

Sri Lanka Port Management Consultancy Service Private Limited - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Port Management Consultancy Service Private Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement cash flow 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 the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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.(SLFRS for SMEs).

1.2 Basis for Opinion

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 Entities (SLFRS for SMEs) 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 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Audit Issue	Management Comment	Recommendation
Management is responsible for introducing proper internal control system to prevent frauds and malpractices. However, it was observed in audit that approval for transaction, approval for payments and signature for cheques has been done by the same officer of the company for transactions without segregation of duties.	Payment approval and recommendation is not done by the same officer, every payment is made through a payment voucher which is prepared, checked, recommended, and approved by different officers.	Management should ensure that proper internal controls including segregation of duties are implementing in the organization.

1.5.2 Non -Compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per Section 51 (4) of amendment of the first schedule to the principal enactment Inland Revenue Act No. 10 of 2021, Taxable income of a company for the year of assessment with effect from January 1, 2020 shall be taxed at the rate of 24 percent. However, contrary to that the Company had applied 28 percent for deferred tax calculation. As a result, the provision for the year under review had been overstated by Rs.235,636 and income tax expenses understated.	The company is prepared to make the necessary changes to the next year financial statements.	Management should be keen on relevant tax rates for the period of tax calculations.

1.5.3 Documentary Evidences not made available for Audit

Evidence not available for Audit -----	Management Comment -----	Recommendation -----														
<p>i) The Company made a provision of Rs. 350,667 to an Assistant cum Secretary position for Managing Director on contract basis from 10 May 2021 to the end of the year under review. However, the management had not submitted any documentary evidence in respect of attendance or work performed by her within the said period. Hence, we were unable to verify the accuracy of the above provision.</p>	<p>The Secretary for the Managing Director has been hired on contract basis to pay a monthly fee for a contract period of 6 months based in the Ministry; she discharged her duties in terms of every secretarial works from drafting of letters, filing to coordination of the meetings of MD. Paying a service fee was economical to the Company as there's no legal binding for the company to incur additional cost on the post. However, the term period of the said secretary was not extended, and MD instructed to handover her duties to a permanent employee.</p>	<p>Management should keep all documentary evidence for any payment or provision made in the accounts and submit the same to auditor whenever required to avoid any scope limitation on the audit.</p>														
<p>ii) It was observed that the management had not submitted supporting for following deposits shown under current assets in the financial statement. Details are as follows.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Details -----</th> <th style="text-align: center;">Amount Rs. -----</th> </tr> </thead> <tbody> <tr> <td>Advertisement</td> <td style="text-align: center;">-</td> </tr> <tr> <td>ANCL</td> <td style="text-align: center;">50,000</td> </tr> <tr> <td>Mobitel</td> <td style="text-align: center;">15,000</td> </tr> <tr> <td>Silverline Technical Support Centre</td> <td style="text-align: center;">23,627</td> </tr> <tr> <td>Sri Lanka Telecom</td> <td style="text-align: center;">25,000</td> </tr> <tr> <td>Total</td> <td style="text-align: center;">113,000</td> </tr> </tbody> </table>	Details -----	Amount Rs. -----	Advertisement	-	ANCL	50,000	Mobitel	15,000	Silverline Technical Support Centre	23,627	Sri Lanka Telecom	25,000	Total	113,000	<p>All other deposits besides Mobitel had made well before over 10 years. However, company will take measures to find those documents.</p>	<p>Management should keep documentary evidence relevant all deposits made on behalf of company to avoid any hassles in recovering the same.</p>
Details -----	Amount Rs. -----															
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1.6 Accounts Receivable

