

Shipping and Aviation Information and Research (Private) Limited - 2015

The audit of financial statements of the Shipping and Aviation Information and Research (Private) 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 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. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board 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 misstatement 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 the 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 The establishment and the ownership of the Company

The Shipping and Aviation Information and Research (Private) Limited was incorporated on 10 July 2009, under the Companies Act No. 07 of 2007. The then Central Freight Bureau had been liquidated and all assets and liabilities belonged to it, were transferred to this Company. However, the entire equity capital of the Company owned by the General Treasury.

1.5 The Liquidation of the Company

While the Company had continuously incurred losses from the year 2012, it had not earned any other considerable operational profit, except the interest income earned from investment on fixed deposits during the year under review. Further, on 31 August 2016, the Cabinet of Ministers had decided to liquidate the Company as further operation of this Company was not meaningful. It had been disclosed by the Note 2.2 of the Financial Statements for the year under review.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Shipping and Aviation Information and Research (Private) Limited 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 Accounting Deficiencies

The following observations are made.

- (a) According to the bank confirmation, the value of fixed deposit as at the end of the year under review, amounted to Rs.27,047,362 but it had been shown as Rs. 26,913,457 in the financial statements, hence the value of the fixed deposit had been understated by Rs .133,905.
- (b) Withholding tax amounting to Rs. 209,937, which was charged on the interest income received during the year under review, had been omitted from the accounts.

2.2.2 Unexplained Differences

Even though the accrued expense amounted to Rs. 578,328, according to the ledger accounts, it had been shown as Rs. 652,184 in the financial statements and as such there was a difference of Rs. 73,856.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Withholding tax amounting to Rs.930,355 withheld on the fixed deposits interest income, by the bank, shown as receivable for a period of more than 03 years in the accounts, had not been recovered up to the end of the year under review and the recoverability had remained uncertainty.

- (b) Two balances totalling Rs.518,333, which had been shown as payable for a period of more than 3 years, had remained without being settled.

2.4 Non – compliance with Laws, Rules, Regulations and Management Decision.

Instances of non-compliance with the following laws rules, regulations were observed.

Reference to Laws, Rules, Regulations	Non- compliance
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(a) Inland Revenue Act No. 10 of 2006 and Circular No. SEC/2014/05 dated 25 July 2014 of the Commissioner General of Inland Revenue.	The Company had not deducted PAYE tax from the Chairman’s Remuneration and it had not been remitted to the Commissioner General of Inland Revenue.
(b) Inland Revenue Act No. 10 of 2006 and the Public Enterprises Circular No. 58(2) dated 15 September 2011.	According to the paragraph 3.1 of the above circular, in the payment of allowances to 06 non-executive directors and three other officers for whom the Company was not their chief employer, 10 per cent of withholding tax (WHT) had not been recovered and remitted to the Commissioner General of Inland Revenue.
(c) Section 7.4.5. of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	Even though an annual physical verification of stock and fixed assets should be conducted, the Company had not conducted annual physical verifications for the financial year 2014/2015.

3. Financial Review

3.1 Financial Result

According to the Financial Statements presented, the loss of the Company for the year under review amounted to Rs.2,071,909 and the corresponding loss for the preceding year amounted to Rs.878,942, thus the financial results had deteriorated by Rs.1,192,967 or 136 per cent for the year under review. As no operating income earned in the year under review and the decline of investment interest income by Rs.1,804,806, had mainly affected for this deterioration.

In analyzing the financial results of the year under review and the 4 preceding years, the Company had incurred continues losses from 2010/2011 to the year under review and the loss had increased annually. However, in considering employees remuneration, taxes paid to the Government and depreciation for non-current assets, the positive contribution of Rs.1,053,517 for the year of accounts 2010/2011, had become a negative value of Rs.656,365 in the year of accounts 2014/2015.

3.2 Analytical Financial Review

The following observations are made.

- (a) While the administration and financial expenses of the Company for the year under review had decreased by 18 per cent as compared with the preceding year, the interest income received on fixed deposits had decreased by 51 per cent, due to the decrease in interest rate from 12.75 per cent to 7.5 per cent, and the realization of a sum of Rs.1,501,142 from the fixed deposits during the year under review.
- (b) The amount of Rs. 30,000,000 invested in fixed deposit as the stated capital of the Company, had reduced up to Rs. 26,913,457 or 10 per cent, by the end of the year under review, due to withdrawal of fixed deposits for incurring the administration and financial expenses of the Company. After being adjusted the accumulated loss, the equity of the Company had diminished up to Rs.25,221,887 or 16 per cent as a result of continuous losses of the Company.

