

Magampura Port Management (Pvt) Ltd. - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 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
Stock valued at Rs. 12,430,943, fixed assets at the carrying value of Rs. 406,546 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. 13,011,216. 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.	Agreed. Anything of Property, plant and equipment are not belonged to the Company at present. On the basis of that those assets are being used by the Hambanthota International Port Group of Companies, it was informed that Company in writing to pay the said value to the Company. Actions will be taken to make an impairment provision in this regard in future. Further, actions will be taken to make an impairment provision for the stocks valued at Rs. 12,430,943 and the cash amounting Rs. 173,727.00 based on a decision of the Board of Directors in future.	It is a responsibility of the Management to take actions to comply with the Accounting Standards and to take proper actions for the security of assets.

1.5.2 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
The cumulative loss of the Company as at 31 December 2020 was Rs. 3,246,376,040 and the net assets of the Company as at that date were Rs. 3,171,376,040 reflecting a minus value. The operational activities of the	The Magampura Port Management Company (Pvt) Ltd. had been established under a Cabinet approval and therefore the Company decided that a Cabinet approval should be obtained for the liquidation of the	Responsible officials should take actions to implement the liquidation process as it had been decided to liquidate the

Company have 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.

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.

Company.

1.5.3 Non availability of evidence for audit

Item	Amount	Evidence not available	Management Comment	Recommendation
Balance receivable from the Government	Rs. 17,782,563	Source documents, Letters of confirmations, Age analysis reports and other supporting documents	Agreed Actions will be taken in this regard in future.	Actions should be taken to submit evidence to audit.
Receivable balance for Oil insurance of ships	Rs. 28,040,453			
Balance receivable from trade debtors	Rs. 3,589,879			
Balance relating to other payables	Rs. 7,297,497			

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Management comment	Recommendation
(a) According to the financial statements of the Company for the year 2020, even though a sum of Rs. 103,666,952 had been shown as at 31 December 2020 as receivables from the Sri Lanka Ports Authority which is the parent company, a sum of Rs. 98,938,252 had been shown in the financial statements of the Sri Lanka Ports Authority as payable as at that date to the Company. Accordingly a difference of Rs. 4,728,700 was observed in the receivable balance. Actions had not	Agreed. A letter was issued to recover the said money from the Sri Lanka Ports Authority on 25.01.2021. However the said money was not received from the Sri Lanka Ports Authority up to now.	Actions should be taken to recover the receivable balances to the Company.

been taken to come to an agreement regarding this difference having a discussion with the Sri Lanka Ports Authority. Further Compensation for tug boats amounting to Rs. 25,719,981 management service charges amounting to Rs. 76,547, 855 and Rs. 1,399,116 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 Sri Lanka Ports Authority since the year 2017 and it had not been received to the Company even up to 15 May 2021.

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| (b) | According to the financial statements of the Sri Lanka Ports Authority for the year 2020, a sum of Rs. 5,800,921 had been shown as receivables to the Authority from the Company. However the said amount had not been shown as payable in the financial statements of the Company for the year 2020. As per the information obtained from the Sri Lanka Ports Authority, this amount should be received to the Authority for management fees and settlements of other bills of the Company. | Actions will be taken after finding out the matter. | After having a discussion with the Sri Lanka Ports Authority, if the relevant amount is a payable amount, actions should be taken to record it in the financial statements. |
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1.6.2 Payable Accounts

Audit Observation

Management comment

Recommendation

Loan installments or interest in the year 2017 or years after that had not been paid by the Company relating to the loan amounting to US\$ 24,002,438 equivalent to Rs. 3,144,178,059 which 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

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.

Actions should be taken as per the Court decision.

financial statements, the total amount payable relating to the loan and the interest as at 31 December 2020 including a sum of Rs. 180,268,282 which had been shown in the financial statements as payable interest for the year under review was Rs.971,528,124. Accordingly, as per the financial statements as at 31 December 2020, the payable amount including the payable loan and the interest was US\$. 24,038,495 equivalent to Rs.4, 480,972,700. Even though balance confirmations had been called by the Company regarding the said balance on 12 January 2021, the balance confirmations had not been submitted by the relevant bank. Hence the accuracy of the said balance was uncertain. 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.

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 2.2 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015.	(i) According to the circular recommendation and the approval should be obtained for the payment of allowances for the meetings of the Board of Directors because the Company was included in to F category . Further as per the said circular	According to the President Circular No. PS/SP/Circular/02/2020 dated 13 January 2020, the monthly allowance for the members of the Board of Directors can be paid up to Rs. 25,000. Payments had been made subject to the approvals of Board of Directors for the previous meetings held in the	Actions should be taken to recover the money which had been paid without a proper approval.

the highest amount of allowances of Rs. 12,500 is paid for the category A Public Enterprises. In such a background, even though the Company which was not in operation, was included to the category F, contrary to the circular, a sum of Rs. 475,000 had been paid for 04 meetings held during the year 2020 as Rs. 25,000 per each member of the Board of Directors as allowance for attendance by the Company and Rs.1, 875,000 had been paid for 15 meetings held during the years 2019 and 2018 as well.

