

Magampura Port Management Company (Private) Limited - 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Magampura Port Management Company (Private) Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, 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

My opinion is disclaimed based on the matters described in 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 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 Public Sector 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 intend 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 Sub-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 Scope of Audit (Auditor's Responsibility for Auditing the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company,
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
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(a) According to Section 33 of the Sri Lanka Accounting Standard 07, in the preparation of cash flow statements, the interests received upon the fixed deposits should be stated as a cash flow generated from the investment activities. Nevertheless, the interest income of Rs.30,472,055 received by the company during the year under review had been stated as a cash flow generated from the financial activities.	Agreed. Action will be taken to correct this error in future.	Management should take steps in accordance with the Accounting Standards.
(b) In terms of Sections 09 and 12 of the Sri Lanka Accounting Standard 36, as the operating activities of the company had been discontinued, it should be verified as to whether any impairment exists relating to the Property,	Agreed. With the leasing out of the Magampura Port Management Company (Private) Limited to a China company, all the document files and plants and	Management should take steps in accordance with the Accounting Standards.

Plant and Equipment of the company costing Rs.1,144,830 and necessary adjustments should be made accordingly. Nevertheless, the company had not fulfilled the above requirement.

machinery remained therein were brought to the Mahapola Institute of the Sri Lanka Port Authority. A deputy manager of the Sri Lanka Ports Authority who was in charge of the above items stated that only a small printer remained in the Mahapola Institute out of the items thus brought to the Institute. As there is no Managing Director at present, appropriate measures in this connection will be taken in future once a new management is appointed.

1.5.2 Accounting Policy

Audit Observation

Comments of the Management

Recommendation

According to the Note No.2.7 of the financial statements, it had been stated that the stocks owned by the company would be shown at the cost or net realizable value, whichever is less. Nevertheless, for the substantiation of stocks worth Rs.12,430,943 according to the financial statements, a physical verification had not been carried out as at 31 December 2018.

Agreed.
As the company physically lacked the stock value of Rs.12,430,943.00, a decision was reached at the Board of Directors meeting held on 16.8.2019 to write off that value from the financial statements. Accordingly, a letter was referred to the Finance Ministry on 30.10.2019 through the Secretary to the Ministry in order to write off this receivable amount and the stock value. Further, the matters on interlock blocking, crusher chips stocks & fuel stock had been dealt with by the Sri Lanka Port Authority at the

Stock verification reports as at the end of the year should be obtained and necessary adjustments should be made to the stock balances accordingly.

discussion held on 20.11.2019 and it is appropriate to further enquire this matter from the Port Authority.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Although a sum of Rs.54,000 received on 26 March 2018 and Rs.200,000 received on 11 August 2018 by the Peoples' Bank as the direct remittances had been credited in the bank statement, without being correctly recognized, that money had been credited to other expenditure account. As a result, other expenditure account had been understated by Rs.254,000.</p>	<p>Agreed. As any source/subsidiary document relating to the above direct remittances could not be found, those direct remittances were credited to other expenditure account. According to the documents received subsequently, it was recognized that the above direct remittance of Rs.200,000 was a cheque deposited by the officer functioned in the capacity of the Secretary of the Company.</p>	<p>Money received by the bank should be correctly recognized and brought to account.</p>

1.5.4 Going Concern of the Company

Audit Observation	Comments of the Management	Recommendation
<p>(a) Operating activities of the company had been discontinued from 13 November 2017 and the Board of Directors had decided to liquidate the company on 15 November 2018. Nevertheless, activities relating to the liquidation of the company had not been initiated even by 20 November 2019. The Director Board and 07 officers of the</p>	<p>A decision has been reached at the Board of Directors meeting held on 19 July 2018 that activities relating to the winding up of the company should be carried out through the Sri Lanka Port Authority. Further, by referring two letters dated 12.3.2018 and 10.8.2018, the Chairman of the Magampura</p>	<p>As a decision has been taken to liquidate the company, the responsible officers should take steps to expedite such activities.</p>

company had been employed even as at that date. The accumulated net loss of the company as at the end of the year under review was Rs.2,871 million and the value of net assets of the company as at that date was a negative value of Rs.2,795.

Port Management Company had informed the Chairman, Sri Lanka Port Authority to take immediate action in this connection. Accordingly, responsibility on the liquidation of the company resets with the Sri Lanka Port Authority.

- (b) The company had obtained a loan of Rs.3,144,178,059 equivalent to US\$ 24,002,438 from a local private bank in the year 2014 to purchase bunker oil and according to the financial statements, the total payable loan balance inclusive of the interest of Rs.224,527,701 for the year 2018 amounted to Rs.4,025,917,925 equivalent to US\$ 22,029,646. The relevant bank had not substantiated this loan balance by the balance confirmation letters and as such, there was an uncertainty on the accuracy of this balance. Further, the company had not settled any installment or interest during the year 2018. Similarly, it was observed that the assets of the company were inadequate to settle this loan and an arrangement was not with the company to settle the loan.

