

## **Sri Lanka Ports Management and Consultancy (Pvt) Ltd - 2017**

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The audit of the financial statements of the Sri Lanka Ports Management and Consultancy (Pvt) Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the comprehensive income statement, the 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 provision in Article 154 (1) of the Constitution of Democratic Socialist Republic of Sri Lanka. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit. My observations on the operations of the Company for the year under review which I consider should be tabled in Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium Scale Enterprises 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**

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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. 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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of 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 Basic for Qualified Opinion**

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My opinion is qualified based on the matters given below.

- (a) According to the Section 17.19 of the Sri Lanka Accounting Standard Paragraph 17 for Small and Medium scale Enterprises disposal value, useful lifetime of the assets and depreciation method be evaluate and adjustments should be made in annually but action had not been taken an fixed assets costing Rs.7,128,398 like that.
- (b) Payment vouchers and supporting documents had not been presented to audit in connection with expenditure made during the year ended 31 December 2017 totally value of Rs.8,203,085.
- (c) Every institution should be prepared the financial statements as per accrued basis according to the section 2.36 of the paragraph 2 of the Sri Lanka Accounting Standards for Small and Medium Scale Enterprises. But contrary to that for the lease rent income the company had follow up the cash basis instead of accrued basis lease rental income (Galle Face Green) for the year under review had been under calculated by Rs.3,041,330 in the financial statements.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in Paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Ports Management and Consultancy (Pvt) Ltd as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, for Small and Medium Scale Enterprises.

#### **2.1.1 Report on other legal and Regulatory Requirements**

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As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the following.

- (a) The basis of opinion and the scope and limitations of the audit are as stated in this report.
- (b) In my opinion I have obtained all the information and explanations that were required for the audit subject to matters described in the paragraph of basis for qualified opinion and as far as appears from my examination, proper accounting records have been kept by the Company, the financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No.07 of 2007.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Unexplained Differences**

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The following observations are made.

- (a) According to the financial statements as at 31 December 2017 of the company the stock balance was Rs.960,017 and the balance as per the physical verification reports

as at that date the stock balance was Rs.238,376 thus observing a difference of Rs.721,641.

- (b) According to the computerized (quick book accounting package) cash book as at 31 December 2017 balance of the bank overdraft was Rs.5,680,645 and according to the cash book balance of the bank overdraft was Rs.7,714,245. However, on the reasons of the bank reconciliation statement had been prepared based on the balance of the computerized cash book a difference of Rs.2,033,600 was observed between the balance of the cash book and the balance based for the preparation of bank reconciliation statement.

### 2.2.2 Lack of Evidence for Audit

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Tax certificates had not been presented for audit in respect of receivable withholding tax amounting to Rs.1,701,936 in reason of that the correctness of the balance could not be confirmed in audit.

### 2.3 Accounts Receivable and Payable

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- (a) It had been agreed to pay Rs.400,000 per month by letter No.ME/TDRS/2015 dated 27 September 2016 by the Colombo Municipal Council to the Ports Authority in connection with vehicles park at the premises of Galle Face. Therefore fees amounting to Rs.2,000,000 for the year 2016 and a sum of Rs.2,800,000 for the year under review the company had been accounted as a receivable balance from the Sri Lanka Ports Authority. Nevertheless the ports Authority not agreed to pay that amount to the company, it was observed that collecting of that amount it undetermined.
- (b) The income and expenditure of the Galle Face premises had been recorded in a same ledger account a debit balance of Rs.470,545 had remained in that account as at 31 December 2017. However, it had not been identified by the Company in clearly from which party it should be collected.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Section 9 of the agreement entered into with the Sri Lanka Ports Authority on 15 September 2016 for the Administration, Maintenance and Management of Gall Face Green.	Even though a written report on the financial functions of the year should be submitted through the Company Auditors before 31 January of the ensuing year after the end of each year to the Ports Authority, such report had not been submitted in respect of the year under review.
(b) Public Finance Circular No.01/2014 of 17 February 2014 paragraph 05.	Action plan had not been prepared as per the circular.

(c) Public Enterprises Circular  
No.PED/12 dated 02 June 2003

(i) Section 4.2.2

The performance reports had not been reviewed by the Board of Directors periodically.

(ii) Section 7.4.1

The audit committee should meet and give its recommendation on the matters find out by the internal audit of the company in connection with internal control system of the institution and to improve the operational activities nevertheless the company had not implement a internal audit section in the company and had not held audit committee meeting also.

