

Magampura Port Management (Pvt) Ltd. - 2021

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Magampura Port Management (Pvt) Ltd. (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the profit and loss statement, 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 reported to Parliament, appear in this report.

I do not express an opinion on the financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in the 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 disclaimer of 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 Sub-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 Auditor's Responsibility for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation

Comments of the Management

Recommendation

Stocks valued at Rs. 12,430,943, fixed assets of which the carrying amount was Rs.260,539 and money retained in hand of Rs.173,727 indicated under assets of the statement of financial position had not physically existed. Moreover, provision as well for these losses of Rs. 12,865,209 had not been made in the financial statements and as such, it was observed that the annual/accumulated loss should be increased by the same amount. An examination was not carried out on reasons for unavailability of those assets physically, indicated in the financial statements and on determination of parties responsible therefor and it was observed that the Management had not taken necessary action on the protection of those assets.

It is agreed with.

Approval will be sought for the allocation of provision therefor at the forthcoming meeting of Board of Directors.

Necessary measures should be taken by the responsible parties to recover the losses after identifying .

1.5.2 Going Concern of the Organization

Audit Observation

Comments of the Management

Recommendation

The accumulated loss of the Company as at 31 December 2021 was Rs. 3,688,356,619 and the net assets of the Company as at that date were Rs.3,613,356,619 reflecting a negative value. The operations of the Company had been ceased since 13 November 2017 and the Board of Directors had decided to liquidate the Company on 15 February 2018. However, a Liquidator had not been appointed even up to 30 April 2022.

It is agreed with.

Responsible officials should take action to implement the liquidation process as it has been decided to liquidate the Company.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount (Rs)	Audit Evidence not made available	Comments of the Management	Recommendation
Loan Balance of Hatton National Bank	4,997,452,058	Letters of confirmation of balances	Not replied	Confirmation of balances for annual financial statements should be requested and obtained.
Balance receivable from the Government	17,782,563	Letters of confirmation of balances	It is agreed with. Action will be taken thereon in future.	Confirmation of balances for annual financial statements should be requested and obtained.
Balance receivable for bunker oil insurance.	28,040,453	Source documents, Letters of confirmation of balances, Age analysis reports and other supporting documents	It is agreed with. Action will be taken thereon in future.	Confirmation of balances for annual financial statements should be requested and obtained. and responsibility should be taken by the Management to make available the other relevant evidence to Audit.
Balance receivable from Trade Debtors	3,589,879	Source documents and supporting documents	It is agreed with. Action will be taken thereon in future.	The Management should take action to submit relevant audit evidence.
Balance relating to other payables	7,373,613	Source documents and supporting documents	It is agreed with. Action will be taken thereon in future.	The Management should take action to submit relevant audit evidence.
Payments made by bank moneys	34,518,489	Pay-in-vouchers and supporting documents	It is agreed with. Action will be taken thereon in future.	Action should be taken to submit pay-in-vouchers to Audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) According to the financial statements of the Company, a sum of Rs. 103,666,952 had been shown as at 31 December 2021 as a balance receivable from the Sri Lanka Ports Authority which is the parent company. However, according to the letter of confirmation of balances received from the Sri Lanka Ports Authority, the balance payable to the Company as at that date was Rs.73,218,272, thus observing a difference of Rs.30,448,680 in the balance receivable to the Company. Action had not been taken to come into an agreement by holding discussion on reasons for the said difference, with the Sri Lanka Ports Authority. Further, compensation for tug boats amounting to Rs.25,719,981, management service charges amounting to Rs.76,547, 855 and Rs.1,399,116 for 11,449 liters of petrol and diesel which had been issued from the filling station located in the premises of the Company, to the vehicles belonging to the Sri Lanka Ports Authority, had been included in the above balance which should be recovered from the Sri Lanka Ports Authority since the year 2017 and it had not been received to the Company even up to 31 March 2022.	Even though according to the letter of confirmation of balances received from the Sri Lanka Ports Authority in the year 2021, the balance payable to the Company was mentioned as Rs. 73,218,272, a letter of confirmation of balances has been sent relating to a balance of Rs.98,938,252 receivable to our Company from the Sri Lanka Ports Authority in the year 2020. Even though reminders have been sent to the Sri Lanka Ports Authority several times for the recovery of the said outstanding amount, the said moneys have not been received so far.	The Management should take action to recover the outstanding balances for the settlement of due liabilities as it has been decided to liquidate the Company.
(b) According to the financial statements of the Sri Lanka Ports Authority for the year 2021, a sum of Rs. 5,800,921 had been shown as receivables to the Authority from the Company. However, the said amount had not been shown as a payable in the financial statements of the Company for the year 2021. As per the information obtained from the Sri Lanka Ports Authority, the said amount should have been received to the Authority for the settlement of management fees receivable to the Authority and various bills of the Company.	A sum of Rs.5,800,921 payable to the Sri Lanka Ports Authority has not been shown in accounts of the Magampura Port Management (Pvt) Ltd.	After having a discussion with the Sri Lanka Ports Authority, if the relevant amount is a payable amount, responsibility should be taken by the Management to record it in the financial statements of the Company.

