Ceylon Shipping Corporation Limited – 2019/2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Shipping Corporation Ltd ("Company") for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 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 March 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 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 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 documentshave been properly and adequately designed from the point of view of the presentationof information to enable a continuous evaluation of the activities of the Company, andwhether such systems, procedures, books, records and other documents are in effectiveoperation;

- Whether the Companyhas complied with applicable written law, or other general or special directions issued by the governing body of the Company.

- Whether the Companyhas 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.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Audit Issue	Management Comment	Recommendation
(1)	As per the paragraph 35 of the Sri Lanka Accounting Standards on Presentation of Financial Statements (LKAS 01), foreign exchange gains and losses on transaction and if they are material, entity shall presents such gains and losses separately, contrary to that the Company had offset Rs. 79,314,975 exchange gain earned on settlement of balances by outside parties beside the cost incurred, against the direct expenses Rs. 2,715,856,270. Further, as per the paragraph 32 of same standard, entity shall not offset assets against liabilities	Those excess amounts which you had mentioned are arises difference of exchange rate that we used to pay them and reimbursed from consignees. Now we identify same and in time that occurred in which has the time of transaction done, Then we have make necessary arrangements to consider same either Exchange Gain and Loss or Other Income. This has fully effected on our system form the financial year 2021/2022.	Management should ensure the accuracy completeness and transparency of the financial information. And presentation should be done as required by the standards.

	unless permitted by the standards; contrary to that the company had offset Rs. 888,948 debit balances against trade payables. As a result, direct expenses and trade payable had understated by Rs. 79,314,975 and Rs. 888,948 respectively at the end of the year under review.		
(ii)	According to the paragraph 39 (a) of the Sri Lanka accounting Standard 21 (LKAS 21) “assets and liabilities for each statement of financial position presented shall be translated at the closing rate at the date of that statement of financial position”. Contrary to that the Company had not translated the balance payable Rs. 114,247,992 (USD 745,246) which is the deposit made by ship building company, for in Lieu of remaining warranty claims as per the ship building agreements of two vessels. Hence guaranty repair receivables (liability) had been understated by Rs.29,176,836. Further, foreign creditors (Shipping agents) which were in different foreign currencies aggregating to Rs. 831,367,435 as per statement of financial position had not been translated, at the rate prevailing at the date of financial statements.	Agreed with the amount shown as liability amount of Guarantee Repairs. But the foreign creditors are not in operation more than 10 years except Gulf Maritime services (Pak) Ltd, therefore, management has decided not to value as at to date rate. After being defunct of agency functions there were no accounts statements and therefore no updating of records in the ledger except carrying on the balances year by year. After transferring the physical records to the record room 5-6 years later no physical records in hand to see with the ledger balances. When going back year by year in the annual accounts these balances can be seen carried forward without any change. There were no records that these agents have claimed the settlement of balances.	At the time of converting financial statement balances, Management should be compliance with Sri Lanka Accounting Standard No 21 (LKAS 21).
(iii)	As per paragraph 51 of the Sri Lanka Accounting Standard (LKAS 16) on “Property, Plant and Equipment” the residual value and the useful life of an asset shall be reviewed at least at each financial year end and if expectation differ from previous estimate, the change(s) shall be accounted for as a change in an	CSC used these vehicles, Furniture and Fittings and Office Equipment for many years and there was no any wear and tear value. Also better you have observed the conditions of them, and then you may understand that valuations of those assets are only arising another cost for CSC. The computer software installed in the year 1999 and it was almost 22	Since the management use these assets for their day to day operations and get the economic benefit out of them, certain value should be included in the financial statements. Otherwise it should take action to dispose those assets.

	accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimate and Errors. Contrary to that it was observed that Rs. 41,315,756 valued assets were fully depreciated at the time of preparing financial statements and still they were used by the company. However, action had not been taken to revalue the assets and make necessary adjustments as required.	years old, package was not compatible and user-friendly to cater the requirement of the company. Management has not recommended for any revaluation for computer software without value for the company.	
(iv)	As per the Sri Lanka Accounting Standards on Impairment of Assets (LKAS 36), the Company had assessed two vessels of its own and had decided that there was no impairment as at 31 March 2020. In that process the Company had estimated expected future cash flows for next 20 years. As per that scheduled expected charter rates on open market operations of Mv Ceylon Princess and Mv Ceylon Breeze for the year 2020/21, was USD 12,427 for each vessel per day. However, the company was able to earn average charter rates from Mv. Ceylon Princess and Mv. Ceylon Breeze for the year 2020/21, was USD 7,694 and USD 10,871 per day respectively. It had shown a significant difference between actual and forecasted charter rates. However, no disclosure had been made in the notes to the financial statements on that matter by the Company.	CSC performed its annual Impairment Test considering the internal and external factors related to impairment as at 31st March 2020. The recoverable amount of the vessels as at 31st March 2020 was determined based on the method of Value in Use computation using estimated future cash flows and the assessments which were carried out by CSC internally in accordance with the paragraph 33 of SLAS 36. As per the LKAS 36, Paragraph no33(c) (i.e. Steady /declining growth rate shall not be used if an Increasing rate can be justified for Cash Flow projections beyond 5'th Year). It is on this basis that Revenue Forecasts covering twenty year period, which is the estimated useful life of the vessel, were projected. Accordingly Cash Flow Statement there was no any impairment of two vessels for the year 2019/2020. Considering the above you understand that CSC has done its two vessels impairment test purely in "Assumptions, Estimations and Projection" in accordance with the LKAS 36 Therefore, these assumptions estimations and projections can be changed and also practically cannot	When it is revealed that significant changes have indicated in assumptions, they should be disclosed in order to take fair decisions to stakeholders.

		be mentioned on changes happened on 2020/2021 years figures on 2019/2020 Financial Statements.	
(V)	Good and Service tax and National Security Levy receivable amounting to Rs.18,936,777 and Rs. 2,612,349 respectively had remained over 10 years without being recovered. However, as required by the para 5.5 of the SLFRS 9 – Impairment, Company had not recognized a loss allowance for expected credit losses on a financial asset.	Agreed. This has considered for impairment for the year 2020/2021.	Management should recognize loss allowance for expected credit losses on financial asset in accordance with standard.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(i)	Even though the bunker stocks (Fuel stock) of two vessels aggregating to Rs.4,406,084 (MV Ceylon Princes and MV Ceylon Breeze) had sold, value of those stocks had been taken as closing stock of the previous year bunker stock erroneously. Therefore, opening bunker stock for the year under review had overstated by that amount.	Bunker stock value at the time of on hire should be removed from the stock a/c as it goes to the hands of charterer at an agreed value. Therefore, correct stock value should be the "0" value as at 31/03/2019 Therefore, Correction to this accounts will made accordingly.	Management should place proper control over stocks to mitigate these errors and pass entries on timely basis to overcome these issues in future.
(ii)	As a result of the incorrect opening stock as mentioned in (i) above and issuing the stocks at different rates using FIFO method and incorrect calculations bunker consumption cost mentioned under direct operating expenditure for the year under review had been overstated by Rs. 6,382,082.	Please note that we have checked the account and noted that exchange rate applied in the consumption records is to be readjusted. Adjustment entry will pass accordingly.	Management should apply correct rates at the time of computing the stocks to overcome the errors.
(iii)	Offline bunker usage in vessel MV Ceylon Breeze during the charter period to the value of Rs. 1,120,526 had been debited to the bunker stock account instead of	Off hire bunker usage should be treated as a cost to the owner. Therefore, off hire bunker cost should post to the bunker consumption account. This off hire usage	Management should be alert when passing entries in the accounts and implement controls to avoid same error repeat in