(iii) Section 7.4.2

Even though, Senior Management Committees should meet in periodically in connection with administration of the institute, in order to operational and other issues making decisions and to implement the follow up actions the above committee had not met in the year under review.

(iv) Section 7.4.5

Even though, annual board of surveys should be appointed and conducted to verify fixed assets and stocks belonging to the Company, fixed assets costing Rs.7,128,398 and the stock valued at Rs.960,017 had not been verified at the end of the year under review.

(v) Section 9.3.1

Every public institution should prepare a scheme of recruitment for every post and the approval of the line ministry and concurrence of the Department of Public Enterprises should be obtained but the company had not prepared such scheme of recruitment and approval of the relevant parties had not been obtained by the Company.

(d) Public Enterprises Circular  
No.PED1/2015 dated 25 May  
2015 and PED1/2015 (i) Section  
3 and 3.3

(i) Contrary to limits in circular totalling a sum of Rs.300,000 had been overpaid as fuel allowances to two officers for 6 months in the year 2017.

(ii) Transport allowance should be paid HM 1-1 Grade or salary scale entitle above grade officer however contrary to that an officer who hold

a management post not approved and identified in positively transport allowance amounting to Rs.240,000 had been paid in the year 2017.

- (e) Section 2.4.2 (B) of financial procedure introduced for the control of the payment of petty cash of the Company.

Payment of petty cash should be done by the petty cash payment vouchers but payment of petty cash made during the year 2017, the relevant vouchers, had not been used. In the reason of that approval for the payment, correctness not confirmed in audit.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Company for the year under review had resulted in a profit of Rs.11,049,281 as compared with the corresponding profit of Rs.12,062,371 for the preceding year thus indicating a decreasing of Rs.1,013,090 or 8 per cent was observed.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **Objectives**

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Main objectives of the Sri Lanka Ports Management and Consultancy (Pvt) Ltd include facilitating for the localization of vessels arrive at the sea limit belonging to the Port outside the Sri Lanka Ports Authority premises, supply of probationary services associated with cargo loading and unloading, supply of equipment, regularization and control of port traffic congestion, wharf functions, performance of warehouse functions and recovery of charges therefor, keeping records of all such activities and undertaking all related operational administrative, supervisory and control functions.

## **4.2 Management Activities**

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Following observations are made.

- (a) An advance for bonus had been paid by the Company on 10 April 2018 for each officer per Rs.74,042 amounting to Rs.956,436 based on identified profit before tax amounting Rs.18,516,768 for the year 2017. Nevertheless, according to the financial statements presented on 16 October 2018, the profit before tax was Rs.10,297,402 because of that the correctness in calculation of bonus had problematic to audit.
- (b) Action had not been taken to recover a sum of Rs.5,901,323 receivable from the Sri Lanka Ports Authority since the year 2015 as expenses on building modernization and Compensation money amount of Rs.1,013,472 and approval had been given for 100 per cent provision as per the Board decision No.SLPMC/21/2018 dated 04 July 2018.
- (c) Sufficient disclosures had not been made in connection with 2 cases filed against to the Company.

## **4.3 Personal Administration**

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A pensioner's age exceed over 60 years could not be engage in service further without more than 06 months under the very special conditions as per the Public Administration Circular No. 24/2011 issued by the Ministry of Public Administration and Home Affairs. Nevertheless 09 officers who retired working in the Ports Authority as at 30 July 2018 had been reinstated for the service of the Ports Authority through Sri Lanka Ports Management and Consultancy Services (pvt) Ltd. It was observed 08 officers out of them had been entist in first on contract basis for the period of one year and after that service had been extended for the period of 01 year to 11 years. Thus a sum of Rs.4,664,168 had been paid as salaries and allowances during the year through the company for the 07 officers who were in service in the year 2017.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 financial statements and the draft annual report should be presented to the Auditor General within 60 days after the closure of the year of accounts. Nevertheless, the financial statements and Draft Annual Report for the year 2017 had been presented to the Auditor General on 16 October 2018.

### **5.2 Budgetary Control**

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A budget should be prepared and used it as an instrument of management control, a budget had not been prepared conforming to the Corporate plan and action plan for the year under review by the Company.

## 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company. Special attention should be needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Human Resources Management	Approval had not been obtained for the recruitment procedure.
(b) Internal Audit	An internal audit section had not been established and internal audit had not been carried out as per a audit programme.
(c) Inventory Control	Maintaining of stock records were irregular.
(d) Receivable balances	Necessary actions had not been taken to collect the receivable balances.