to provide for tourists and travellers or promote the provision of conveniences.
 - To act as agents and managing agents, brokers or in any other capacity for any person firm or company now existing or hereafter to be formed in connection with the business of shipping and multi model transport operations.
 - To acquire concessions or licenses for the establishment and working of lines of ships or sailing vessels or multi model operations between any ports or destination of the world.
 - To carry on business and to facilitate passengers and to provide for tourist and travelers water based recreation facilities and related services.
- (a) Attention had not been paid to achieve certain objectives from key objectives of the company objectives for which less attention had been paid in terms of action plans for the years 2014 and 2015 are summarized below.
- (i) Establish, maintenance and operations of transport services related to ships, air and roads.
 - (ii) Purchasing, selling, hiring, leasing making of multifarious transport methods or acquisition from other methods and transportation of any other type of goods.
 - (iii) Operating businesses as a tourist agent and a contractor supply of transport facilities to tourist or passengers and promotion of related businesses activities.
 - (iv) Provision of water based recreation facilities to passengers and tourists and businesses activities for the supply of related services.
- (b) According to the objectives of the company, the functions of the company had spread over a wider range in respect of sea transportation, cargo operations and other transportation activities. Nevertheless, the company had earned nearly 62 per cent of its total earning from the supply of transport service of coal to a government company.

4.2 Operating Activities

The following observations are made.

- (a) Even though it was planned to give practical training to 100 apprentice mariners with the objective of creating employments in the marine field, the expected targets could not be reached as only 35 persons of them had been given training.

- (b)
- (i) The Cabinet of Ministers had decided on 19 June 2014 that the monopoly to transport coal and crude oil required for the country on the cost basis shipping charges only to be given to the Corporation. Accordingly, only 258,539 metric tons of crude oil had been transported to a Public Corporation during the period from 07 November 2014 to 04 January 2015.
 - (ii) Despite it was planned to transport 1,710,000 metric tons of crude oil during the year 2015 to a Public Corporation, the transport of crude oil had been completely suspended after January 2015. As such, that Corporation had transported crude oil through foreign countries during the year under review. As that, corporation had imported about 1,772,676 metric tons of crude oil in the year under review, the expected objectives from the above cabinet decision could not be achieved. Similarly, a huge income that would have been earned by both the Company and the Government had been deprived of.
- (c) In terms of Public Finance Circular No.415 dated 06 May 2005, it was stated that imports functions of all government institutions should be done through the Company. However, the Company had failed to expand the market opportunities conforming thereto.

4.3 Transactions of Contentious Nature

Without a proper approval, a sum of Rs.2,413,320 had been paid to the Line Ministry to publish a newspaper advertisement relevant to that Ministry on 14 December 2014, by the Company.

4.4 Personnel Administration

The approved and actual cadre of the Company stood at 132 and 115 respectively and the excess staff and vacancies had been 6 and 17 respectively. Action had not been taken to fill the vacancies even up to September 2016.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements, along with the draft annual report should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements for the year under review had been presented to audit on 12 January 2016, but the draft annual report had not been presented even by 30 September 2016.

5.2 Internal Audit

Even though an internal audit unit had been established for the internal audit functions of the company only one officer, except the Chief Internal Auditor had been attached thereto. As such the annual audit program could not be adequately implemented.

6. Systems and Control

Weaknesses in systems and controls observed during the course of audit were brought to the attention of the Chairmen of the Company. Special attention is needed in respect of the following areas of control.

Areas of System and Control

Observations

(a) Financial Control	Existence of unidentified deposits for number of years and checks the validity period of which was elapsed in the bank reconciliation statements.
(b) Information Technology and General Controls	Non-maintenance and non-updating the accounting software (IFS) used by the Company since the date of purchase up to now by the supplier, non-existence of an agreement and this accounting software is not in compliance with the current requirement of the company.
(c) Debtors/ Creditors Control	Weaknesses in the debtors and creditors control.