	recognizing as bunker expenditure. Hence, bunker stock had been overstated and bunker expenditure had been under stated by similar amount in the comprehensive income statement and financial position respectively at the end of the year under review..	accounted to bunker stock account has been rectified transferring it to consumption account as an adjustment entry in the subsequent year by Accountant (R).	the future.
(iv)	The Company had incurred a loss of Rs. 10,905,686 due to the reduction of rate charged for bunker stock when the vessel MV Ceylon Breeze transferred between two charterers (Voyage 27 to voyage 28). This loss had been debited to the bunker stock account. Hence, bunker stock as at 31 March 2020 had been overstated by similar amounts.	First and final charter hires invoices were raised by us as per charter parties agreements with industry practice based on bunker adjustments. And we wish to confirm you that all invoices are correct as per the agreements and industry practices. Based on M/s Clarkson Research Shipping Intelligence Weekly Report which is issued in London, UK and much reputed/apply in the shipping industry bunker prices were taken to charter the vessel. Therefore, there was no incurred any loss on CSC A/C at all. The quoted difference was bunker prices which were mentioned in the recaps only.	Loss on stock transfer should be adjusted to relevant control/expenditure account instead of adjusting to bunker stocks.
(V)	In the process of estimating the value of two own vessels, using value in use method in annually, company had included different amount of operating expenditure values for the same year, without acceptable evidences. It was observed that when calculating the value for the year under review operating expenditure for the year 2018/19, has considered as USD 4339. However, in calculating the value under value in use method for the years 2017/18 and 2018/19 it was considered as USD 4611 and 4693 respectively.	Understand that 2018/19 forecasted data was not being considered for impairment test for the year 2019/2020. Purely new data adopted for New Year forecasting. The basic consideration is that our projection which have been determined as per the LKAS 36, Paragraph no33(c) (i.e., Steady /declining growth rate shall not be used if an Increasing rate can be justified for Cash Flow projections beyond 5'th Year). It is on this basis that Revenue Forecasts covering twenty-year period, which is the estimated useful life of the vessel, were projected.	Management should follow the standard at the time of making cash flow projection with reasonable and supportable assumption that represent best estimate.

1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
As per the financial statements, loss for the year under review was Rs. 1,154,469,108 and the cumulative loss as at 31 March 2020 was Rs. 2,647,715,036. Further, net assets of the company as at 31 March 2020 was a negative value of Rs. 1,275,502,117 and it was observed that these were the clear indication of material uncertainties that indicates the going concern uncertainties of the company. To overcome this situation the company had proposed some mitigating measures in their extra ordinary meeting held on 3rd July 2021. The report submitted to the EGM relevant to the financial year 2019/20 main reason for the loss for the year under review was exchange loss amounting to Rs. 1,009 million arising from converting USD loan balance to rupee value as at 31st March 2020. Even though, in this meeting management was given the consent to convert the USD loan to LKR loan and rescheduling the loan with favorable terms and condition including reduce the interest rate from 7.88 percent to 2 – 4 percent as the ship building industry normal practice. However, consent had not been granted by the Central Bank and loan could not converted to LKR. Loan had rescheduled by the bank from 15 year to 20 years. But the interest rate had not reduced as expected up to 2 - 4 percent and only 0.25 percent from 5.25 percent +6-month LIBO had been deducted. Therefore, the main loss mitigating	Cumulative loss Rs, 2,647,715,036 may arise due to, high interest component being paid for vessel's loan, depreciation of the two vessels charged for the Statement of Comprehensive Income, extraordinary exchange losses charged to the Statement of Comprehensive Income for the reason of depreciation the Sri Lanka Rupees against the United States of Doller, earning of the two vessels are marginal in compared with daily operational cost without considering the ships loan and vessels maintenance cost are on the rise and net Losses After Tax arises since the year 2016/17 to 2019/20 Even if CSC makes Operational Profits, continuously record Net Losses Before Tax (PBT) since 2016/17 solely attributed to two ships. In the above circumstances it has shown the income generated through this assets (Two Ships) is not adequate to meet the ships loan liabilities and also seriously affect the solvency of the CSC to make the payment liabilities of CSC as and when fall due as per the 2019/20 financial Statements. However, CSC is servicing ships loans taken from the bank and also pays its debts as they become due in the normal course of business and even value of the Company's Assets is greater than the value of its Liabilities and its Stated Capital. CSC will venture into a Public Private Partnership (PPP) model with zero investment in respect of the following New Business projects. 1. Operating a feeder service between Sri Lanka & Bangladesh 2. Purchasing 02 second hand vessels or bareboat charter vessels to employ for the carriage of coal together with CSC owned vessels, Mv. Ceylon Breeze & Mv. Ceylon Princess 3. Construction/Building 4 Nos. Self-	Management should take steps to implement and evaluate the mitigating action proposed in the EGM to overcome the continuing going concern issue face by the company.