1.6.2 Payables

Audit Observation

No loan installments or interest whatsoever had been paid in the year 2017 or years after that by the Company relating to the loan amounting to US\$ 24,002,438 equivalent to Rs.3,144,178,059 which had been taken by the Company as a loan from a local private bank for purchasing oil for ships in the year 2014. However, according to the financial statements, the interest payable relating to the loan as at 31 December 2021 including the interest of Rs.179,325,034 payable for the year under review as per the financial statements of the Company, had been Rs.1,223,952,222. Accordingly, as per the financial statements as at 31 December 2021, the payable balance of the loan and the interest thereon had been US\$.24,933,180 equivalent to Rs.4, 997,452,058. Even though confirmation of balances had been called by the Company regarding the said balance on 31 December 2021, confirmation of balances had not been submitted by the relevant bank. Hence, the accuracy of the said balance was uncertain. Moreover, a law suit against the Company had been instituted in the year 2020 by the relevant bank to recover the said loan and it is being proceeded. However, disclosers had not been made in the financial statements in this regard.

Comments of the Management

It is agreed with.
Even though letters of confirmation of balances had been sent to relevant banks to confirm the accuracy of the loan balance payable, making replies to those letters of confirmation of balances has been suspended by the Bank due to the said lawsuit. As such, it was difficult to confirm the accuracy of the said loan balance. Disclosure of the said lawsuit instituted against the Company will be rectified in preparing accounts of the year 2022.

Recommendation

Action should be taken to disclose the said lawsuit in the financial statements as per the Sri Lanka Accounting Standard.

1.7 Non Compliance with Laws, Rules, Regulations and Management Decisions

Reference to the Laws, Rules, Regulations etc.	Non – compliance	Comments of the Management	Recommendation
(a) Section 2.2 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015	As the Company is in Sub-category F according to the Circular, the recommendation and the approval should be obtained for the payment of sitting allowance for attending the Board meetings. Further, as per the categorization from A to E, set out in the said circular, the highest amount of allowances of Rs. 12,500 is paid for the State Owned Enterprises in category A. In such a situation, the Company which is an inoperative State Owned Enterprise in Sub-category F, had paid a sum of Rs.425,000 at a rate of Rs.25,000 for each member of the Board of Directors as the sitting allowance for attending 03 meetings held in the year 2021 and Rs.2,350,000 for conducting 19 meetings in the years 2020, 2019 and 2018 contrary to the Circular. Further, it was observed that the productivity of these expenses incurred for the Company due to be liquidated, is of contentious nature.	According to the President’s Circular No. 02/2020 issued on 13 January 2020, approval has been given for granting a monthly allowance of Rs.25,000.00 to the members of the Board of Directors. These allowances have been paid with the approval of Board of Directors in preceding years as well.	Action should be taken to recover the money paid without a proper approval.
(b) Section 3.8 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	Although the progress of the decisions of the Board of Directors should be reported to the Board of Directors by the Secretary of the Company, it was observed in audit that action had not been taken accordingly by the Company during the year.	It is agreed with. This letter has been referred to the Secretary to the Company and providing said information is the responsibility of the said	Action should be taken to submit reports to the Board of Directors.

Even though the progress of officer. decisions of the Board of Directors was requested through the letter No. PAS/A/MPMC/2021/INF/02 dated 27 January 2022 on requesting information for the Audit, relevant information had not been made available to Audit up to 31 March 2022.

1.8 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though the balance of Withholding Tax receivable as per the financial statements as at 31 December 2021 was Rs. 5,474,493, tax certificates relating to Rs. 2,124,954 of the said amount had not been made available to Audit. Further, it was observed that realization of the said receivable balance is uncertain due to unavailability of tax certificates.</p>	<p>Necessary action is being taken to liquidate the Company and a clearance should have been obtained from the Inland Revenue Department therefor by the Company. As such, action will be taken to enter into an agreement with the company who served as Tax Consultants of the Company from the year 2015 to the year 2016 and to obtain relevant certificates by settling taxes payable to the Government.</p>	<p>A final solution should be reached by holding discussions with the Inland Revenue Department submitting relevant documentary evidence.</p>
<p>(b) Even though statutory payments should be settled within the due periods, the Company had not taken action during the year under review to settle the payable income tax balance of Rs. 2,381,117, payable balance of Value Added Tax of Rs. 914,683, and a sum of Rs. 223,032 payable as contributions to the Employees' Provident Fund and Trust Fund, brought forward since before the year 2017.</p>	<p>The reply given in 1.8 (a) above pertaining to taxes is relevant. Action will be taken to compute and settle moneys payable to the Employees' Provident Fund and Trust Fund.</p>	<p>The Management should take action to settle the income tax balance and the other balances.</p>

