

Magampura Port Management (Pvt) Ltd. - 2019

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Magampura Port Management (Pvt) Ltd for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in the paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer of opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations in connection with preparing of financial statements.

1.5.1 Non Compliance with Sri Lanka Accounting Standards.

Non - compliance with reference to the relevant standard	Management comment	Recommendation
According to the paragraph 33 of the Sri Lanka Accounting Standard 07, even though the interest income received on fixed deposits during the year under review amounting to Rs. 40,752,458 should be shown as a cash flow generated from investing activities, it had been shown as a cash flow generated from finance activities.	Agreed. This was included in the financial statements for the year 2020 correctly.	Actions should be taken by the management according to the Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Management comment	Recommendation
Fixed assets at the carrying value of Rs. 619,031 stock valued at Rs. 12,430,943 and cash in hand amounting to Rs. 173,727 which had been shown under the assets of the financial position statement had not physically existed. A provision also had not been made in the financial statements for this loss amounting to Rs. 13,223,704. Therefore it was observed that annual or cumulative loss must be overstated in the same amount. An investigation had not been carried out to ascertain the reasons for non-availability of assets shown in the financial statements physically and to ascertain individuals who should be fixed the responsibility. It was further observed that adequate actions had not been taken by the Management for the security of assets.	These stocks are not available physically at present in the Institute. Actions will be taken to make an impairment provision for the said stock in future. Actions will be taken by the Management to recover all the receivables which should be recovered to the Company. The petty cash imprest is not available physically.	Appropriate steps should be taken by the Management to secure the assets and the Management should take the responsibility of losses and damages.

1.5.3 Going concern of the Organization

Audit Observation

The cumulative loss of the Company as at 31 December 2019 was Rs. 2,999,501,623. The net assets of the Company as at the date were Rs. 2,924,501,625 reflecting a minus value. The operational activities of the Company has been ceased since 13 November 2017 and the Board of Directors had decided to liquidate the Company on 15 February 2018. However a Liquidator had not been appointed even up to 15 March 2021.

Management comment

The Magampura Port Management Company had been established under a Cabinet approval and therefore the Company decided that a Cabinet approval should be obtained for the liquidation of the Company. Hence the Sinhala and English versions of the Cabinet Paper were submitted already to the Secretary to Ministry to obtain necessary Cabinet approval in this regard. Other necessary actions will be taken as soon as the Cabinet approval receives.

Recommendation

Responsible officials should take actions to implement the liquidation process as it had been decided to liquidate the Company.

1.5.4 Non availability of evidence for audit

Item	Amount	Evidence not available	Management Comment	Recommendation
Bank loan balance – Hatton National Bank	Rs. 4,190,556,780	Letters of balance confirmations	Not replied	Actions should be taken to solve the issues having discussions with the bank.
Balance receivable from the Government	Rs. 17,782,563	Source documents, Letters of confirmations, Age analysis reports and other supporting documents	Not replied	Actions should be taken to submit evidence to audit.
Receivable balance for Oil insurance of ships	Rs. 28,040,453		Not replied	Actions should be taken to submit evidence to audit.
Balance receivable from trade debtors	Rs. 3,589,879		Not replied	Actions should be taken to submit evidence to audit.
Balance relating to other payables	Rs. 15,591,171		Not replied	Actions should be taken to submit evidence to audit.
Bank Payments	Rs. 34,518,489	Payment vouchers and supporting documents.	Actions will be taken to submit the documents relating to the year 2018 as	Actions should be taken to submit relevant payment vouchers to audit.

soon as possible to audit. Documents relating to the year 2018 are assumed to be missing during a transfer. However actions will be taken to search for the said documents and to submit to audit. Actions were taken already to communicate to obtain the copies of cheques relating to those payments from the bank.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation

According to the financial statements of the Company for the year 2019, even though a sum of Rs. 103,666,952 had been shown as at 31 December 2019 as receivables from the Sri Lanka Ports Authority which is the related party, a sum of Rs. 98,938,252 had been shown in the financial statements of the Sri Lanka Ports Authority as payable to the Company. Accordingly a difference of Rs.4,728,700 was observed. Actions had not been taken to come to an agreement regarding this difference having a discussion with the Sri Lanka Ports Authority. Compensation for tug boats amounting to Rs.25,719,981 management service charges amounting to Rs.76,547, 854 and Rs. 1,399,115 for 11,449 liters of petrol and diesel which had been issued from the filling station located in the premises of the Management Company to the vehicles belonged to the Sri Lanka Ports Authority had been included in the above balance which should be recovered from the

Management comment

Not replied.