Agreed. Top level discussions have been conducted with the relevant bank with respect to settlement of the loan.

Management should take steps to come into a conclusion on the loan and interests in consultation with the relevant private bank.

1.5.5 Lack of Documentary Evidence for Audit

Evidence indicated against the following each item had not been furnished to Audit.

Item	Amount Rs.	Evidence not furnished	Comments of the Management	Recommendation
HNB- Balance	Dollar 23,266	Balance confirmation letters	Hatton National Bank refused to furnish balance confirmation	Action should be taken to solve the issues in consultation with

				letters.	the bank.
HNB-Balance	Loan	3,440,570,990	Balance confirmation letters	Hatton National Bank refused to furnish balance confirmation letters.	Action should be taken to solve the issues in consultation with the bank.
Amount due from the Hambantota International Port Services Company.		17,782,563	Balance confirmation letters, subsidiary documents and age analysis reports.	The amount due from the Hambantota International Port Services Company is Rs.17,782,563. A decision was taken at the Board of Directors' meeting held on 16.08.2019 to write off this receivable amount from the books	Management should take steps to recover the funds receivable to the company without delay.
Balance receivable for bunkering oil		28,040,453	Balance confirmation letters, subsidiary documents and age analysis reports.	Action will be taken to write off this balance from the financial statements in future.	The management should take immediate action to ascertain the reasons attributed to the delays caused in the recovery of dues and to recover the dues.
Other Debtors		3,589,879	Balance confirmation letters, subsidiary documents and age analysis reports	The other debtors amounted to Rs.3,589,879 . Action will be taken to write off this amount from the financial statements in future.	The management should take immediate action to ascertain the reasons attributed to the delays caused in the recovery of dues and to recover the dues.
Other payables		15,591,171	Balance confirmation letters, subsidiary	The other payables amounted to Rs.15,591,171. This amount	As additional charges may be levied when delaying payments

documents and age analysis reports included unclaimed compensations of the employees amounting to Rs.14,323,749 and expenditure allocated for the other payables as at the end of the year. included an for the payables by the company, management should take action to pay relevant payables without delay.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) In terms of the financial statements, the receivable Withholding Tax balance as at 31 December 2018 amounted to Rs.3,021,258 and tax certificates relating to these Withholding Tax were not furnished to Audit. Similarly, according to the preceding year's financial statements, the receivable Withholding Tax balance as at 31 December 2017 amounted to Rs.2,985,789. Since the operating activities of the company have been stopped at present, there is an uncertainty in deducting the above withholding tax amount in the payment of income tax.	Agreed. As any operating activity had not taken place in the year 2018 and any income was not generated, there is no liability on tax.	Management is responsible for taking necessary steps on the balance.

- (b) In terms of financial statements of the company, the balance receivable from the Sri Lanka Port Authority was Rs.103,666,952 as at 31 December 2018. Nevertheless, according to the financial statements of the Sri Lanka Port Authority, the balance payable to the company as at that date amounted to Rs.71,819,156. Accordingly, a difference of Rs.31,847,796 was observed. Similarly, balance confirmation letters had not been presented to Audit in respect of a balance of Rs.37,648,717 of the above receivable balance. An uncertainty was observed regarding the receipt of Tug Trawler compensation of Rs.25,719,981 included in the above unconfirmed balance, whereas provisions for impairments had not been made in the financial statements thereon.
- A balance confirmation letter has been sent informing that the Sri Lanka Port Authority is required to pay Rs.66,018,234.45 to the Magampura Port Management Company. This Rs.66 million has been shown without tax and our company has shown this amount inclusive of tax. Accordingly, the value inclusive of tax is Rs.76,547,855. Further, this balance includes fuel expenses of Rs.1,399,116 payable by the Sri Lanka Port Authority and compensation of Rs.25,719,981 of the passenger transport vessels.
- The management should look into the possibility of receiving or not receiving the balances receivable for which balance confirmations were not presented and make provisions for impairments in terms of the accounting standards.
- (c) For a vessel arrived at the Hambantota Port on 22 June 2014, 102.42 metric tons of IFO 380 fuel at the invoice value of US\$ 63,500 had been sold and the relevant shipping agency had paid US\$ 47,870.40 of the above amount to the Magampura Port Management Company. Nevertheless, the company had not received the balance sum of US\$ 15,630 or Rs.2,396,079 even by 31 December 2018. However, the company had made provisions for doubtful debts in respect of that total amount receivable as at 31 December 2018.
- Agreed. Management should take steps to recover the dues or take other suitable steps in consultation with the relevant shipping agency.
- Action will be taken to obtain approval to write off this balance from the financial statements in future.

