Ceylon Shipping Corporation Limited - 2016

The audit of financial statements of the Ceylon Shipping Corporation Limited for the year ended 31 March 2016, comprising of the statement of financial position as at 31 March 2016 and the comprehensive income statement, the statement of changes in equity and the cash flow statement 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. I was assisted by a Firm of Chartered Accountants in public practice to carry out this audit. 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

----

Board of Directors 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 judgement, 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 Board of Directors, 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 audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matters

Without qualifying my opinion, I draw attention to the fact that the accounts of the Ceylon Shipping Agency (Pvt) Ltd, which is a subsidiary of the Company is not in operation and is in the liquidation process as mentioned in the Note 13 of the Financial Statements, had not been considered in preparation of consolidated accounts of the Company.

2.1.1 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 opinion and the scope and limitations of the audit are as mentioned above.

(b) In my opinion,

- I have obtained all the information and explanations that were required for the audit and as far as it 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.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Even though the revenue of the Company has been recognized on the date of invoice related to that as per the revenue recognition policy of the Company, date of receiving money has been the basis in the recognition of ship representative service income. Accordingly, it was observed that accrual basis had not been adopted in the recognition of income.

2.2.2 Unexplained Differences

The following observations are made.

(a) A difference of Rs. 51,779,904 could be observed in the reconciliation of the balances of the Financial Statements as at 31 March 2016 related to 05 Accounting Subjects and schedules related to that. The Management had mentioned that these differences were due to the defects in the Accounting system used by the Company. Nevertheless, action had not been taken even during the year under review to rectify these defects that had been continued in the Accounting System for a number of years.

(b) The balance of the Transfer of Fund Account used to transfer funds among bank accounts should be zero. Nevertheless, a balance of Rs. 3,697,466 in the account has been continued for several years.

(c) A unidentified deposit of Rs. 519,516 had been maintained in the Bank reconciliation Statement related to a Bank Account of the Company from the month of July 2009 and action had not been taken to identify and settle this value even during the year under review.

2.2.3 Lack of Evidence for Audit

The evidences mentioned corresponding to the following account balances mentioned in the Statement of Financial Position had not been submitted for Audit.

Particulars	Value Rs.	Evidence not made available
Debtors (10 Balances)	824,217,759	Balance Confirmation
Foreign Trade Creditors (01 Balance)	167,734,959	Balance Confirmation
05 balances to be paid to foreign agents	14,698,302	Balance Confirmation
Monthly Fixed Charge of Rs. 319,119 for the supply of Internet and Telephone facilities	3,829,428	Agreement between Service Provider and the Company

2.2.4 Contingent Liabilities

85,991 metric tons of coal purchased by Lanka Coal Company (Pvt) Ltd. Had been transported by Shipping Corporation Limited to Puttalam and this stock of coal had been assigned to an Indian Company on the basis of resupply as it could not be unloaded duly owing to the unfavourable weather conditions prevailed. As per the agreements made with the Companies in this regard, it had been agreed to re-supply the stock of coal within 5 turns and disagreement had taken place regarding the standard of 29,896 Metric tons of Coal to be supplied further by 10 November 2012. Therefore, the coal stock could not be supplied even by the end of the year under review and the contingent liability that had arisen to the Company on the supply of this stock of coal through the relevant supplier had not been disclosed in the Financial Statements.

2.3 Receivable and Payable Accounts

The following observations are made.

(a) Three credit balances totalling Rs. 69,544 and 02 Debit balances totalling Rs. 4,354,402 brought forward since 2012 had not been settled even by the end of the year under review.

(b) The Balance of Trade Debtors as at 31 March 2016 was Rs. 1,191.27 million and 31 per cent or Rs. 366.6 million out of the amount has been brought forward as arrears for more than 04 years. Adjustments for impairments had been made for the full value without taking action to recover these balances of debtors.

(c) Goods and services taxes and National Security Taxes amounted to Rs. 21.54 million that had been excessively remitted to the Department of Inland Revenue by the Company had been recorded in the Financial Statements as statutory charges. An uncertainty prevailed regarding the recovery of the amounts which are carried forward approximately for 16 years.

2.4 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
(a)	Public Enterprises Circulars	
(i)	Circular No. PED 12 dated 02 June 2003	Surveys had not been conducted on fixed assets and stocks for the year ended 31 March 2016. It was observed at the Audit test checks that there had been instance where inventory goods were misplaced and assets had not been duly coded.