Recommendation

The possibility of recovering the receivable balances of which the balance confirmations had not been received should be sought out and actions should be taken by the Management to make impairment provisions as per the accounting standard.

Sri Lanka Ports Authority since the year 2017 and it had not been received to the Company even up to 15 January 2021. Further balance confirmations for the said receivable balance had not been submitted to audit.

1.6.2 Payable Accounts

Audit Observation

A sum of US\$ 24,002,438 equivalent to Rs. 3,144,178,059 had been taken by the Company as a loan from a local private bank for purchasing oil for ships in the year 2014. However according to the financial statements, the total interest payable including the interest for the year 2019 amounting to Rs. 188,938,122 was Rs.770,994,463. Accordingly, as per the financial statements as at 31 December 2019, the payable amount including the payable loan and the interest was US\$. 23,071,433 equivalents to Rs.4,190,556,780. Even though balance confirmations had been called by the Company regarding the said balance on 23 September 2020, the balance confirmations had not been submitted by the relevant bank. Hence the accuracy of the said balance was uncertain. Further any payment had not been made by the Company in the year 2017 or in the years after that for the loan or interest. Nevertheless a law suit against the Company had been filed in the year 2020 by the bank to recover the said loan and it has been proceeded. However disclosures had not been made in the financial statements in this regard.

Management comment

Agreed.
About the law suit filed by the relevant bank against the Company in the year 2020 will be disclosed in the financial statements for the coming year.

Recommendation

Actions should be taken as per the Court decision.

1.7 Non Compliance with Laws, Rules, Regulations and Management decisions.

Reference to the laws, rules, regulations etc.	Non – compliance	Management comment	Recommendation
(a) Section 6.5.1 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003.	The draft annual report and the financial statements should be submitted to the Auditor General within 60 days of the close of the financial year. However the financial statements of the Company for the year 2019 had been submitted to the Auditor General on 06 January 2021.	A new Board of Directors including a new Chairman and a Managing Director were appointed since July 2020. Further the service of the Finance Manager who worked in part time basis was ended by 31.12.2019 and the new appointment was made on 13.08.2020. After the said appointment taken place, accounts for the year 2019 was prepared and was submitted properly after obtaining the approval of the Board of Directors.	As per the circulars, actions should be taken by the Management to submit the financial statements to the Auditor General without delay.
(b) Section 2.2 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015.	(i) Recommendation of the Secretary of the Line Ministry and the approval of the Finance Minister should be obtained for the payment of monthly allowances to the Chairman of the government-owned subsidiaries. However a sum of Rs. 1,500,000 had been paid during the year 2019 as monthly allowance of Rs. 125,000 to the Chairman by the Company which had been decided to liquidate without obtaining the recommendations as mentioned above.	Monthly allowances for the Chairman and the allowances for the Board Meetings of the Company had been paid with the approval of the Board of Directors.	Actions should be taken to recover the money which had been paid without a proper approval.

- (ii) According to the said circular, the Company was included into the “F” category and recommendation and the approval should be obtained to pay allowances for the meetings of Board of Directors as mentioned in the above i. Accordingly, as per the categories from A to E mentioned in the circular, the highest allowance for meeting amounting to Rs 12,500 should be paid for the public enterprises in A grade. In such a background, even though the Company which was not in operation was included to the F grade, contrary to the circular, a sum of Rs. 1,225,000 had been paid for 9 meetings held during the year 2019 as Rs.25,000 per each member of the Board of Directors as allowance for attendance by the Company and Rs.650,000 had been paid for 6 meetings held during the year 2018 as well.
- Monthly allowances for the Chairman and the Board Meetings of the Company had been paid with the approval of the Board of Directors
- Actions should be taken to recover the money which had been paid without a proper approval.

1.8 Non-compliance with Tax Regulations

Audit observation

According to the financial statement as at 31 December 2019, the receivable balance of retaining tax was Rs. 5,037,187 and out of the said amount, tax certificates relating to Rs. 3,021,258 had not been presented to audit. As a result, the possibility to get deducted the balance of retaining tax mentioned above is uncertain when paying income tax.

Management Comment

Certificates for retaining tax for previous years were not given by the bank

Recommendation

Actions should be taken to come to a final solution after discussing with the Department of Inland Revenue.

2 Financial review

2.1 Financial result

The operations of the Company for the year under review had resulted a loss of Rs. 128,503,752 and against to it the loss of Rs. 801,559,524 for the previous year. Accordingly decrease of loss by Rs. 673,055,772 was observed. Non availability of operating income due to ceasing of operations of the Company since 13 November 2017 on a policy decision taken by the government and addition of interest expenses on loans had mainly affected to the loss remained further.

