

Sri Lanka Ports Management and Consultancy (Pvt) Ltd – 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Ports Management and Consultancy (Pvt) Ltd for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Sized Entities..

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Financial Reporting Standards for Small and Medium sized Entities and for such internal control as management determines 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 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 the Audit (Auditor's Responsibility for the Audit of 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 audit 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, 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 audit 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 audit 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
- 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 statement

1.5.1 Accounting Deficiencies

Audit Issue

Management Comment

Recommendation

Although according to the financial statements of the Company, the balance receivable to the Company from the Sri Lanka Ports Authority as at 31 December 2019 was Rs.90,420,529, according to the financial statements of the Sri Lanka Ports Authority on that day, the balance payable to the Company by the Authority was Rs.42,758,471. Accordingly, the difference between the relevant balances amounting to Rs. 47,662,058 had not been identified and necessary adjustments had not been made.

We forward the invoice to the division which provides the relevant service. As those may be forwarded by the said division to the finance division of the Authority for payment, we are not aware on the matter that whether the invoices which were passing that waiting period were not reported by the Authority.

The balance reconciliation statements should be prepared in a timely manner regarding the balance to be received from the Authority and action should be taken to make the necessary adjustments.

1.5.2 Documentary Evidence not made available for Audit

Description -----	Amount Rs. -----	Evidence not presented -----	Management Comment -----	Recommendation -----
Payment Vouchers	8,865,577	Payment vouchers and supporting documents relating to 49 payments amounting to Rs. 8,865,577 revealed in an audit carried out in connection with the financial transactions of the Company from 1st July 2016 to 30th April 2018 had not been presented to the audit even as at 31 December 2019.	We have carried out a proper investigation in this regard. According to the facts revealed there, our conclusion is that there is no possibility of fraud on the basis of the facts stated here.	The Management should submit payment vouchers and supporting documents related to payments to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue -----	Management Comment -----	Recommendation -----
Although the financial statements should be prepared on accrual basis in terms of Section 36 of the Sri Lanka Financial Reporting Standards No. 2 for Small and Medium Sized Entities , income receivable for the year amounting to Rs. 5,301,077 had not been included in the financial statements as the rent income receivable from merchants including stalls at Galle Face had	The Galle Face premises have been provided to us by the Sri Lanka Ports Authority for its administration through an agreement. Many other small scale daily mobile businessmen including stalls engage in business here. These businessmen are individuals who are engaging in traditional businesses in those stalls in Galle Face for a very long	Action should be taken to identify income on an accrual basis and enter into formal agreements with traders.

been accounted on cash basis in case of preparing the financial statements of the Company.

period. (about 30-50 years). Those businessmen and stalls were still there when we took over the administration of the premises from the Ports Authority. Therefore, it is very difficult in practice to enter into agreements with such businessmen.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Circular on Good Governance issued by the Department of Public Enterprises No. PED 12 dated 02 June 2003			
(i) Section 5.1.1	The Company had not prepared a Corporate Plan outlining its long-term goals even until 28 May 2020.	It is being prepared.	Actions should be taken to prepare a Corporate Plan with long-term goals.
(ii) Section 7.4.1	An internal audit division had not been implemented in the Company and audit committee meetings also had not been held in.	Attention of the Board of Directors has been paid on appointing an internal auditor or a firm suitable for internal audit. Accordingly, action will be taken to comply with these provisions in future.	Management should take actions to implement an internal audit division.
(iii) Section 7.4.5	An annual inventory survey had not been conducted to verify the fixed assets of the Company with a cost of Rs.7,760,496.	An annual inventory survey will be conducted in the future.	Arrangements should be made to conduct inventory surveys annually.
(iv) Section 9.2	The organization chart and the approved cadre of the	The organization chart and the approved cadre	Action should be taken in terms of the