Audit Issue -----	Management Comment -----	Recommendation -----
<p>i) A plot of land had been leased out to a private company (who made refundable deposit of Rs. 900,000.00) to set up and maintain for food stalls at Galle Face Green on 27 March 2017. However, the relevant company had not been set up its food stalls and not informed in written form. According to the rules and regulations to be followed by the traders at the Galle Face Green, licenses of shops that do not open for more than three consecutive days and non-payment of monthly rent, would be revoked. But the company had not been taken actions against the lessee until leaving and because of that a net amount of Rs.1, 635,000 was outstanding to the company as at 31 December 2021.</p>	<p>Company shall initiate the legal actions to recover these dues; instructions were received to obtain the Hon. Attorney General's opinion regarding these matters through line ministry.</p>	<p>Management should take action to implement the condition of the agreements with vendors to minimize of bad debts.</p>
<p>ii) Receivable from Nalonika Cleaning service (the private institution) amounting to Rs.432,345 had not been recovered over 03 years.</p>	<p>Company shall initiate the legal actions to recover these dues; instructions were received to obtain the Hon. Attorney General's opinion regarding these matters through line ministry.</p>	<p>Management should take immediate steps to collect all outstanding from vendors to avoid bad debt and improve the bottom line.</p>

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

Non-compliance -----	Management Comment -----	Recommendation -----
<p>The company did not have Implement internal audit as per Public Enterprise circular No: PED/12 dated 02 June 2003. - Section 7.4.1</p>	<p>Agreed, the company will take the necessary actions to appoint an internal auditor.</p>	<p>Since this is a compliance requirement, Management should take steps to implement internal audit.</p>

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs. 1,498,766 and the corresponding profit in the preceding year amounted to Rs. 6,512,450. Therefore, a deterioration amounting to Rs. 5,013,684 of the financial result was observed. The reasons for the drop was reducing the income due to the termination of Intra Terminal Trucking Service on March 2021, and reducing the service fee by 73 percent during the year under review. Further increase in the legal and professional fee by 725 percent, increase repair and maintenance cost by 151 Percent and increase traveling expenses of top management by 80 Percent etc are allow reasons for deterioration of financial result.

2.2 Trend Analysis of major Income and Expenditure items

Description	2021	2020	Variance	
	Rs	Rs	Rs.	%
Income from Service Fee	21,650,334	17,671,312	3,979,021	23
Income from Galle Face Green	8,030,574	8,783,083	(752,509)	-9
Income from Hiring Services	18,077,269	2,323,548	15,753,721	678
Provision of staff to ICTC - Peliyagoda	15,557,269	-	15,557,269	100
Provision of Teachers at Creche	2,520,000	2,323,548	196,452	8
Other Income	767,319	2,924,677	(2,157,358)	-74
Administration and Establishment Expenses				
Salaries & Wages	19,387,792.87	15,584,342.92	3,803,450	24
Legal & Professional Fees	2,040,666	247,500	1,793,166	725
Direct Expenses – Hiring Service - Salaries	13,234,208	1,745,810	11,488,398	658

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 3,979,021 or 23 percent as compared with preceding year. Meanwhile, Income from Galle face green had decreased by Rs. 752,509 or 9 percent as compared with previous year. Income from Hiring services had been increased by Rs. 15,753,721 or 658 percent due to the new labor provision contract to provide health staff to Peliyagoda Covid treatment centre. Other income was decreased by 74 percent due to fixed deposit rates in the commercial banks was low as 5 percent during the year under review.

2.2.2 The salaries of permanent staff were revised with effect from January 2021 by 25 percent on the basic, hence the salaries and wages increased by 24 percent.

2.2.3 Legal costs has been increased significantly by Rs.1.79 Mn (725 percent) in 2021 as the main employee related cases were expedited and concluded in 2021.

