

Magampura Port Management Company (Pvt) Limited – 2017

The audit of financial statements of the Magampura Port Management Company (Pvt) Limited (“The Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the profit and loss and other 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. My observations on the performance of the Company which I consider should be furnished to Parliament in terms of paragraph 6 of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors (“Board”) 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 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 management, 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.

1.4 Basis for Qualified Opinion

- (a) The existence of stock of fuel, stock of interlock blocks, stock of crusher-chips and stock of fire foam aggregating Rs.12,375,228 as at 31 December 2017 could not be ensured in audit due to non-submission of stock verification reports for audit.

- (b) Payment vouchers and other relevant subsidiary documents in respect of 104 payments at the value of Rs.29,975,094 and expenses amounting to Rs.1,713,484 for the year ended 31 December 2017 had not been made available to Audit. As such, those expenses could not be vouched in audit.
- (c) Four loans amounting to US\$ 24,002,438 had been obtained from a private commercial bank during the year 2014 by the Company. Out of that, US\$ 5,175,774 had been settled during the years 2015 and 2016. Subsequently, the Company had discontinued the repayments of those loans and the outstanding loan balance and interest thereon payable as at 31 December 2017 had been US\$ 18,826,664 (Rs.2,884,810,689) and US\$ 1,737,696 (Rs.266,267,314) respectively.
- (d) The unrecognized credit balance of Rs.2,567,188 included in the bank statement as at 31 December 2017 of the Company had been brought to account as other income in the year under review instead of accounting by recognizing it specifically.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of the Magampura Port Management Company (Pvt) Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the Note 23 to the financial statements which describes an assumption on the going concern in the preparation of financial statements 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 scope and limitations of the audit are as stated above.
- (b) In my opinion:
- Except for the effects of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as 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 Lack of Evidence for Audit

Journal vouchers and subsidiary documents had not been made available to Audit for checking the accuracy of journal entries relating to months of November and December 2017.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though a sum of Rs.2,985,798 had been shown in the financial statements as Withholding Tax receivable as at 31 December 2017 by the Company, action had not been taken to deduct the said amount in the payment of income tax for the assessment years of 2017/2018 of the Company. Moreover, according to the financial statements, a balance of Rs.2,667,432 had been shown in accounts as Withholding Tax receivable as at 31 December 2016. However, relevant certificates of withholding tax had not been made available to Audit. As such, deduction of the said withholding tax in the computation of income tax, was uncertain.
- (b) A quantity of 102.42 Metric Tons of fuel (IFO 380) costing US \$ 63,500 had been sold to a vessel that reached the Hambanthota Port on 22 June 2014 and a sum of US \$ 47,870 had been paid to the Company for the said fuel by the relevant agency. However, the remaining amount of US \$ 15, 630 equal to Rs.2,396,079 had not been recovered by the Company even by 31 December 2017. Further, provisions for doubtful debts had been made for the said total loan balance as at 31 December 2017 by the Company.
- (c) The income tax payable for the assessment year of 2016/2017 had been Rs.4,187,009 as at 31 December 2017. However, documents for confirmation of payment of the said amount had not been made available to Audit up to 05 November 2018.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations etc.

Non-compliances

(a) Public Enterprises Circular No. PED/12 of
02 June 2003

(i) Section 5.1.1

Even though a Corporate Plan should be prepared for a period not less than 03 years, the Company had not prepared such a plan.

(ii) Section 7.2

Even though a Procedure Manual should be prepared as a main item of the Administrative Division so as to cover all

major operations, the Company had not prepared such an Operating Manual.

(iii) Section 7.4.1

Even though the Audit Committee should meet and give recommendations to improve the internal control system and operations of the Company based on the findings by internal audit, there was no Internal Audit Unit in the Company and Audit Committee meetings as well had not been held.

(iv) Section 9.3.1

Even though every public enterprise should formulate a proper Scheme of Recruitment for each post and obtain the approval of the line Ministry and the concurrence of the Department of Public Enterprises, the Company had not formulated such Scheme of Recruitment and obtained the approvals of the relevant parties for the existing posts.

(b) Public Finance Circular No.01/2014 of 17
February 2014
Paragraph 02

In terms of the Circular, an Action Plan should be prepared in compliance with the Corporate Plan. However, the Company had not prepared such a plan.