	Company were not registered in the Department of Public Enterprises of the General Treasury.	have been approved by the Board of Directors.	circular provisions.
(v) Section 9.3.1	A formal scheme of recruitment for the staff of the Company had not been prepared and the approval of the Line Ministry and the concurrence of the Department of Public Enterprises had not been obtained.	Action will be taken to comply.	Action should be taken in terms of the circular provisions.
(b) Sections 7 (1), 8 (2) and 23 of the Right to Information Act No. 12 of 2016	As required by these Sections, requirements such as preservation and maintenance of information records in a proper format, publishing a detailed report on the institution semi-annually and appointing an information officer respectively had not been met.	Action will be taken to comply with the relevant requirements after obtaining legal advice on whether our company which is incorporated Under the Companies Act No. 07 of 2007, should surrender the general authority defined in the Right to Information Act No. 12 of 2016.	Management should take actions in terms of the requirements of the Right to Information Act.
(c) Circular No. PED 1/2015 dated 25 May 2015 and Section 3 of the Public Enterprise Circular No. PED 1/2015 (i) dated 25 October 2016	Rs. 469,555 had been overpaid to two officers of the Company during the year under review as transport allowance contrary to the circular limits.	These allowances have been paid to the Chairman and Managing Director subject to the approval of the Board of Directors. However, with effect from January 2020, all allowances which are paid to the Chairman and Managing Director have been in accordance with the circular.	Action should be taken in terms of the circular provisions
(d) Letter bearing No. NP / SP / SDG / 17 dated	According to the United Nations' "Agenda for the	Agreed.	Actions should be taken to introduce

14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs

year 2030 “on Sustainable Development, every government organization should take actions and accordingly Sustainable Development Goals, targets and how to achieve those targets, indicators to measure the targets had not been identified.

sustainable development goals and indicators to measure them in a manner that targets can be achieved.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 6,578,695 as compared with the corresponding profit of Rs10,762,687 for the preceding year, thus a deterioration of Rs. 4,183,992 was observed in the financial result. The increase in the direct expenditure and the decrease in other income had been the main reasons for this deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Issue

Management Comment

Recommendation

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| <p>(a) Although the agreement signed by the Company with the Sri Lanka Ports Authority for the administration, maintenance and management of Galle Face Green had been expired on 09 February 2019, the agreement had not been renewed until 31 May 2020.</p> | <p>Although we have informed the Authority several times in this regard, the agreement has not yet been given proper attention. However, as this place is the main public domain in the city of Colombo, we as a subsidiary of the Ports Authority are unable to unilaterally withdraw from its maintenance.</p> | <p>The necessary steps should be taken in consultation with the relevant party.</p> |
| <p>(b) A surcharge of Rs. 332,174 had been paid during the year under review due to non-payment of monthly instalments in terms of</p> | <p>Agreed.</p> | <p>Management should take actions to make relevant payments on time and to avoid surcharge payments in</p> |

the provisions of the Gratuity Payment Act and the Employees' Trust Fund Act.

the future.

- (c) Although a sum of Rs. 4,120,808 should be received as salaries for human resources provided by the Company to the Sri Lanka Ports Authority during the year 2018, the amount remained unrecoverable even at the end of the year under review due to the reasons such as irregularities in the attendance and departure records of the employees, errors in the calculation of salaries, deficiencies in the appointment letters etc. These salaries are paid to the employees employed in the Ports Authority through us. The attendance reports of the employees, overtime calculations, etc. are forwarded to us through the head of the department of the Authority where those employees work in. Therefore, the necessary steps are being taken in consultation with all those sections one by one to recover this amount. Actions should be taken to recover the amounts due to the Company without a delay.
- (d) Although the Company has been aware of the need to formalize the collection of revenue from traders operating in the Galle Face area through audit reports since 2017, the formal procedures such as entering into agreements with traders had not been followed until 31 May 2020. Those businessmen and stalls were still there when we took over the administration of the premises from the Ports Authority. Therefore, it is very difficult in practice to enter into agreements with such businessmen. Action should be taken to enter into formal agreements with the traders engaged in trade in the premises.