Ceylon Shipping Corporation Limited - 2018

The audit of financial statements of the Ceylon Shipping Corporation Limited ("the Company") for the year ended 31 March 2018, comprising of the statement of financial position as at 31 March 2018 and the statement of comprehensive income, statement of changes in equity and the statement of cash flows 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 observations on the performance of the Company for the year under review, which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors ("Board") 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 Board of Directors 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. 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 judgment, 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 the Board, 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 qualified audit opinion.

1.4 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4.1 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Shipping Corporation Limited as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4.1 Basis for Qualified Opinion

(a) As per the paragraph 32 of the Sri Lanka Accounting Standards on Presentation of Financial Statements (LKAs 01), offsetting of assets and liabilities or income and expenses is not permitted unless required by other SLFRS, however contrary to that the Company had set off credit balances against the debit balances of trade and other receivables. As a result, total trade and other receivable and trade and other payables had been understated by Rs.41,202,849 as at the end of the year under review.

Further, ten (10) expense accounts and two (02) control accounts which were represented credit balances aggregating to Rs.20,057,734, had set off against the direct expenses. As a result, direct expenses had understated by similar amount.

(b) The Company had decided to recognize the un identified deposit credited to bank account in the year 2009 amounting to Rs. 519,517 as other income. However, it had been erroneously credited to the cash book and debited to the income account of the year under review. As a result, cash at the bank and the other income as at 31 March 2018 had been understated by Rs.1,039,034.

(c) Office rental expense amounting to Rs.1,521,240 which relevant to the year 2018/19 had recognized as an expense of the year under review. As a result, the office rent expense and the loss for the year then ended had been overstated by similar amount.

(d) The Company had calculated deferred tax asset without considering the correct current and previous years' tax losses and capital allowances on the assets purchased in previous year. As a result, the deferred tax assets as at 31 March 2018 and the provision for the year under review had been understated by Rs.2,299,463.

1.5 Report on other Legal and Regulatory Requirements

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

(a) The basis of qualified opinion and the scope and limitations of the audit are as mentioned above.

(b) In my opinion,

- Except for the effect of the matters described in basis for qualified opinion paragraph, I have obtained all the information and explanations that were required for the audit 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. Financial Statements

2.1 Comments on Financial Statements

2.1.1 Lack of Evidence for Audit

The evidences mentioned corresponding to the following account balances shown in the statement of comprehensive income and statement of financial position had not been submitted for audit.

Particulars	Amount Rs.	Evidence not made Available
Debtors	1,633,083,504	Balance confirmation
Cash at Banks	5,796,901	Bank statements/Bank reconciliation and Balance confirmation
Interest income on fixed deposits	3,133,979	Documentary evidence to ensuring the accuracy and completeness.

2.1.2 Receivable Accounts

The total outstanding trade debtors balance as at 31 March 2018 was Rs. 1,799,146,392 and the impairment provision of 26 per cent which equivalent to Rs. 468,252,254 had been made on such balances as at the end of the year under review. According to the age analysis of the debtors, some balances are remained without being recovered for over 37 years. However the Company had not taken proper action to recover those balances. The following observations are made regarding the outstanding balances.

(i) Sample of 32 debtor balances aggregating to Rs. 1,702,486,196, were selected and called for conformation. However, only one debtor had confirmed his balance as Rs.41,235,150. However, as per the accounts this balance was Rs.69,402,692. Therefore, the audit was unable to ensure the accuracy and existence of the outstanding trade debtor balances.

(ii) The Goods and Services Tax and National Security Tax aggregating to Rs. 21.54 million excessively remitted to the Department of Inland Revenue by the Company, had been shown over 18 years period as statutory receivables, in the financial statements without being recovered or settle.

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

The following instances of non-compliances with laws, rules and regulations were observed.

