

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Port Management and Consultancy Services (Private) Limited (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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.

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 2020, 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 qualified 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 Enterprises 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 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 Audit Scope

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 skepticism 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
As per the section 17.19 of Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS FOR SMEs), useful life of asset shall be reviewed every year and change in expectation shall be accounted for as a change in an accounting estimate in accordance with paragraphs 10.15–10.18. Contrary to that assets at a cost of Rs. 4,691,550 were fully depreciated at the time of preparing financial statements but still used by the company had not been applied the requirement of the standard.	Depreciation is an Accounting Estimate. These assets are already fully depreciated on previous financial years. All these depreciation rates are considered to be par with industry practices. However, the company will put a separate disclose note for the fully depreciated assets in 2021 FS. Further, any required adjustments based on your suggestions shall be made in 2021.	Management should take steps to comply with the provisions of the standards when preparation and presentation of the financial statement.

1.5.2 Documentary Evidences not made available for Audit

Evidence not available for Audit	Management Comment	Recommendation
Detail schedule for equipment and others amounting to Rs. 1,433,589 and confirmation for other receivable amounting to Rs. 15,421,908 were not made available for audit.	These are fully depreciated balances even before 2009, these are B/F balances in the accounting system and presently the company does not have the original source documents in this regard.	Management should submit all information to prove the accuracy of the balances in the financial statements.

1.5.3 Receivable from Related Party

Audit Issue	Management Comment	Recommendation
Even though the company shown trade receivable from Sri Lanka Port Authority (Related party) of Rs. 165,254,816 as at 31 December 2020, as per the financial statements of the Port Authority was showed only Rs. 13,496,949 as trade payable to the company, hence there was significant difference of Rs. 151,757,868. As at 30 th June 2021, receivable from Sri Lanka Port Authority has increase up to Rs.214,992,582.	SLPMCS submits the invoices to SLPA for services in the succeeding month to the particular division of SLPA which obtained the service. As per our understanding, it shall take a little time to pass those documents from respective division to finance division which may have resulted this issue and we have informed SLPA about this in writing as well. However, the balances of SLPA do not fall under our purview and we vouch only for our balances.	Management must reconcile the balance with related parties on periodic basis to avoid any discrepancies before preparing financial statement.

1.6 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
As per the board decision surcharge shall be made only after obtaining the approval of the board. Contrary to that, the company had paid surcharge of Rs. 232,196 for delays of payment of lease rental to Sri Lanka port authority without approval of the board.	Agreed, will take necessary actions to obtain the ratification from the Board.	Management must adhere to the board directions at the time of settlement such payments.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprise Circular No: PED/12 dated 02 June 2003			
(i) Section 7.4.5	The Company had not been carried-out an annual board of survey to verify the fixed assets of the company as at 31 December 2020.	Agreed, the annual verification for 2021 shall be performed through a board of survey	Management should verify its assets annually to confirm the physical existence of assets.
(ii) Section 9.2	The Organization Chart of the Company and the approved number of employees were not registered with the Department of Public Enterprises of Treasury.	Agreed, However, the Company has an organization structure and a carder approved by the Board	Management should take action to register the organization structure and carders in with the department of public enterprises of general treasury.

2. Financial Review

The operating result of the year under review amounted to a loss of Rs. 2,989,455 and the corresponding loss in the preceding year amounted to Rs. 3,630,126 Therefore, an improvement amounting to Rs. 640,671 of the financial result was observed. The reasons for the improvement was the Company commenced two businesses in the last quarter of the 2020, those are providing the contract terminal operators for the operations at East Container Terminal along with fulfilling additional man power in Jaya Container Terminal . Further, Company started to provide Inter Terminal Trucking services at East Container Terminal on December 2020.

2.2 Trend Analysis of major Income and Expenditure items

Description	2020	2019	Increase/ (Decrease)	Change %
Revenue	Rs	Rs	Rs	
Income from Service Fee	17,671,312	15,455,050	2,216,262	14.34
Income from Galle Face Green	8,783,083	15,653,237	(6,870,154)	(43.89)
Income from Hiring Service (Creche)	2,323,548	0	2,323,548	100.00
Other Income	2,924,676	3,683,030	(758,354)	(20.59)
Net Finance Income	12,926,711	17,419,275	(4,492,564)	(25.79)

**Administration & Establishment
Exp**

Annual Bonus	1,076,550	729,309	347,241	47.61
Medical Insurance	1,956,280	1,172,477	783,803	66.85
Gratuity Expenses	1,334,302	699,345	634,957	90.79

Under mentioned observations are made.

2.2.1. Income from Service Fee of the Company for the year under review had been increased by Rs 2,216,262 or 14.34 percent as compared with preceding year. Meanwhile, Income from Galle face green had decreased by Rs. 6,870,154 or 44 percent as compared with previous year. New source of income as income from Hiring services had added to the revenue and Rs. 2,323,548 had generated from that. It was observed that these hiring service had been supplied to Port Authority for operating East Container Terminal. Other income and finance income was decreased by 21 and 26 percent respectively.

2.2.2 Annual bonus had increased by 48 percent in the 2020 by Rs. 347,241 due to increase in the profit earned and rate bonus had increased by 5 percent compared to previous year.

2.2.3 Medical Insurance expenses had increase by 67 percent or Rs. 783,803 in the year 2020 comparing to previous year. Until March 2019, 25% of the insurance premium has been borne by the employees. The Company decided to bear the full insurance cost from 2019 April onwards.