(ii)	Section 8.3.4 of the Circular No. PED of 02 June 2003 and the Circular No. PED 2/2015 of 25 May 2015.	Maximum limits for all the communication bills have been determined as per the Circular. Nevertheless, The Company had reimbursed bills of Rs. 514,228 for 10 officers exceeding the fixed limit during the year under review and action had not been taken to recover the excess payments.
(iii)	Circular No. PED 1/2015 of 25 May 2015.	Fuel or fuel Allowances amounting to Rs. 598,806 had been provided for 11 Officers under the approval of the Board of Directors during the year under review exceeding the fixed monthly fuel limit for each category of officers in terms of the paragraph 3 of the Circular.
(b)	Management Services Circular ---------------------- Circular No. 2/2015 of 09 December 2015.	The annual bonus to be paid to one employee during the year 2015 on the approval of the Board of Management as per the classification of Institutions stated in the Circular is Rs. 13,500. Nevertheless, the company had paid bonus allowances of Rs. 48,500 per one person during two instances within the year under review. Accordingly, additional bonus of Rs. 35,000 each per one employee had been paid in contrary to the Provisions of the Circulars.

2.5 Transactions not Supported by Adequate Authority

--

The following observations are made.

(a) In terms of the Public Enterprises Circular No. 58(2) of 15 September 2011, the monthly allowances to be paid to the Chairman and the Executive Director of the Company amounted to Rs.60,000 and Rs.45,000 respectively and the allowance had been revised as Rs. 80,000 and Rs. 65,000 respectively with effect from 01 July 2015 by the Public Enterprises Circular No. PED 3/2015 of 17 June 2015. However, the Chairman and the Executive Director had been paid monthly allowances of Rs. 85,000 and Rs.75,000 each respectively as per the decision taken by the Board of Directors in the year 2007 and as a result, an amount of Rs. 300,000 had been overpaid within the year under review.

(b) Even though it had been stated that any other allowance other than the allowances mentioned in the Public Enterprises Circular mentioned in (a) above should not be paid to the Board of Directors including the Chairman, a Credit Card Allowance subject to a monthly maximum of Rs .100,000 and Rs. 50,000 had been approved respectively for the Chairman and the Executive Director by the Company as per a decision taken by the Board of Directors in a previous year, in contrary to the

Provisions of the aforementioned Circular. The Company had incurred Rs. 882,321 for the Credit Cards in the year under review.

3. Financial Review

3.1 Financial Result

As per the Financial Statements submitted, the financial result of the Company for the year ended 31 March 2016 was a surplus of Rs. 74,317,129 and the Financial Result of the previous year in corresponding to it was a surplus of Rs. 124,942,025 and as a result, the Financial Result of the year under review had decreased by Rs. 50,624,896 or by 40.5 per cent. The increase in direct operating expenses in the year under review by Rs. 126,094,264 or by 93 per cent when compared to that of in the previous year and the net exchange loss was Rs. 23,309,445 and the decrease in the other income by Rs. 46,524,605 or by 126.8 per cent had mainly attributed to this decrease.

Even though the Financial result had been continuously increased from the financial year 2011/2012 up to the financial year 2013/2014 in analyzing the Financial results of in the year under review and 04 previous years, the financial result of the previous year had decreased by 50 per cent when the financial result of the financial year 2013/2014 is compared with the previous year and the financial result had decreased by 70 per cent in the year under review. However, when the emoluments of employees, taxes paid to the government and the deprecation for the non-current assets are adjusted to the financial result, the contribution of Rs. 242 million in the accounting year 2011/2012 has continuously grown up to Rs. 375.6 million in the Accounting year 2015/2016.

3.2 Analytical Financial Review

The following observations are made.

(a) As per the submitted Financial Statements, Agency & Address Commission of the Company has decreased by 47 per cent or by Rs. 208,829,325 when compared to that of in the previous year. The basic reason for this was the reduction in the commission paid by the Lanka Coal Limited per one metric ton of coal from USD 15 to USD 11.5.

(b) As per the submitted Financial Statements, the direct expenses of the Company had grown by 93 per cent or by Rs. 126,094,264 when compared to that of in the previous year. The reason for this was incurring an expenditure of Rs. 83.7 million for operating expenses including fuel, expenses for the staff of the "Ceylon Breeze" Ship purchased by the Company.