2.3 Ratio Analysis

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

Profitability Ratios	2021	2020
Gross Profit Ratio	29.25	25.31
Net Profit Ratio	1.44	8.24
Activity Ratio		
Trade Receivable Days	390.07	715.34
Trade Payables Day	504.91	759.35
Liquidity Ratios		
Current Ratio	1.29:	1.24:
Quick Ratio	1	1

- 2.3.1**
- (a) Gross profit ratio has been increased due to increase in the Income from hiring services
 - (b) Net profit ratio had been decreased from 8.44 percent to 1.44 percent due to increase in legal and professional charges, increase in salaries and wages and decrease in other income during the year under review.
 - (c) The debt collection period has been decreased from 715 days to 390 days during the year under review. Trade payable period also decreased from 759 to 504 days due to effect placed by management pay the dues within the stipulated time.
 - (d) Both current and quick ratios had been decreased slightly by 0.4, up to 1.29

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
i) The Company had entered in to an agreement with the Sri Lanka Ports Authority (SLPA) to maintain the Galle Face Green. And the agreement had expired on 09 February 2019. However, no action had been taken to renew the agreement.	Galle Face Agreement Company has several times reminded to SLPA to renew the agreement. Copies of the correspondence have already been submitted to the previous audits and will be attached with this respond as well.	Since this issue continues form previous year, management should take prompt action to overcome the issue and if there any hurdle or impediment it should be communicated to superior level and try to fix the issue.

Further, a temporary officer had been assigned as in charge officer for all activities including collecting money from all types of traders in the Galle Face Green and supervision of cleaning and security services for six months period and continued his service agreement from 01 December 2020 to 30 May 2020. During the audit, it was observed that irregularities and malpractices had been occurred in collecting and depositing money from vendors of Galle Face Green. Further, no proper contract agreement had been introduced and exercised when lending the spaces of Galle Face Green to vendors. The losses incurred from the operation of Galle Face Green during years 2021, 2020 and 2019 were Rs.7,243,033, Rs. 6,463,822 and Rs. 2,931,081 respectively and no proper review had been done to minimize the profit .

SLPA, by its letter dated 2020.06.17 signed by Vice Chairman has informed us to continue the administration and maintenance of the premises until the agreement is finalized. The premises is a public property vested under SLPA and SLP MCS cannot withdraw from the administration, cleaning, and maintenance of the premises as it is used by the general public including children.

Further, Management should follow recommended guides and directions in appointing officers for responsible jobs, give them written direction, implement proper internal control and supervise on period basis to avoid any malpractices, mismanagement and irregularities.

The contract has been offered to the selected bidder for a term of 4 years with the conditions favorable to the Company, such as,

- No price revision annually or whatsoever for 4 years
- Both parties can terminate the contract with mutual agreement or 3 months' notice
- No extra fee/charges to clean up the premises after an event or public gathering
- Garbage collection, sorting, and liaising with the authorities (CMC) should be done by the contractor

Etc.

Further, company has obtained security regulators only for the purposes specified in the tender documents (refer page 2 of the attached document), the public security of the premises is taken care by the Police, unless a regulated security firm registered with the ministry of defense should be hired at a much higher cost which is

unaffordable.

The selected bidder has quoted the lowest price compared to the other competitors.

Based on the circumstances, during the curfew in the months in 2020 April and May, Company deducted 12.5% of the total invoice value and instructed the contractor to reduce the number of people deployed. However, then the security forces started to deploy the premises for their activities on regular basis during the curfew, and the police officers deployed around the premises and Galle Road used the washrooms and other facilities in the Galle Face premises. The restructuring project of the Galle Face green premises was commenced in February 2021; therefore, the construction works carried out by the SL Navy and SLPA all around the year 2021 despite the curfew. Therefore, the cleaning staff was needed to deploy in full to accommodate the cleaning process.

The records pertaining to the attendance of the laborers are available to check at our site office, however, the extractions of the attendance records pertaining to 2021 is forwarded herewith, the actual records can be produced upon request.

The company will initiate a formal inquiry into the matter of delaying the deposit of collected money by the supervisor.