2.2.4 Ratio Analysis

The key ratios for the year under review as compared with preceding year are given below.

Ratio Analysis	2020	2019
Profitability Ratios		
Gross Profit Ratio	26.42	29.37
Net Profit Ratio	(3.73)	(4.43)
Return on Capital Employed %	5.60	8.00
Activity Ratio		
Trade Receivable Days	809.79	391.55
Trade Payables Day	915.69	455.22
Liquidity Ratios		
Current Ratio	1.25:1	1.66:1
Quick Ratio	1.24:1	1.66:1

2.3.1(a) Gross profit ratio has been decreased due to increase in the direct cost on cleaning materials, due to Covid spread.

(b) Net profit ratio has increased from 8.56% to 9.19% due to tax saving during the year and Return on capital employed decreased from 8 percent to 5.6 percent, due to the decrease in finance income and the increase in direct cost.

(c) The debt collection period has been lengthening from 391 days to 809 days from 418 days during the year under review. It was observed that company should take immediate action to collect the dues from relevant parties.

(d) Both current and quick ratios had been decreased by 0.42, up to 1.24

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) Mc Cullum Lock gate premises which is owned By Sri Lanka Port Authority had been leased to private party by the company entering in to a lease agreement on 10 April 2018 for five years, commencing from 01 February 2018. As per the agreement lessee should bare the valuation fee and deposit of six month lease rental as refundable deposit equalling to Rs.3,150,000 at the time of execution of the agreement. However, the lessee had deposit only Rs.1,811,250 as refundable deposit and the lessee terminated the agreement during the year while there were outstanding of Rs.5,279,263 at the end of the year under review.	The Company started negotiations to obtain the balance of the refundable deposit. The company was compelled to tolerate since the businesses in this nature were highly affected by two major black swans as Easter Sunday attack and the aftermaths of the pandemic. However, we will take necessary actions to recover the dues as soon as possible.	Management should take steps for collecting the refundable deposits and other agreed payment in time to avoid any bad debt occur to the company.
(ii) The agreement signed by the Company with the Sri Lanka Port Authority for the administration, maintenance and management of the Galle Face Green has expired on 09 February 2019 and this had not been renewed until 31 May 2021.	SLPMCS has several times requested SLPA to expedite the process of signing the agreement. However, the due authority to administer the premises has been granted by the letter of Vice Chairman (SLPA) dated 2020.06.17.	Agreement should be duly signed to avoid any legal issues arise in the future.
(iii) A plot of land had been leased out to a Private Company to set up food stalls at Galle Face Green on 28 March 2017 without written agreement. Rent outstanding from that Company as at 31 December 2020 was of Rs. 1, 635,000 and refundable deposit made by it was Rs. 900,000.	This slot has been leased to Dinemore (Pvt) Ltd. The agreement was already terminated and Company will take the necessary legal actions to recover the dues.	Management should take immediate steps to recover the dues.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>The Company does not have proper system of internal control for collection of revenue from its vendors in Galle Face Ground, and the outstanding of uncollected balance for the year under review and preceding year were Rs. 5,898,125 and Rs.5,301,077 respectively.</p>	<p>These vendors are not registered properly and entered into agreement with the company. They are doing the businesses on heritance basis. However, during this period, the premises are restructured by SL Navy and SLPA and we hope to regularize the vendors as of proper plan in the coming year.</p>	<p>Management must introduce proper system of internal control to collection of the revenue from the vendors of Gall Face Ground.</p>
<p>The underground restaurant at Galle Face Green had been leased to a private party by an agreement on 19 May 2017 for five years commencing from 01 June 2017 and later, agreed conditions had been changed by a letter dated 11 December 2017, as per agreed conditions three-month lease rental equal to Rs.1,500,000 should be kept as refundable deposit to the company. However, the company had not obtained such deposit even by 31 December 2020.</p>	<p>The Company started negotiations to obtain the balance of the refundable deposit. The company was compelled to tolerate since the businesses in this nature were highly affected by two major black swans as Easter Sunday attack and the aftermaths of the pandemic. However, we will take necessary actions to recover the dues as soon as possible.</p>	<p>Management should take action to recover dues from relevant parties in time.</p>

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>The Company had not been prepared a Scheme of Recruitment and the approval of the Line Ministry and the concurrence of the Department of Public Enterprises had not been obtained.</p>	<p>Agreed, SOR shall be prepared asap.</p>	<p>Scheme of recruitment should be prepared and approval of the line ministry and concurrence of the Department of Public Enterprises should be obtained.</p>

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
Corporate Plan that outlining the Company's long-term goals had not yet been prepared.	Agreed, Corporate plan shall be prepared for the 2022-25 as soon as possible.	Management should prepare the Corporate plan showing the future goals.

4.2 Internal Audit and Audi Committee

Audit Issue	Management Comment	Recommendation
The Company did not have an internal audit division and did not hold audit committee meetings.	Agreed, the company will take the necessary actions to appoint an internal auditor	Management should form an internal audit division or appoint special officer to carry on internal audit to avoid any override of controls placed by board and form audit committee to adhere to the corporate governance and circulars issued by Department of Public Enterprises.

4.3 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
According to the United Nations' Agenda for the Year 2030 on Sustainable Development, every government agency must identify the relevant Sustainable Development Goals, and criteria to achieve those goals. However, the company have not been identified those goals and millstones.	Agreed, will take necessary actions to prepare	Company should identify the relevant sustainable goals and criteria and implement the same.