2.2 Analytical review of main income and expenditure items

	2019	2018
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	(Rs)	(Rs)
Income	-	-
Direct expenses	-	(6,805,801)
Administration expenses	(7,191,239)	(41,722,417)
	-----	-----
Operating Profit/ (Loss)	(7,191,239)	(48,528,218)
Net financial cost	(148,185,664)	(194,055,646)
Foreign exchange Profit/(Loss)	26,873,152	(558,975,660)
	-----	-----
Net Profit before Tax	(128,503,752)	(801,559,524)
Income Tax	-	-
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Net Profit after Tax	(128,503,752)	(801,559,524)
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The following observations are made.

- i. Income had not been received to the Company from its operating activities during the years 2018 and 2019 due to the fact that the operating activities of the Company had been ceased on 13 November 2017.
- ii. The foreign exchange loss in the year 2018 amounting to Rs. 558,975,660 had become to a foreign exchange profit of Rs. 26,873,152 during the year under review.

2.3 Ratio Analysis

	2019	2018
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Current assets ratio	1:3.29	1:3.23
Quick assets ratio	1:3.32	1:3.27
Operating profit ratio	-	-

The current ratio and the quick assets ratio for the year 2018 were 1:3.23 and 1:3.27 respectively and it had increased as 1:3.29 and 1:3.32 respectively as at the end of the year under review.

3. Operating Review

3.1 Transactions in Contentious Nature

Audit observation	Management Comment	Recommendation
<p>(a) Disputed situation in 2018 when the company's employees were compensated and removed had been concluded on the Industrial Arbitration decision No. A/37/2017 of Colombo Industrial Court and the conciliation agreement entered into between parties on 02 February 2018. According to the condition No. 18 (b) of the settlement agreement it had been agreed to make payments before 28 February 2018, if outstanding overtime payments for November 2017 and /or outstanding salaries up to January 2018 should be paid. However contrary to the said conditions agreed other allowances of Rs. 12,211,073 had been paid to the employees by the Company as travelling expenses, accommodation allowances, performance allowances and vehicle allowances relating to December 2017 and January 2018 even though the Company was not in operation. This had been pointed out by the audit reports for the years 2017 and 2018. However actions had not been taken by the Management and other responsible parties to investigate the relevant matter and to identify and to recover overpayments from responsible parties.</p>	<p>The Management who held the position at that time had participated to conciliation discussions. The conditions for payment of outstanding salaries of the employees were shown under 18 "A" and "B" of the said settlement conditions. The basis on which those terms were agreed upon is as follows.</p> <p>All the employees were informed to leave the premises on 29 November 2017.</p> <p>It was agreed to pay overtime allowances specially for the month of November due to the fact that overtime allowances and salaries relating to the working period of November were not paid up to that time.</p> <p>Ninety seven percent of the basic salary of the majority of minor employees was in a range between Rs. 12,000 to Rs. 20,000. Therefore the performance allowance was paid to all employees as a permanent allowance since the commencement of the Company.</p> <p>Further, fuel, transport, accommodations etc. were paid only for 07 officers in the middle and top management. Instructions were given to those</p>	<p>Actions should be taken to adhere to the settlement conditions when paying compensations. If there is any payment which had been made contrary to the said conditions, the Management should take actions to recover that money from the officials who should be responsible for those payments.</p>

employees to continue the service for maintaining other activities of the Company. Even though operations of the Company with employees more than 360 was ceased at once, employees should be available to represent the institute for activities relating to removing of employees, discussing about compensation, handing over assets, removing of documents etc. All the salaries should be paid to them because those employees served for the institute up to 31.01.2018 as they have done before.

- (b) In a strong internal control system, all payment vouchers should be arranged according to serial numbers and kept securely. Further the officer in charge of vouchers should be responsible for completing and preparing of all the vouchers for audit. However 104 payment vouchers valued at Rs. 29,975,094 relating to the year 2017 and 19 payment vouchers valued at Rs. 4,543,395 relating to the year 2018 had not been made available to audit even up to 15 March 2021.
- Actions will be taken to submit documents relating to the year 2018 as soon as possible. Further it is assumed that documents relating to the year 2018 had misplaced at a time of changing the place. However actions will be taken to find out and to submit those documents to audit and actions were taken in writing to obtain copies of those cheques from the bank.
- Disciplinary actions should be taken against the officials who had not taken actions to keep the documents and assets of the Company properly and formally when leaving the premises.