factor based on cash flows generating before and after converting the loan from USD to LKR as per the board resolution No: 259/2021/151 had not been succeeded. Further, refinancing process of loan as per the cabinet decision on 17 November 2020 had not been completed even by 21 January 2022. Other proposals for diversification the business as a business strategies in achieving long-term growth as ; promoting Sri Lanka flag registry, operating a floating bunker storage, building a boat for the transportation of passenger and cargo at Norachcholai, operating a feeder service between Colombo and Bangladesh in coordination with Bangladesh shipping corporation and hiring a tanker vessel in time or bareboat charter basis to enter for the sea transportation of crude oil, have not been implemented.	Propelled Barges for Coal Lightering Operation Since the prevailing interest rate of 5.25% 6 months LIBOR is in high side with compared to other soft loans offered for ship building projects in the current industry, it has been noted that the total CSC's income including revenue to be generated from CSC new businesses could not even sufficient to pay back the loan installments at the prevailing interest rate. The Cabinet of Ministers has also granted the approval vide Cabinet decision no. MPS/2020/01/13 dated 17th November 2020 for the above proposal of Loan refinancing facility. It is expected to proceed refinancing the Balance USD loan 60.48 Mn at the interest rate of approximately USD 1.5% with a new Lender who is to be selected by a Tender process of Request for Proposals (RFPs). It may convert the present unhealthy financial situation of CSC towards a commercially self-sustaining profitable entity.	

1.5.5 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
Accuracy and existence of Debtors aggregating to Rs. 85,626,802 from 23 debtors and Trade payable aggregating to Rs. 29,306,426 from 14 creditors could not be ascertained in audit due to lack of sufficient, appropriate evidence and confirmations. Further, only one trade creditor who had balance of Rs.1,783,438 had confirmed his balance as Rs.693,944. Hence, it was observed a difference of Rs. 1,089,493 between confirmed balance and the balance in financial statements.	As instructed by the Auditors CSC has already sent balance confirmation all the debtors except the debtors who were legal proceeding implemented. CSC has taken legal action against Ceylon Petroleum Corporation and Triple S Shipping. Also, all the documents relevant to the Sea Consortium Lanka were with legal division. Other receivables belong to the active customers and all the correspondence had with us. We have made impairment Provision for the CSCL Debtors in accordance with the SLFRS 9.Most of said debtors balance had not been recovered	Management should submit all relevant documentary evidence to auditor to carryon independent review of the accounts and balances, Further, recommend that the management should support to get the confirmation directly to audit fromthird parties to persist the duty without any limitation and impediments.