4. Operational Review

4.1 Performance

The main objectives of the Company in brief, are given below.

- Collect, distribute and analyzing data and information and do researches in relation to import and export by sea and air, do the business of promoting such activities, and function as are assign from time to time by the Minister in charge.
- Collect, distribute and analyzing data and information and do researches in relation to travelling by sea and air, do the business of promoting such activities, and function as are assign from time to time by the Minister in charge.
- Collect and distribute data and information in relation to travelling, import and export by sea and air on profit basis.
- Do or undertake the research in relation to Ports, Shipping and Aviation trade on Profit basis.
- Do the business on training and consulting services related to import and export and connected fields.
- Carry on the business of providing training, lectures, seminars, workshops and human resources development programs in connection with above objects.

The following observations are made, with regard to achieve the above objectives.

- (a) Even though, 09 research activities proposed to be conducted at the beginning of the year under review, and 07 research proposals relating to various institutions during the year under review, had been forwarded to the Board of Directors, any of those proposals had not been implemented.
- (b) It was observed that certain research proposals which had been approved by the Board of Directors during the preceding years were extraneous from the objectives of incorporation of the Company. Some such research proposals are shown below.
 - (I) Research on assessing the impact of state development to the general public.
 - (II) Research on the satisfaction of the users of Sri Jayawardanapura Hospital.
 - (III) Research on “Home Stay Concept” relating to the tourism industry.
 - (IV) Checking on consumer satisfaction of users of Bank of Ceylon.
 - (V) Checking on inquiry of public opinion regarding the Presidential Election.
- (c) Even though an advance of Rs.545,000 had been obtained during the year 2013, to carry out a research regarding the improvement of facilities to be existed in the prison, it had not been finished and not issued the report thereon even by the end of the year under review. The Secretary to the Ministry had reported that the research could not be finished due to difficulties in obtaining information from the Department of Prisons.
- (d) The Company had not earned income from any operational activity during the year under review, in view of not setting targets according to an approved annual action plan and not taking action on a plan. Nevertheless, a sum of Rs. 2,361,377 had been paid as salaries and allowances of the staff and the Board of Directors during the year under review.

4.2 **Transactions of Contentious Nature**

A bank overdraft of Rs. 3,000,000 had been obtained by keeping Rs. 26,000,000 fixed deposit as a security, out of the Rs.30,000,000 fixed deposit which had been provided by the Treasury as the share capital of the Company, only on the approval of the Board of Directors. This bank overdraft had been utilized to incur recurrent expenditure and further expenses had been made by withdrawing a sum of Rs. 1,501,142 from the fixed deposits.

4.3 **Personnel Administration**

The following observations are made.

- (a) The approved and actual cadre of the Company was 07 and the actual was 03 and 04 vacancies had existed accordingly.

- (b) Although the prime objective of the company is collecting information, distribution and doing researches relating to sea and air transportation. The Company had failed to recruit a research officer, approved for this purpose, even by the end of the year under review.

4.4 Build up of a Fund for employees Gratuity

The Company had not implemented an investment plan for the payment of gratuities for future commitments.

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 11 October 2016, after more than 16 month delay and the draft annual report had not been presented even up to 31 December 2016.

5.2 Corporate Plan and Action Plan

Even though a Corporate Plan prepared for the next 3 years, should be forwarded to the approval of the Secretary to the Ministry with the concurrence of the Board of Directors, according to the Public Finance Circular No. 01/2014 of 17 February 2014, the corporate plan for the period of 2014-2017 and the Action Plan for the year 2014/2015 had not been approved by the Board of Directors even by the end of the year under review.

5.3 Audit and Management Committee

Even though the Audit and Management Committee should meet at least once in three month, in terms of Public Enterprises Circular No.PED/55 dated 14 December 2010 only three Audit and Management committee meetings had been held during the year under review. Nevertheless, it was a problematic position whether the expected responsibilities relating to the internal control, financial and operational management, had been fulfilled from the above committees.

5.4 Internal Audit

Even though an officer in an outside institution had been recruited and paid Rs. 5,000 per month, on the Board Approval, an internal audit had not been carried out in accordance with a formal audit program.

6. **Systems and Controls**

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

Areas of System and Control	Observations
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(a) Accounting	Non-maintenance of primary books, records and journal entries properly.
(b) Human Resources Management	Non-filling of vacancies.
(c) Balances of receivables and payables	Non- settlement of receivable and payable balances.
(d) Control of Operation	Non- availability of Performance in accordance with the objective of the Incorporation of the Company.