(c) Public Administration Circular No.24/2011
of 16 November 2011

Action should be taken to obtain the approval of the General Treasury, when it is required to deploy a retired officer older than 60 years of age in the service of Public Corporations and statutory Bodies. However, 08 officers who have reached the age of 60 years, of the Magampura Port Management (Pvt) Ltd, had been deployed in service without reaching the said requirement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company during the year under review had been a loss of Rs.109 million as compared with the corresponding loss of Rs.534 million for the preceding year, thus indicating an increase by Rs.425 million or 80 per cent in the financial result of the year under review as compared with the preceding year. The loss of the preceding year had increased due to accounting the net realized value of stocks and a sum of Rs.585,496,943 in the preceding year.

4. Operating Review

4.1 Performance

The Company had been established for the achievement of the following objectives.

Perform duties and functions which are assigned to the Company from time to time by the Sri Lanka Ports Authority and carry out management and operating activities of the Magampura Port.

Develop the Mahinda Rajapaksha Port in Hambanthota as a modern International Sea Port.

Establish an industrial zone within the limits of the Mahinda Rajapaksha Port in Hambanthota

Supply marine fuel, water and other services to vessels.

However, out of those objectives, only performing duties and functions which are assigned by the Sri Lanka Ports Authority and carrying out management and operating activities of the Magampura Port had been achieved and the Company had failed to achieve the remaining objectives in a successful and adequate manner.

4.2 Management Activities

The following observations are made.

- (a) The interlock blockings had been manufactured in the year 2015, despite failure in indicating it as an objective in the Memorandum of Association. Out of them, 506,000 interlock blockings had been provided at a cost of Rs.25,166,000 by the Company to the China Harbour Engineering Company. As the said interlock blockings were not in the proper standard, a part of those blockings had been returned and a sum of Rs.3,660,000 had been repaid by the Company to the China Harbour Engineering Company during the year 2017. It was further observed that this situation has arisen due to manufacture of sub-standard interlock blockings.
- (b) Twenty two mobile phones costing Rs.436,541 had been provided to 22 officers of the Company and action had not been taken by the Management to get back those phones in terminating their service on 30 January 2018. Even though 16 officers had been informed by 15 July 2018 to return their mobile phones, only one mobile phone had been returned.
- (c) The stock balance of two types of oil such as IFO 380 and MGO indicated in books as at 31 December 2017 had been 35 and 1,083 Metric Tons respectively. Even though operating activities including sale of bunkering oil of the Company had been completed, action had not been taken even by the date of audit for reaching a final decision on the said stock.

- (d) The interest income on fixed deposits, amounting to Rs.44,097,112 received during the year should be shown as a cash flow generated from investment activities in the preparation of cash flow statement. However, the said amount had been shown as a cash flow generated from financial activities. Further, the value of stock of bunkering oil amounting to Rs.35,563,498, confiscated by the Sri Lanka Customs in the preparation of cash flow statement of the Company should be adjusted to the loss before tax. However, it had been shown as a change of stocks under the changes of working capital.
- (e) The income tax payments of Rs.464,282 had been debited to the Payable Employees' Provident Fund and Employees' Trust Fund Account instead of debiting to the Income Tax Account. As such, the Payable Income Tax Account had been over-computed and the Employees' Provident Fund and Trust Fund Account had been under computed by the similar amount.
- (f) The advance of Rs.100,000 recoverable in handing over a house obtained on rental basis by the Company had not been recovered and it had been written off as expenditure on accommodation.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.67,091,908 had been paid as overtime during the period from January to October 2017 by the Company. Even though the operating activities of the Port had been at a minimum level, sums of Rs.31.7 million for employees of non-operational divisions, Rs.3.7 million for employees of the fuel tank operating division of which operating activities had been discontinued and Rs.17 million for employees of the operational division had been paid as overtime. Therefore, it was observed that action had been taken negligently by the Management to approve and pay overtime without considering the requirement of deploying them in overtime. Further, reports on work done relating to payment of overtime had not been made available to Audit.
- (b) The entire staff of the Magampura Port Management Company (Pvt) Ltd, should mark their finger print compulsorily on fingerprint machine for ensuring the reporting for duty. However, 03 officers of the Top Management had not marked their arrival and departure by using the fingerprint machine in reporting for duty.
- (c) According to a decision of the Board of Directors, a member of the Board of Directors of the Company had been appointed from 01 November 2015 on an allowance of Rs.50,000 with effect from 15 October 2015 in the year 2016 for providing financial consultancy services of the Company. According to the Minute of the Board of Directors, the relevant appointment had been made until an eligible person is appointed to that post. However, such a qualified person had not been appointed to that post in December 2017, until the operating activities of the Company had been completed. Even though a sum of Rs.287,167 had been paid at six sessions to the relevant consultant in the year 2017, consultancy reports had not been made available to Audit.