(c) Analysis of Ratios

The quantitative ratios and percentages for the year under review and the previous year are mentioned below.

	2015/16	2014/15
Gross Profit Ratio (percentage)	58	78
Net Profit Ration (percentage)	12	20
Return On Capital Employed – (percentage)	1	3
Debt collection period - days	705	684
Debt settlement period - days	1001	1922
Current Ratio	1.07:1	2.08:1
Quick Capital Ratio	1.02:1	2.08:1
Long Term Capitalization Ratio	0.80	0.69
Loans to Equity Capital Ratio	6.31	3.66

(i) Decrease in the Gross Profit Ratio

The gross Profit Ratio has decreased by 26 per cent when it is compared with that of in the previous year and the decrease in income and increase in Direct Expenses by 93 per cent had attributed to the reduction in the gross profit ratio.

(ii) Decrease in the Return on Capital Employed Ratio

The return on Capital Employed Ratio had reduced from 3 per cent to 1 per cent in the year under review when it is compared with that of in the previous year and the loan amount of Rs. 8,219 million obtained from the Peoples' Bank for purchasing ships had attributed to this reduction.

(iii) Debt Collection Period

The Debtors Turnover Period of the Company in the year under review was 705 days and the Debtors Turnover period in the previous year was 684.days Non adoption of a systematic control Procedure on debtors had attributed for lengthening of Debtors Turnover Period and Provisions had been immensely made for bad debts and doubtful debts. Provisions for impairments had been made for 31 per cent of debtors in the year under review and for 27 per cent of debtors in the previous year.

4 Operating Review

4.1 Performance

4.1.1 Primary Objects of the Company

In terms of the Memorandum of Association of the Ceylon Shipping Corporation Ltd. the primary objects of the Company are as follows.

(i) To carry out the business locally and internationally as a ship owner, operator in passenger and cargo ships, ship brokers, ship manager, ship consultant, insurance and general broker, transporter, cargo clearing and consigner.

(ii) To establish, maintain and operate shipping transport and shipping route transport services.

(iii) To purchase, sell, charter, hire, build or otherwise acquire ships or other vessels or any other mode of transport and transport of cargos of dry, bulk, Liquid and gaseous materials in the high seas or on rivers, canals or lagoons.

(iv) Purchasing, selling, hiring, leasing making of multifarious transport methods or acquisition from other methods and transportation of any other type of goods.

(v) Operating businesses as a tourist agent and a contractor supply of transport facilities to tourist or passengers and promotion of related businesses activities.

(vi) To act as agents and managing agents, brokers in connection with the business of shipping and multi model transport operations.

(vii) To acquire concessions or licenses for the establishment and working of lines of ships or sailing vessels or multi model operations.

(viii) Provision of water based recreation facilities to passengers and tourists and businesses activities for the supply of related services.

It was observed at the Audit that attention had not been paid to accomplish certain objectives out of the key objectives of the Company and the objectives for which less attention had been paid in terms of Action Plans for the years 2015 and 2016 are summarized below.

(i) Purchasing, selling, hiring, leasing making of multifarious transport methods or acquisition from other methods and transportation of any other type of goods.

(ii) Operating businesses as a tourist agent and a contractor supply of transport facilities to tourist or passengers and promotion of related businesses activities.

(iii) Provision of water based recreation facilities to passengers and tourists and businesses activities for the supply of related services.

4.2 Management Activities

There had been Security Deposits totalling Rs. 2,276,287 and 22 advance balances for which action had not been taken by the Company to recover and were in the range of Rs. 5,000 to Rs.500,000 and existed for the 05 years to 38 years. Action had not been taken to recover these balances even during the year under review and the provisions for impairments had not been made.

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)	Financial Control	(i) Existence of unidentified bank deposits (ii) Existence of the cheques exceeded the period of validity. (iii) Existence of weaknesses in controlling petty cash
(ii)	Control of Vehicles	(i) Non maintenance of log Entry books systematically. (ii) Non supervision of the documentation of fuel issues.
(iii)	Technological information Systems	(i) Non-performance of maintenance activities and controls in the Information System. (ii) Noncompliance with the requirements of the Company
(iv)	Control of creditors and debtors	Delays in recoveries and payments.