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| <p>ii) As per requirement of the Sri Lanka Port Authority, the Company had deploying personnel for the Intermediate Covid Treatment Center at Peliyagoda and had received Rs. 15,557,268 during the year under review .Which was 8 percent of labor hiring service. However, The Company had not entered to formal agreement with the Sri Lanka Port Authority.</p> | <p>This was a temporary arrangement to establish an intermediate covid care unit until the Covid risk is settled down, the terms & conditions of the arrangement were communicated and agreed through letters. However, if the said service is further extended beyond 2022.08.31, SLPMCS will initiate discussions with SLPA to enter into a proper agreement</p> | <p>Management should enter into a formal written agreement for each type of service providing for smooth functioning and to avoid any conflict between two parties.</p> |
| <p>iii) The Company had earned a sum of Rs.2,520,000 from hiring service (creche) by deploying personnel for the East container terminals belongs to Sri Lanka Ports Authority and a sum of Rs. 1,714,941 from Inter Terminal Trucking. However, formal agreement with relevant authorities in respect of hiring above had not made available for audit. Hence, it was unable to ascertain the accuracy of the above income in audit.</p> | <p>SLPMCS will initiate discussions with SLPA to enter into a proper agreement</p> | <p>Management should enter into a formal written agreement for each type of service providing for smooth functioning and to avoid any conflict between two parties.</p> |
| <p>iv)The Company had been rented out a building at Paliyagoda owned by the Sri Lanka Port Authorityto third party. However, agreement between the third party and the Sri Lanka Port Authority had not been available for audit.</p> | <p>SLPMCS will initiate discussions with SLPA to enter into a proper agreement</p> | <p>Management should enter into a formal written agreement for each type of service providing for smooth functioning and to avoid any conflict between two parties.</p> |
| <p>v) Mc Cullum Lock gate premises owned by the Sri Lanka Port Authority had been leased out to a private party by the Company for five years period, commencing from 01 February 2018. As per the agreement lessee should deposit six-month lease rentals aggregating to Rs. 3,150,000 as refundable depositat the time of execution of the agreement.</p> | <p>The company will initiate the legal actions to recover the dues</p> | <p>Management should take steps for collecting the refundable deposits and other agreed payment on time to avoid any bad debt occur to the company, and assist to obtain confirmation to avoid any scope limitation issue in audit.</p> |

However, the lessee had deposit only Rs.1,811,250 and the lessee had terminated the agreement in year 2020 while being outstanding a sum of Rs.5,279,263. The net outstanding balance had not been recovered up to finalize the audit and also confirmation had not been received from relevant party.

- vi) Sri Lanka Ports Authority (SLPA) has requested from Chief Executive Officer of the company on 15 October 2021 and 2 December 2021, the concurrence of the company to enter into an agreement for paying rent for premises building of company owned by Ports Authority. Authority has submitted rated estimates of Rs.10,025,600 from 19 September 2019 to 28 October 2022. Meanwhile the board has discussed the matter and instructed to the management on 27 October 2021 to request from SLPA to refrain from charging rent as it a government own company. However no any action has been taken after that.
- The Company moved to its present office building in 2011 and spent approx. 7Mn rupees to upgrade the office. There was an understanding between SLPA and SLP MCS that the premises space (building) shall be facilitated by SLPA while the Company should incur all other maintenance and incidental costs including major repairs of the building at company's cost. Meanwhile, at a sudden, SLPA demanded to pay the rentals as it affects from the past (retrospectively) with effect from 2019.09.19 by a letter dated 2021.10.15 which is not acceptable to the Company. SLP MCS management had discussions with the SLPA in this regard, as a result, SLPA did not send reminders which implied that they are open to discuss further. SLP MCS management is of the view that based on the factors; the parties should enter into an agreement in this regard in due course. Until such time, the payment of the rental is not virtually certain and the contractual Obligation (legal obligation) to pay the rental is not established. On the other hand, the constructive obligation is more likely equal
- Management should pay attention to the matter and take steps to come to an agreement with Sri Lanka Port Authority.

to zero. Therefore, until a conclusion is arrived by both parties, neither a legal nor constructive obligation to pay the rentals is not established in order to book a provision.

However, SLPMCS management will discuss the matter with SLPA management including Potential terms and conditions on using the building and reimbursement of utility bills (electricity and water) from a date which is commencing at a future date. In addition, based on the past experience and the mutual understanding between the parties, SLPMCS believes that the matter could be sorted out quickly.