1.6 Accounts Receivable and Payable

	Audit Issue	Management Comment	Recommendation
(i)	Total outstanding balance of trade receivables were amounting Rs. 3,049,370,999 as at 31 March 2020 and out of the total debtors 19 percent amounting to Rs. 585,908,130 were remaining for more than three years. Further, it was observed that 98 percent of debtors of Freight clearance, Government Container deposit and Other Debtors aggregating to Rs. 93,997,639 were outstanding for more than 06 years.	. Debt recovery committee has been nominated by the board, but not collected any material amount from long outstanding dues. .In addition to that, we have submitted all outstanding dues to Board of Directors meeting on monthly basis for their information /action. Further, as instructed by the Auditors CSC has already sent balance confirmation all the debtors except the debtors who were legal proceeding implemented. CSC has taken legal action against Ceylon Petroleum Corporation and Triple S Shipping. Also, all the documents relevant to the Sea Consortium Lanka were with legal division. Other receivables belong to the active customers and all the correspondence had with us.	Management should accelerate the process of Debt recovery committee and target should be given on periodic basis, KPIs should be introduced and evaluate on timely basis.
(ii)	Agency commission receivable from 13 agents amounting to Rs. 2,592,955 had not been recovered for more than 03 years and out of 13, 12 agents who have outstanding balance aggregating to Rs. 2,004,609 (77 percent) are not in operation. Company had not been provided relevant agreement for audit.	Available Agency Commission Receivable balance as at 31-03-2020 is Rs 7,693,112.00.Out of this amount Rs 5,688,503.00 available as Casual Agency Commission. However, Rs 2,839,735.00 has been already settled in year 2020/2021 and amount Rs.729,600 will be settled in year 2021/2022.Accordingly, only Rs 588,346.00 balance available as more than three years. Accordingly, balance Rs.2,004,609 had carried forward as opening balances which was new computer package initiated in the year 1999 but the details not available.	Management should take steps to recover the remaining balances and on balance remaining from the beginning of introducing computer system, management should take steps with the support of board to remove the same.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Para no.7.4.5 of the public enterprises circular No: PED12 dated 02 June 2003	Annual board of survey should be carried out verification of fixed assets and inventories. Contrary to	Disclosed items in the query had not been physically verified by the members of the Board of	Management should take reasonable steps to verify the assets on yearly basis to identify

	that physical verification had not been carried out as at 31 March 2020 for inventories valued Rs. 203,195,599 lying in the two vessels and further observed that the company does not have a mechanism to physically verify inventories when vessels are away from country.	Survey due to non-availability of owned ships in Colombo Port as at 31/03/2020. As a practice we accept Master certified year end balances for our accounting records and your suggestion is forwarded to the notice of the management as a priority basis and the decision of the management will be submitted for your information.	any assets which are not in usable conditions, damage items etc and maintain accurate and complete fixed assets records in the ships.
Management Services Department Circulars No. 05/2017 dated 25 October 2017.	The professional allowance is entitled only to the officers who are not entitled to the allowance, mention in the circular. Contrary to this company paid professional allowance for 13 employees amounting to Rs. 1,109,085 who received attendance allowance, secretary allowance, vehicle allowance, additional allowance and retention allowance.	The MSD Circular No. 05/2017 in respect of Payment of Professional Allowance has been adopted by Ceylon Shipping Corporation (CSC) with effect from October 2017 and has approved to implement the same for the employees more than 11 years in the MM 1 -1 Category.	Since CSCL is fully own government company, it should follow the circulars issued by the Management Service Department of Treasury and obtained approvals for any special payments to the employees.

1.8 Non compliance with Tax Regulations

	Audit Issue	Management Comment	Recommendation
(i)	The Company was liable to pay Value Added Tax (VAT) based on the cash basis according to the Inland Revenue department direction provided on 3 September 2003 by letter No: VAT/Gen/04. Therefore, amount of Rs. 66,419,287 had been existed as VAT payable due to fail to collect the VAT from the Lanka Coal Company (Pvt) Ltd from the date of 19 November	Inland Revenue Department has already issued a directive to Lanka Coal Company to pay VAT on Lightering Charges before the invoice date 17-01-2018(Copy Attached).All invoices are issued after the 17-01-2018 exempted by the IRD due to the practical issue raised by the CEB/LCC of Norchcholai power plant terminal. However,	Since this is a compliance issue, continue for long period and both entities are government own companies, management should appoint separate committee or team to discuss the subject with opponent management through relevant ministry or directly to short out this