2. Financial Review

2.1 Financial Results

The operations of the Company for the year under review had resulted in a loss of Rs.441,980,579 as compared with the corresponding loss of Rs.246,874,417 in the preceding year, thus observing an increase in the loss by Rs.195,106,162. Unavailability of operating income due to cease of operations of the Magampura Port Management (Pvt) Ltd on 13 November 2017 on a policy decision taken by the Government of Sri Lanka and the interest on loans and the foreign currency translation loss, had mainly attributed to the said loss remained further.

2.2 Trend Analysis of Major Income and Expenditure Items

	2021	2020
	-----	-----
	(Rs)	(Rs)
Income	-	-
Direct Expenditure	-	-
Administrative Expenditure	(9,202,863)	(10,664,971)
Operational Gain/ (Loss)	(9,202,863)	(10,664,971)
Net Financial Cost	(143,947,702)	(142,218,752)
Foreign Exchange Gain/ (Loss)	(288,830,015)	(93,990,694)
Net Profit before Tax	(441,980,579)	(246,874,417)
Income Tax	-	-
Net Profit after Tax	(441,980,579)	(246,874,417)

The following observations are made.

- i. Income had not been received to the Company from its operations during the years 2020 and 2021 due to the fact that the operations of the Company had been ceased on 13 November 2017.
- ii. The foreign exchange loss in the year 2020 amounting to Rs. 93,990,694 had increased up to Rs.288,830,015 during the year under review representing 207 per cent.
- iii. As compared with the year 2020, the expenditure on employees' salaries and allowances in the year under review had increased from Rs.1,950,000 to Rs.4,849,656 representing 149 per cent. The payment of Rs.290,000 each as allowance to the Chairman and the Managing Director including the transport allowance and a sum of Rs.100,000 to another two officers per month each in the year 2021 and the payment of the above allowances in the year 2020 for 05 months and 04 months to the Chairman and the Managing Director and the other officers respectively had attributed to the above increase.

2.3 Analysis of Ratios

	2021	2020
	-----	-----
Current Assets Ratio	1:3.40	1:3.40
Quick Assets Ratio	1:3.63	1:3.43

The current ratio and the quick assets ratio for the year 2020 were 1:3.40 and 1:3.43 respectively and it had been 1:3.40 and 1:3.63 respectively as at the end of the year under review.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

- | | | |
|--|---|--|
| (a) Cabinet approval had been sought by the Cabinet Memorandum No. MPS/2021/01/11 of 18 May 2021 to cease operations of Magampura Port Management (Pvt) Ltd. The said approval had been granted at the Cabinet discussion held on 18 May 2021 and the Secretary to the Ministry of Ports and Shipping had been notified to instruct the Sri Lanka Ports Authority to take steps by considering the observations submitted by the Minister of Water Supply for the aforesaid Cabinet Paper. Accordingly, the Chairman of the Company had submitted explanations to the Sri Lanka Ports Authority for the questions put forward by the Minister on 29 July 2021. However, the Company had not been instructed by Sri Lanka Ports Authority in anyway on the measures to be taken in this regard. | It is agreed with.

As the Company has properly submitted all information requested for by the Sri Lanka Ports Authority, it is the responsibility of the Sri Lanka Ports Authority to brief on further action. | Action should be taken as per recommendations of the Cabinet Decision. |
| (b) The Cabinet Decision had been given on 18 May 2021 to cease operations of the Company. However, a period of about 6 months had lapsed up to 16 November 2021 to obtain approval of the Board of Directors of the Sri Lanka Ports Authority and the Company therefor. Accordingly, as per the Circular of the Department of Public Enterprises No.01/2021 issued on 16 November 2021, it could not be liquidated within 6 months after taking the Cabinet Decision. As such, the Department of Public Enterprises of the General Treasury had instructed on 5 January 2022 to take a Cabinet decision again for extending the required period. However, such a Cabinet Paper had not been submitted even up to 25 April 2022. | It is agreed with.

