Magampura Port Management Company (Pvt) Limited – 2015

The audit of financial statements of the Magampura Port Management Company (Pvt) Limited for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other 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. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit.

1.2 Management's Responsibility for the Financial Statements

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 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Magampura Port Management Company (Pvt) Limited as at 31 December 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 Going Concern of the Company

A net loss of Rs.450 million had been sustained by the Company in the year under review and the accumulated loss had increased up to Rs.1,426 million as at 31 December 2015. Moreover, in terms of Section 220(1) of the Companies Act, No. 07 of 2007, the current liabilities exceeding the current assets of the Company amounted to Rs.1,372 million and as such, the Company had been running at a serious loss of capital as well. As such, an uncertainty about the going concern of the Company has arisen.

2.2.2 Accounting Deficiencies

The balance of the Tug Claim Receivables of Rs.28.4 million included in the financial statements of which the recovery is uncertain, had not been supported with third party confirmation. As such, necessary provisions had not been made in the financial statements for any probable future impairment losses.

2.2.3 Unexplained Differences

Unexplained differences of US$ 2,092,400 were observed between the stock balance shown in the books and the physical stock relating to the stocks of bunkering oil.

Category of Oil	Balance according to Books (Metric Tons)	Balance according to the Physical Stock (Metric Tons)	Difference (Metric Tons)	Average Purchase Cost per unit (US$)	Value (US$)
IFO 380	663	1,853	1,190	580	690,200
MGO	14,582	16,140	1,558	900	1,402,200
					2,092,400

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliances
(a) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Section 4.2.2	Even though every Public Enterprise should evaluate the performance and prepare a Performance Report and submit for the evaluation of the Board of Directors, the Company had not carried out such an evaluation and prepared a Performance Report as well.
(ii) Section 5.1.1	Even though every Public Enterprise should prepare a Corporate Plan, the Company had not prepared such plan.
(iii) Section 5.1.2	Even though every Public Enterprise should prepare an Action Plan and submit a detail of work in conformity to that, the Company had not prepared such plan.
(iv) Section 7.2	Even though a Procedure Manual/System should be prepared as a main item of the Administrative Division so as to cover all major operations, the Company had not prepared such an Operating Manual.
(v) Section 7.4.1	Even though the Audit Committee should meet and give recommendations to improve the internal control system and operations of the Company based on the findings by internal audit, there was no Internal Audit Unit in the Company and Audit Committee meetings as well had not been held.
(vi) Section 8.2.2	Even though the concurrence of the Minister of Finance should be obtained for the investment of surplus funds, the Company had not obtained that concurrence for the investment of Rs.251 million made in the year 2015.
(vii) Section 9.3.1	Even though every public enterprise should formulate a proper Scheme of Recruitment for each post and obtain the approval of the line Ministry and the concurrence of the

	Department of Public Enterprises, the Company had not formulated such Scheme of Recruitment and obtained the approvals of the relevant parties for the existing posts.
(b) Guideline 5.4.12 of the Procurement Guidelines 2006	Even though copies of monthly reports on the payment of Value Added Tax should be presented to the Auditor General, copies of monthly reports on Value Added Tax paid during the year under review had not been presented to the Auditor General.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company during the year under review had been a loss of Rs.449 million as compared with the corresponding loss of Rs.983 million for the preceding year thus indicating a decrease of Rs.534 million in the loss for the year under review as compared with the preceding year. The decrease in the administrative expenditure by Rs.501 million as compared with the preceding year had been the main reason for the decrease in the loss.

In the analysis of financial results of the year under review and 02 preceding years, the net profit of Rs.7,991,434 of the year 2013 had deteriorated up to a net loss of Rs.449,754,034 as at the end of the year 2015. However, taking into consideration the employees' remuneration, Government tax paid, depreciation on the non-current assets, impairment losses and losses on foreign currencies, the contribution of the Company amounting to Rs.22,566,878 in the year 2013, had continuously improved and amounted to Rs.215,179,149 by the end of the year 2015.

4. Analytical Financial Review

The following observations are made.

(a) The current ratio of the Company in the year 2013 had been 6.8 and it had been 0.52 in the year 2015 thus indicating a severe deterioration thereof. However, in terms of paragraph 2.2.1 of this report, the possible high risk of issues arising in relation with working capital in the Company in the future cannot be ruled out in audit.

(b) The net profit ratio in the year 2013 had been 27 per cent and it had deteriorated up to a negative value of 29 per cent in the year 2015. As such, that the performance of the Company is not in a satisfactory level cannot be ruled out in audit.

5. Operating Review

5.1 Performance

The Company had been established for the achievement of the following objectives in terms of the Articles of Association of the Company.

(a) Perform duties and functions which are assigned to the Company from time to time by the Sri Lanka Ports Authority and carry out management and operating activities of the Magampura Port.

(b) Develop the Mahinda Rajapaksha Port in Hambanthota as a modern International Sea Port.

(c) Establish an industrial zone within the limits of the Mahinda Rajapaksha Port in Hambanthota.

(d) Supply marine fuel, water and other services to vessels.
Even though establishment of an industrial zone within the limits of the Port in Hambanthota is one of the major objectives, the Company had failed to achieve that objective even by the end of the year under review.

5.2 Management Activities

The following observations are made.

(a) The Company had maintained the operating activities of Interlock Blockings and Crushers which is not included in the above objectives of the Company. As such, a gross loss of Rs.5,375,253 had occurred in the year 2014 and a gross profit of Rs.4,149,757 had been earned in the year 2015 due to those activities and thus indicating a net loss of Rs.1,225,496.

(b) Stock of Bunkering Oil

The following observations are made.

(i) A stock of oil costing Rs.1,841,036,066 had remained idle due to cessation of bunkering operation after April 2015 even without the approval of the Board of Directors of the Company.

(ii) According to the Letter dated 24 June 2016 of the Chairman of the Sri Lanka Ports Authority, insurance claim amounting to Rs.75,340,526 had been received for a stock of 1964.2 Metric Tons of IFO type bunkering oil costing Rs.161,356,712 which was unusable. However, the stock of 14,583 Metric Tons of MGO type bunkering oil costing USD 13.7 million remaining in the stores, was unusable due to the change in colour of that stock already.

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 Company from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Systems and Controls	Observations
(a)	Staff Administration	Failure in obtaining the approval for the Scheme of Recruitment.
(b)	Debtors Control	Existence of unrecovered balances over a long period.
(c)	Internal Audit	Non-establishment of an Internal Audit Unit and failure in carrying out an adequate internal audit according to an Internal Audit Programme.
(d)	Stocks Control	Failure in taking action to identify the unusable stocks and eliminate them.