	2012 to 16 January 2018, relevant to 20 no's of invoices. Further, Inland Revenue Department had been issued clarification on 17 January 2018 under letter no: ACT 17/9 regard to the dispute arose between Lanka Coal company Ltd with the company relevant to the lightering that consider declaration as zero rated from 17 January 2018, accordingly deemed that Lanka Coal company (Pvt) Ltd requires to pay the default VAT to the company. This dispute had been long outstanding and action had not been taken to recover the default VAT from Lanka Coal Company (Pvt) Ltd and remit to Inland Revenue Department.	still they have not settled the VAT potion of the Lightering invoices before the invoice date 17-01-2018. Accordingly, if they settled the VAT charges we will be able settle same amount to the IRD. For your information, CSCL pay VAT charges to IRD on Cash basic, approval given by the IRD.	issue and settle the same to Inland Revenue Department or to obtain amnesty for the same.
i)	As per the section 23 of the VAT Act to settle VAT on cash basis - Inland Revenue Department letter no VAT /Gen/04 dated 3 September 2003, It is required to maintain a list of debtors and creditors and as at the end of each taxable period. However, Company had failed to maintain the record.	We should generate VAT Debtors/Creditors schedule through proper accounting system. However, IFS has not been available same facility to maintain creditors /Debtors schedule through the System. Input and Output VAT both entries are recorded in control account and mixed up all entries in IFS. Please understand that it is not an easy task to do the manually considering the huge day today operation	Management should take steps to comply with the requirement of Inland Revenue department and maintain separate records for VAT debtors and Creditors.

1.9 Cash Management

Audit Issue	Management Comment	Recommendation
As per paragraph 6 of the Sri Lanka Accounting Standard – Statement of Cash Flows (LKAS – 07) definition for cash comprises cash on hand and demand deposits. And as per the accounting policy of the company Cash and cash equivalents include cash in hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Contrary to that cash impress that the company had given to Captains of two vessels for their day-to-day operations amounting to Rs. 8,761,567 had not been considered as cash and cash equivalent and had included under other receivables. Therefore, cash and cash equivalent in the financial position statement and cash flow as at 31 March 2020 had been understated by that amount.	Since the inception of the CSCL we have done the same practice to release and kept the records in Ledger for Cash to Master. And also same practice has been done issuing and recording Cash to Master (CTM) in the shipping trade. Although we have no any audit query receive from the Auditors except the Financial Year 2019/2020 in this regard. We normally release CTM to Captain of the vessel as usual manner and recorded same as debtor up to settlement received by the Captain of Vessel. And also CTM cannot consider as cash impress that you mentioned in your audit query.	Management should adhere to the accounting standard and consider the cash impress given for two vessels under cash and cash equivalent instead of showing the same under receivables.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.1,085,215,556 and the corresponding loss in the preceding year amounted to Rs. 1,523,141,091 Therefore, a growth amounting to Rs.437,925,535 of the financial result was observed. The reason for the growth is the decrease of the finance expenses by Rs. 465,425,682 or 19 percent and the increase of the freight income own vessel by Rs. 473,399,958 or 40 percent during the year under review comparing to the preview year.