The Ministry of Ports and Shipping had submitted a Cabinet Paper in this regard in April 2022. | A Cabinet Paper should be expeditiously submitted again as per instructions of the Department of Public Enterprises of the Treasury. |

3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
<p>(a) The situation of dispute in the year 2018 when the company's employees were compensated and removed had been concluded on the Industrial Arbitration decision No. A/37/2017 of Colombo Industrial Court and the settlement agreement entered into between parties on 02 February 2018. According to the condition No. 18 (b) of the settlement agreement, it had been agreed to make payments before 28 February 2018, if outstanding overtime payments for November 2017 and /or outstanding salaries up to January 2018 should be paid. However, contrary to the said agreed conditions, other allowances of Rs. 12,211,073 had been paid to the employees by the Company as travelling expenses, accommodation allowances, performance allowances and vehicle allowances relating to December 2017 and January 2018 even though the Company was not in operation. This had been pointed out by the audit reports for the years 2017, 2018, 2019 and 2020. However action had not been taken by the Management and other responsible parties to investigate the relevant matter, to identify and to recover overpayments from responsible parties.</p>	<p>In replying for the Report of the Auditor General for the year 2017, the then Chairman has commented thereon dated 12 November 2018. According to explanations given by him, these employees have worked in the Top Management of the Company during that period. Even though the service of employees has been terminated on 31.01.2018, they have been paid their monthly salaries and retained in the institution again on a decision of the Board of Directors for carrying out the remaining affairs of the Company such as execution of settlement conditions on behalf of the institution, maintenance of financial reports until liquidation, matters on vesting of assets, emptying and vesting the oil tank complex and involvement in legal matters of the Company and assisting in the investigations of the Commission to Investigate Allegations of Bribery or Corruption/ Financial Crime Investigation Division.</p>	<p>Action should be taken to adhere to the settlement conditions when paying compensations. If there is any payment which had been made contrary to the said conditions, the Management should take action to recover that money from the officials who should be responsible for those payments.</p>

<p>(b) In a strong internal control system, all payment vouchers should be arranged according to serial numbers and kept securely. Further, the officer in charge of vouchers should be responsible for completing and preparing of all the vouchers for audit. However, 123 payment vouchers valued at Rs. 29,975,094 and Rs. 4,543,395 paid relating to the years 2017 and 2018 respectively had not been made available to Audit by the Magampura Port Management (Pvt) Ltd. even up to 15 May 2022.</p>	<p>Copies of cheques and other relevant reports etc. have been submitted to ascertain as to whom the said cheques have been issued and to confirm the payments made from vouchers that have been misplaced in the year 2017. Action will be taken to submit those cheques and relevant reports for payments of the year 2018.</p>	<p>Disciplinary action should be taken against the officials who had not taken action to keep the documents and assets of the Company properly and formally when shifting them to the Ports Authority.</p> <p>Moreover, it is the responsibility of the Parent Company and the line Ministry to give necessary instructions and guidance to carry out these affairs properly.</p>
---	---	---

3.3 Procurement Management

Audit Observation

According to the objectives of the Procurement Manual and the Procurement Guidelines, the Company should be responsible for the transparency and the proper administration of procurement. Even though sums of Rs. 7,250,000 and Rs.3,005,000 had been paid to law firms as legal expenses by the Company during the year 2020 and 2021 respectively, evidence and information had not been made available to Audit to confirm that lawyers had been selected following a proper procedure with transparency and proper administration. Furthermore, agreements entered into with the Consultancy firm had not been presented to Audit.

Moreover, the agreement entered into with the relevant law firm as well had not been submitted to Audit.

Comments of the Management

Payments for the lawyers of the Company who appeared for the legal activities of the Company were paid on the approval of the Board of Directors. The new Board of Directors were appointed during the latter part of July 2021.

The matter relating to the court case No. DDR 1347/19 filed in the Colombo District Court was submitted to the meeting of the Board of Directors. It was referred at the said meeting (as a DDR case) and was scheduled to be called in the Court on 18.08.2020.

The peculiarity of these cases is that counter-arguments must be filed on the first day of the trial.

Otherwise, the company would be in serious trouble if the Order nisi is issued by the Court for Rs.4.4 billion which was claimed in the case.

Recommendation

It is the Management's responsibility to follow a procedure with transparency and proper administration in the procurement activities.

The amount owned already by the Company was Rs.1.2 billion. Accordingly, there was no time to file immediate counter-arguments to the Court and it was essential to obtain legal advice for making reliable and immediate counter-arguments. Hence subject to the approval of the Board of Directors, service of the said lawyers was obtained. Also the payment made as fees for lawyers was the full amount which should be paid to the law suit. There was no any requirement to make any other payment. No repayment is made thereafter.

The sum of Rs.3,005,005 paid in the year 2021 is the fees paid to the lawyers appointed to take action on the liquidation of the Company.