- (d) The relevant amount due for the 11,449 liters of diesel and patrol valued at Rs.1,399,115 issued to the vehicles of the Sri Lanka Port Authority from the fuel station located at the premises of Marampura Port Management Company relating to the period from March to December 2016, had not been reimbursed from the Sri Lanka Port Authority up to 31 December 2018.
- Agreed. Sri Lanka Port Authority will take steps to make payments for the volume of fuel approved and recorded in the Port Authority.
- Management should take steps to recover the amounts receivable to the company without delay.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
a) Section i.6.5.1 of the Public Finance Circular No.PED/12 dated 02 June 2003.	Even though the draft annual report and the accounts should be furnished to the Auditor General within 60 days from the close of the financial year, accounts statements of the company for the year 2018 had been furnished to the Auditor General on 18 September 2019. Further, the draft annual report had not been presented.	Agreed. The Financial Manager and the Accounts Assistant of the Magampura Port Management Company had resigned from December 2018 and a Financial Manager for part time service was recruited on 01.04.2019. Therefore, preparation of accounts in the year 2018 was delayed.	In terms of circulars, the Management should take steps to submit financial reports to the Auditor General without delay.
b) Section 2.2 of the Public Enterprises Circular No.PED3/2015 dated 17 June 2015.	i. In paying monthly allowances to the Chairman of the subsidiary companies owned by the Government, recommendation of the Secretary to the	Agreed with 1 and 2. Action will be taken to obtain relevant approval in future.	Action should be taken to recover the money paid without obtaining relevant approval.

Line Ministry and concurrence of the Minister of Finance should be obtained. Nevertheless, without being obtained recommendations as indicated above, monthly allowance at Rs.125,000 had been paid to the Chairman.

- ii. The recommendation and the concurrence as in the (i) above should be obtained to pay allowances for the Board meetings of the Company and the maximum allowance paid for the “A” Grade businesses of the Government is Rs.12,500. Nevertheless, 14 meetings had been conducted in the years 2018 and 2019 during which the operating activities of the company had been discontinued and Rs. 650,000 and Rs.1,100,000 had been respectively paid for the members of the Board of Directors at Rs.25,000 each at a time for the relevant years in contravention of the circular.

2. Financial Review

2.1 Financial Results

The operations of the Company for the year under review had resulted in a loss of Rs.801,559,524 as compared with the corresponding loss of Rs.109,286,876 for the preceding year, thus observing a deterioration of Rs.692,272,648 in the financial results. This deterioration was mainly attributed to the termination of operating activities of the Magampura Port Management Company (Private) Limited on 13 November 2017 up on a policy decision taken by the Sri Lanka Government.

2.2 Tendency Analysis of the Main Income and Expenditure Items

	2018	2017
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	Rs.	Rs.
Income	-	1,114,042,723
Direct Expenditure	(6,805,801)	(456,516,287)
Administrative Expenditure	(41,722,417)	(583,475,699)
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Operating profit/loss	(48,528,218)	74,050,746
Net Financial Cost	(194,055,646)	(102,622,158)
Foreign Exchange Loss	(558,975,660)	(72,689,790)
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Before tax net profit	(801,559,524)	(101,261,202)
Income tax	-	(8,025,674)
After tax net profit	<u>(801,559,524)</u>	<u>(109,286,876)</u>

The following observations are made.

- i. Since operating activities of the company had been terminated on 13 November 2017, company had not received income in the year 2018.
- ii. As compared with the year 2017, net financial cost had increased by Rs.91,433,488 or 89 per cent during the year under review.
- iii. As compared with the year 2017, the foreign exchange loss had increased by Rs.486,285,870 or 669 per cent during the year under review.

2.3 Ratio Analysis

	2018	2017
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Current Assets Ratio	0.31:1	0.45:1
Quick Assets Ratio	0.31:1	0.40:1
Operating Profit Ratio	-	6.6%

The following observations are made.