References to Laws, Rules and Regulations	Non-compliance
Public Enterprises Circulars	
(i) Paragraph 03 of the Circular No. PED 1/2015 of 25 May 2015.	Contrary to the paragraph 3 of the Circular, fuel allowances aggregating to Rs. 649,142 had been provided for 13 officers including the Chairman and executive director of the Company during the year under review, exceeding the fixed monthly fuel limit for each category of officers.
(ii) Circular No. PED 12 of 02 June 2003.	The draft budget should be placed before the Board of Directors for approval, three months before the commencement of financial year and the copies of approved budget should be forwarded to Line Ministry, the Department of Public Enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the ensuring year. However, the Board approvals for the budget for financial year 2017/18 had been granted on 08 September 2017 and the copies of the approved budget was forwarded to relevant authorities on 25th October 2017 after 07 months from the specified period.
(iii) Circular No. PED 3/2015 of 17 June 2015,	The monthly allowances entitle to the Chairman and the executive director of the Company were Rs. 80,000 and Rs. 65,000 respectively. However, contrary to that, the Company had been paid monthly allowances of Rs.85,000 and Rs.75,000 to the Chairman and the executive director respectively without relevant approval. Even though the Company had rectified the matter in May 2019, overpaid amounts had not been recovered.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the loss of the Company for the year ended 31 March 2018 amounted to Rs. 175,556,501 as compared with the loss of Rs. 237,010,652 for the preceding year thus indicating a growth of Rs. 61,454,151 or 25.9 per cent in the financial result as compared with the preceding year. The reduction of the financial expenses by Rs. 92,455,327 or 8 per cent had mainly attributed to this growth.

3.2 Analytical Financial Review

The following observations are made.

(i) The total revenue of the Company year under review had decreased by Rs.41,538,925 or 1.6 per cent as compared with the preceding year. This was mainly due to the reduction in freight income generated from owned vessels. Further, the direct operational expenses of the Company year under review had increased by Rs.65,195,470 or 4 per cent as compared with preceding year. The increases in prices of bunker fuel attributed to this hike.

(ii) The interest expense on vessel loans of the Company year under review had increased by Rs. 115,158,560 or 17.6 per cent as compared with preceding year which was directly attributed to the net loss of the year under review.

3.3 Analysis of Ratios

The following observations are made.

(i) Gross profit margin of the year under review had decreased from 37 percent to 33 percent as compared with the preceding year. This was mainly due to the decrease in revenue and increase in direct operational expenses.

(ii) Interest coverage ratio of the year under review had increased slightly from 0.57 turns to 0.67 turns as compared with the preceding year. Hence, it shows that the company had not enough profit to cover interest expenses.

(iii) The gearing ratio of the company of the year under review had increased by 110 per cent when compared with preceding year, which shows a very high proportion due to the increase in short term and long-term borrowing.

(iv) The company had recorded a low rate of return on capital employed (ROCE) of 5 percent during the year under review.

(v) Debtors' collection period had increased from 184 days to 231 days as compared with the preceding year. Hence, it shows the poor debt management of the Company.

(vi) Current ratio of the year under review had increased from 0.91 turns to 1.05 turns as compared with the preceding year. Hence, it shows the low liquidity position of the Company.

4. Operational Review

4.1 Performance

According to the five year corporate plan beginning from the financial year 2017/18 and the action plan of the year 2017 the Company had planned to commence the following 06 projects. However, the Company had failed to achieve the targets as planned. The comments of the chairman on those projects are as follows.

	Activity	Comments of the Chairman
(i)	Unaccompanied Baggage Clearance and Construction of Customs Bonded warehouse	The land reserved for the project had been cancelled by UDA due to non settlement of payments and the project was abandoned.
(ii)	Conduct MERW Tug Operations.	The technical management of MERW Tug could not be handled by the company, since Ceylon Petroleum Corporation had not terminated the existing contract.
(iii)	Acquiring & operating of Self Propelled barges (SPBs)	As per the comments of the Committee appointed to study the project, has mentioned that this operation couldnot be viable.
(iv)	Establish Costal Shipping Service	Project could not be viable until the connectivity modes like rail road upgraded in the identified costal line.
(v)	Promote Sri Lanka Flag Registry (Flag of convenience)	Project could be implemented after certain approvals.
(vi)	Providing Floating Bunker Storage facilities.	License for bunker operations was not granted yet.

5. 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 systems and areas of control.

	Areas of Systems and Controls		Observations
(i)	Accounting	(i)	Accuracy and completeness of the financial information is in doubt.
		(ii)	Non Compliance with Sri Lanka Accounting Standards.
		(iii)	Deficiencies in journal entries and ledger postings.
(ii)	Technological information Systems	(i)	Non-performance of maintenance activities and controls in the Information System.
		(ii)	Non-compliance with the requirements of the Company
(iii)	Creditors and Debtors	(i)	Delays in recoveries and settlements.