2.2 Trend Analysis of major Income and Expenditure items

Item	2019/20	2018/19	Increase/(decrees)	Percentage
Total Revenue	3,849,354,149	3,053,156,359	796,197,790	26.08
Freight Income on own vessels	1,638,808,541	1,165,408,583	473,399,958	40.62
Charter Hire Income on own vessels	592,200,642	853,074,876	(260,874,234)	(30.58)
Address Commission	542,878,386	484,767,562	58,110,824	11.99
Clearing and forwarding	19,583,422	45,227,864	(25,644,442)	(56.70)
Voyage	1,055,883,158	504,664,830	551,218,328	109.22

Direct Expenditure	2,636,981,156	2,075,877,736	561,103,420	27.03
Gross Profit	1,212,372,993	977,278,623	235,094,370	24.06
Finance Expenses	1,952,380,884	2,417,806,566	(465,425,682)	(19.25)
Exchange loss	1,009,958,492	1,487,775,753	(477,817,261)	(32.12)
Interest Expense –Vessel loan	942,422,392	930,030,813	12,391,579	1.33
Liabilities				
Long Term Borrowings	12,434,283,858	11,502,038,858	932,245,000	8.11
Short Term Borrowings	808,290,000	747,600,000	60,690,000	8.12
Total Borrowings	**13,242,573,878**	**12,249,638,858**	**992,935,020**	**8.11**

Following observations are made.

i. Revenue of the Company for the year under review had been increased by Rs. 796.2Mn or 26 percent as compared with preceding year. Meanwhile, voyage income had been increased by Rs.551.2 Mn or 109 percent and total direct expenditure had been increased by Rs.561.1Mn or 27percent as compared with preceding year.

ii. Even though the company's Revenue and Gross profit had been increased by 26% percent and 24% percent respectively, Meanwhile, Finance expense had been decreased by Rs.465.4 Mn or 19 percent. Net Loss after tax, decreased by 28 percent. The reasons for this was decreasing of exchange loss.

2.3 Ratio Analysis

Ratio	**2019/20 Percentage**	**2018/19 Percentage**
rofitability Ratios		
Gross Profit Margin	31	32
Net loss Margin before Tax	(28.2)	(49.9)
Return on Equity(both are negative)	90.5	1981
Return on Capital Employed	(1)	(5)
Return on Assets	(8)	(8)
Earnings per share	(217)	(305)
Liquidity Ratios		
Current Ratio	1:1.27	1:1.23
Quick Ratio	1:1.18	1:1.19

Following observations are made.

2.3.1 When comparing with the preceding year, Net (loss) had been decreased by (28.2 percent) from (49.9 percent) in the 2018/19. Even though impairment of assets during the year under review had been increased by 100 percent when comparing with previous year, finance expense had decreased by 19 percent and other income had decreased by 50.3 percent. That was the main reason for dramatic increment of net loss margin in the year under review.

2.3.2 The ratio of Return on Capital Employed had been remain negative value as -5 percent to -1 percent from 2018/19 to 2019/20.

2.3.3 Current ratio of the Company had been a slight increased from 1.23 to 1.27 during the year under review as compared with the preceding year. Increase in freight income own vessel by 40 percent was caused to this implement.

2.3.4 Negative earnings per share had been increased by 29 percent current year up toRs.217 from Rs.305 due to improvement of the operating results of the current year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had maintained two separate ledger accounts in the IFS accounting system for one bank account.	Auditor's observation was correct but the balance agreed with bank reconciliation and it has not affected the ledger balances.	Management should take steps to rectify the issue and maintain single ledger account for one bank account.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
It was observed that the employee (Driver) attached to the company provide service to Ministry of Port and Shipping since 20 March 2017 to the date of finalisation of audit and Company pay salary from its payroll.	The services of Mr.M.M.Jayatissa,Driver is being obtained by the Ministry of Ports and Shipping at the request of the line Ministry as per the request made by the then Additional Secretary, Ministry of Ports and Shipping ,with effect from 20/01/2017. His salary is being paid by CSC. Even though a request has been made to release Mr.Jayatissa back to CSC by our letter dated 11th April, 2019,theline Ministry has replied by their letter dated 23rd April, 2019 that Mr. Jayatissa's services are required by the Ministry for a further period.	Since the ministry and the Company are two different entity, Management should take steps to at least recover the payment made from company money