- i. The current ratio and the quick assets ratio in the year 2017 had been 0.45:1 and 0.40:1 and such ratios had declined to 0.31:1 and 0.30:1 by the end of the year under review.
- ii The operating profit ration of the year 2017 stood at 6.6 per cent and operating activities were not carried out in the year 2018. Therefore, an operating profit cannot be computed.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
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<p>After the termination of operating activities of the company, salaries and allowances of Rs.12,809,011 had been paid for 07 officers employed on contract basis from 01 February to 31 December 2018. Nevertheless, letters of appointment, particulars on the duty and work done reports of the officers other than the Financial Manager, and attendance registers applicable to all the officers had not been presented to Audit. Therefore, it is controversial the extent of work carried out by the officers.</p> <p>Further, according to the Cabinet Decision No.MPCM/01/2018 dated 30 January 2018, these officers had been recruited on contract basis for a period of 06 months. Nevertheless, those officers had been retained for another 05 months without extending the contract period and sum of Rs.5,543,005 had been paid as salaries and allowances for the relevant period.</p>	<p>Agreed.</p> <p>Although request was made to grant appointments for a period of six months by the relevant Board Paper, the Board of Directors had decided to grant appointment unit a liquidator was appointed. According to the decision of the Board of Directors taken on 15.02.2018 to recruit these 7 employees on contract basis, their appointments were granted in order to perform duties such as preparation of financial statements, maintenance of ledger accounts and payment of employees compensations. Salaries of these officers have been paid according to the arbitration conditions reached among the parties of the Industrial Arbitration Case No.A-37-2017. Further, these payments have been made with the approval of the top management functioned at that time.</p>	<p>In making payments for the officers recruited on contract basis, the management should take action to examine the attendance registers and work done records and accordingly make the relevant payments. Similarly, if the contract period relating to the appointment has elapsed, period of contract should be extended with the approval of the Board of Directors.</p>

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
In terms of the financial statements, the petty cash balance of Rs.173,727 as at 31 December 2018 continued in the books up to 30 September 2019, whereas that money was not physically in the possession of the company.	Agreed. The company did not have a petty cash balance of Rs.174,479 physically at the time of taking over of the voucher files and relevant files belonged to the Magampura Port Company (Private) Limited on 01.04.2019. This was shown in the accounts of the year 2017 and therefore, it appears as a responsibility of the Financial Manager then in the post.	The management should take steps to conduct an inquiry on the lack of cash balance.

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) The disorderly situation arose in the removal of employees of the company by paying their compensations had come to an end on the decision of the Industrial Arbitration Case No.A-37-2017 of the Labour Department filed in the Industrial Court in Colombo and the arbitration conditions reached among the parties on 02 February 2018. According to the condition No.18 (b) of the Arbitration Agreement, if the outstanding allowances for the month of November 2017 and/or outstanding salaries up to January 2018 remain payable, such payments should have been made	Agreed. Although this matter had been stated in the audit of financial statements of the year 2017, it appears that the management functioned in the year 2018 as well had not taken action in this connection. Further, a new management was appointed from March 2019 and it has been found difficult to find most files relating to the years 2017 and 2018. At present, any employee is not in this company to recover this expenditure incurred relating to the years 2017, 2018.	The payment of compensation should be made in accordance with the arbitration conditions. If any payment has been made contrary to the above conditions, the management should take steps to recover such payments from the officers responsible for making payments.

before 28 February 2018. Contrary to that conditions, the Magampura Port Management Company had paid other allowances of Rs.12,211,073 to the employees of the company as travelling expenses, accommodation allowance, performance allowances and vehicle allowances relating to the month of December 2017 and January 2018 during which payments are not entitled due to dysfunction of the company's operations. Although this matter had been pointed out by the audit reports of the year 2017, no action had been taken to recover the overpayments.

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| (b) | Although Rs.1,080,000 at Rs.90,000 per month had been paid to the Managing Director for the year 2018, attendance registers to confirm the officer's reporting to the service had not been furnished to Audit. | Agreed.
Action will be taken to maintain the attendance registers in future. | The management should take steps to pay salary upon confirmation of the attendance of the officer. |
| (c) | All the payment vouchers should be securely maintained according to the serial number order within a strong internal control system. Similarly, the officer in charge of the vouchers should complete and make ready all the vouchers for audit. Nevertheless, 104 vouchers worth Rs.29,975,094 relating to the year 2017 and 19 vouchers worth Rs.4,543,395 relating to the year 2018 of the Magampura Port Management Company had not been furnished to Audit. | Agreed.
It was revealed that with decision taken to liquidate and lease out the Magampura Port Management Company (Private) Limited to a China company, all the document files (vouchers etc.) of the Company were insecurely brought to the Mahapola Institute of the Sri Lanka Port Authority loading in the lorries. Similarly, as there was no permanent officer to take charge of those documents at that time, no one undertakes the responsibility of such | Since the transportation of documents and assets of the company to the Port Authority had not been properly carried out, necessary disciplinary actions should be taken against the officers who are responsible for the relevant matter. Similarly, it is the responsibility of the mother company and the Line Ministry to give necessary instructions regarding |

documents. With the new proper and careful
appointment received on handling of these
01.04.2019, all the vouchers activities.
contained in the files handed
over to us were furnished to
Audit and further, it is
informed that these vouchers
are not to be found.