- (d) In the recruitment of officers for the Company, appointments should be made based on the basic salary relating to the salary category belonging to posts included in the approved Human Resources Plan of the Company. However, it was revealed at the examination of letters of appointment of officers that they had been recruited on a salary which was higher than the said basic salary. According to the audit test check, a sum of Rs.6,795,000 had been overpaid to 10 officers recruited to 02 posts up to September of the year under review contrary to the Human Resources Plan. Moreover, the approval received for these appointments and deciding their salary scale had not been made available to Audit.

4.4 Staff Administration

The following observations are made.

- (a) The operating activities of the Magampura Port Management Company (Pvt) Ltd. had been assigned to the Hambanthota International Port Group (Pvt.) Ltd, and the Hambanthota International Port Services (Pvt) Ltd, from 13 December 2017. The remaining stock of bunkering oil owned by the Company as well had been sold on 27 November 2017. Seven officers who had served in the Magampura Port Management Company and left the service obtaining compensation, had been recruited for the posts which they held earlier on contract basis on the decision of the Board of Directors. Officers such as three Assistant General Managers, an Engineer, Finance Manager and Supply Manager had been further deployed in the service of the Company on the basis of payment of salary which they obtained. However, letters of appointment including conditions for their appointments, duty lists, registers for reporting duty and reports on work done had not been made available to Audit. Moreover, those officers had obtained a sum of Rs.8,840,669 as salaries and allowances from February to September 2018. Further, as mentioned in the Industrial Arbitration No. A/37/2017 of the Colombo Industrial Courts of the Department of Labour and Condition 18(a) of the Arbitration Agreement entered into between parties on 02 February 2018, those parties had agreed that the salary or any payment whatsoever as substitute is not paid to any employee of the Magampura Port Management (Pvt) Ltd after the date of 31 January 2018.
- (b) It was observed that a sum of Rs.411,585 had been overpaid in the payment of compensation for terminating the service of employees by the Company.
- (c) According to the financial statements for the year 2017, legal expenses had been Rs.3,712,245. These expenses comprised of a sum of Rs.725,000 paid to a member of the Board of Directors of the Sri Lanka Ports Authority which is the parent company, who acts as an Attorney-at -Law in the Magampura Ports Management Company. However, information such as the manner in which the said officer had been appointed as an Attorney-at-Law and conditions for payments, duty and the approval therefor had not been made available to Audit by the Magampura Ports Management Company.
- (d) Disputes arisen in termination of the service of employees of the Magampura Port Management (Pvt) Ltd, by paying compensation, had been settled in terms of Industrial Arbitration No. A/37/2017 of the Colombo Industrial Courts of the Department of Labour and Conditions of the Mediation Agreement entered into on 02 February 2018 between

parties. In terms of Condition 18 (b) of the Mediation Agreement, if outstanding overtime for November 2017 and /or outstanding salaries up to January 2018 should be payable, it had been agreed to make those payments before 28 February 2018. However, the Magampura Port Management Company had paid a sum of Rs.12,211,073 as allowances for performance, motor vehicles, accommodation and travelling relating to December 2017 and January 2018 to persons not entitled for those payments due to inoperative condition of the Company, contrary to those agreed conditions.

4.5 Unresolved Audit Paragraphs

An officer had been recruited on 02 December 2013 for the post of Deputy General Manager (Oil warehouse) not included in the organizational structure (cadre) of the Magampura Port Management Company. Even though the said officer had been recruited to formalize the operating activities on bunkering oil, a loss of Rs.1,876,555,819 had been sustained by the Company during that period, due to operating activities on bunkering oil. As such, it was observed that a sum of Rs.20,826,983 paid as salary, fuel and toll for using the Highway during the period from December 2013 to January 2016 in which the said officer had been deployed in the service, had become a fruitless expenditure.

5. Accountability

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the draft Annual Report and accounts should be furnished to the Auditor General within 60 days after closure of the financial year. However, the draft Annual Report and accounts of the Company for the year 2017, had been presented to the Auditor General with a delay of 210 days, that is, on 28 September 2018.

6. 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 areas of systems and control.

Areas of Systems and Controls -----	Observations -----
(a) Stocks Control	Failure to take necessary action to remove the unusable stocks.
(b) Balances receivable	Failure in taking action to recover the balances receivable.