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| <p>(b) Section 3.8 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.</p> | <p>Although the progress of the decisions of the Board of Directors should be reported to the Board of Directors by the Secretary of the Company, it was observed in audit that actions had not been taken by the Company during the year accordingly.</p> | <p>Agreed. Instructions were given to the Secretary of the Company in this regard and it is a responsibility of the Secretary of the Company.</p> | <p>Actions should be taken to submit reports to the Board of Directors.</p> |
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1.8 Non-compliance with Tax Regulations

Audit observation	Management Comment	Recommendation
(a) According to the financial statement as at 31 December 2020, 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 realized the balance of retaining tax mentioned above is uncertain when paying income tax.	All activities relating to payments of tax, making appeals etc. are being in action. Immediate actions will be taken to calculate the said amount and to settle.	Actions should be taken to come to a final solution after discussing with the Department of Inland Revenue.
(b) Although, Statutory payments should be settled within due period of times, actions had not been taken to settle the balance of payable income tax amounting to Rs. 2,381,117 which had been brought forward since the year 2017 even up to the year under review.	Not replied	Actions should be taken by the Management to settle the balance of income tax as it is a statutory payments.

2. Financial review

2.1 Financial result

The operations of the Company for the year under review had resulted a loss of Rs. 246,874,417 and against to it the loss for the previous year was Rs. 128,503,752. Accordingly increase of loss by Rs. 118,370,365 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

	2020	2019
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	(Rs)	(Rs)
Income	-	-
Direct expenses	-	-
Administration expenses	(10,664,971)	(7,191,239)
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Operating Profit/ (Loss)	10,664,971	(7,191,239)
Net financial cost	(142,218,752)	(148,185,664)
Foreign exchange Profit/(Loss)	(93,990,694)	26,873,152
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Net Profit before Tax	(246,874,417)	(128,503,752)
Income Tax	-	-
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Net Profit after Tax	(246,874,417)	(128,503,752)
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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 2019 and 2020 due to the fact that the operating activities of the Company had been ceased on 13 November 2017.
- ii. The foreign exchange profit in the year 2019 amounting to Rs. 26,874,152 had become to a foreign exchange loss of Rs. 93,990,694 during the year under review.
- iii. Administration expenses had increased by Rs. 3,474,732 represents 48 per cent during the year under review compared to the year 2019.

2.3 Ratio Analysis

	2020	2019
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Current assets ratio	1:3.40	1:3.29
Quick assets ratio	1:3.43	1:3.32

The current ratio and the quick assets ratio for the year 2019 were 1:3.29 and 1:3.32 respectively and it had increased as 1:3.40 and 1:3.43 respectively as at the end of the year under review.

3. Operating Review

3.1 Transactions in Contentious Nature

Audit observation	Management Comment	Recommendation
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(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	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. All the employees were informed to leave the premises on 29 November 2017.	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.

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, 2018 and 2019. 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.

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.

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.

Further, fuel, transport, accommodations etc. were paid only for 07 officers in the middle and top management. Instructions were given to those 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

It had to be removed all the files and the employees from the premises of Hambanthota port in a very short notice given in few hours. Also, the employees were forced to stay on the premises

Disciplinary actions should be taken against the officials who had not taken actions to keep the documents and assets of the Company properly

for completing and preparing of all the vouchers for audit. However 123 payment vouchers valued at Rs. 29,975,094 and Rs. 4,543,395 relating to the years 2017 and 2018 respectively had not been made available to audit even up to 15 May 2021.

and resorted to a trade union action. It was explained by the Chairman that in such a ground there were possibility to misplace the files. However copies of the cheques relating to the said payments were presented to audit.

and formally when leaving the premises.

3.2 Procurement Management

Audit Observation

According to the objectives of the Procurement Code and the procurement Guidelines, the Company should be responsible for the transparency and the proper administration of procurement. However even though a sum of Rs. 7,250,000 had been paid to a law firm as legal expenses by the Company during the year 2020, evidence and information had not been made available to audit to confirm that lawyers had been selected following a proper procedure with transparency and proper administration. Further agreements entered into with the Consultancy firm had not been presented to audit.

Management comment

Payments for the lawyers of the Company who appeared for the legal activities of the Company were paid on the approval of the Board of Directors. At the first meeting of the Board of Directors, the matter relating to the court case No. DDR 1347/19 filed in the Colombo District Court was submitted to the meeting of the Board of Directors. It was scheduled to be called in the Court 18.08.2020. The peculiarity of these cases is that objections must be filed on the first day of the trial. Otherwise, the company would be in serious trouble if the nice decision is issued by the Court for Rs.4.4 billion which was claimed in the case.

. Because the amount owned already by the Company was Rs. 1.2 billion. Therefore as an immediate requirement of filing counter arguments to the Court and it was a lack of time, it was an essential need to have legal advice. Hence subject to the approval of the Board of Directors, service of the said lawyers was obtained. Also the payment made was the full

Recommendation

It is a responsibility of the Management to follow a procedure with transparency and proper administration in the procurement activities.

amount which should be paid to the law suit. There was no any requirement to make any other payment.

The following matters will be covered by the payment made for the lawyers.

1. Consultations
2. Filing counter arguments
3. Filing of written submissions related to the case.
4. Filing of written submissions if there is any issue relating to the legal matters.
5. All other activities including appearance before the Court etc.