

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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss statement and other comprehensive income for the year then ended, 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.

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

My opinion is disclaimed 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 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, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Written evidences of physical presence of inventory valued at Rs.12,430,943, fixed assets with a carrying value of Rs.205,575 and cash on hand amounting to Rs.173,727 shown under current assets in the statement of financial position were not submitted to the audit.	Inventory, fixed assets and cash on hand shown under current assets had not physically existed. When this Company was entrusted with the Hambantota International Port Group Ltd. (HIPG) and Hambantota International Port Services Ltd. (HIPS), the same inventory and fixed assets have been handed over to the Port Authority and same institutions. Therefore, these have not physically existed.	Necessary actions should be taken by the responsible officers.

1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The accumulated loss of the Company as at 31 December 2022 was Rs.7,602,406,852 and the net assets of the Company as at that date was Rs.7,527,406,852 reflecting a negative value. Also, the Company's total current assets were Rs.2,099,760,231 and the Company's outstanding debt balance was Rs.9,627,167,082. Accordingly, the audit observed that the ability of the Company to pay this debt balance was uncertain due to the Company's outstanding debt balance had exceeded the current assets by 458 per cent. Similarly, the Board of	Even though the activities were carried out in 2017 and 2018 to liquidate the Company, a new Board of Directors was appointed for the Magampura Management (Private) Company in July 2020 due to the failure to carry out those activities properly and accordingly, this Company has been formed subject to the approval of the Cabinet of Ministers in establishing this Company and also that they have taken actions to get the Cabinet approval to liquidate the Company after getting the approval of Cabinet of Ministers and acted on the advice	Since the Company has been decided to liquidate, the responsible officials should take actions to implement it promptly.

Directors had decided to liquidate the Company on 15 February 2018 by stopping the operations of the Company since 13 November 2017 and the Decision of Cabinet of Ministers for that was given on 31 May 2021. But a liquidator could not be appointed even by 02 February 2023.

of the lawyers who represents the Company by acting properly and according to the law, accordingly, the case has been filed to liquidate this Company under Case No. CHC/97/21 CO of the Colombo High Court of Commerce on 10/12/2021 and kindly informed that every action which should be taken for this case has been taken without any delay on the advice of the lawyers who represent the Company after the appointment of the new Board of Directors in July 2020.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount (Rs)	Audit Evidence not made available	Comments of the Management	Recommendation
Debt Balance of Hatton National Bank	9,617,942,991	Balance confirmation letters	Although the Company has sent a balance confirmation letter to the relevant bank to confirm the debt balance in 2022, it was verbally informed that the balance could not be confirmed due to the ongoing litigation with the Company.	Balance confirmations should be requested and obtained for annual financial statements.
Balance receivable from the Government	17,782,563	Source documents, balance confirmation letters, age analysis reports and supporting documents	It was decided to make a request to the Secretary, Ministry of Ports and Shipping to get the approval to write off the receivable from the government amounting to Rs.17,182,563 and inventory amounting to Rs.12,430,943 at the Board Meeting of Board of Directors dated 16.08.2019. According to that decision, the Secretary sent a letter to the Department of Public Enterprises on 30.10.2019 about writing off these balances. A lengthy discussion headed by the then Secretary was held by calling officers of Sri Lanka Port Authority and our Company on	The balance confirmations for the annual financial statements should be called and obtained and the Management is responsible to submit other relevant evidences to the audit.
Balance receivable for Bunker Oil Insurance.	28,040,453			
Balance receivable from Trade Debtors	3,589,879	Source documents, balance confirmation letters, age analysis reports and	A lengthy discussion headed by the then Secretary was held by calling officers of Sri Lanka Port Authority and our Company on	
Balance relating to other	6,842,977			

payables	supporting documents	this matter. But no written answer was received even by now. Further, there are no sufficient documents available in the Company at present to prove these receivable balances in writing.
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Withholding Tax balance receivable	4,301,292	Source documents, balance confirmation letters	The tax certificates related to Rs.4,301,292 were before the year 2018 and the relevant financial institutions have informed that they cannot be obtained.	Final solution should be taken after having discussions with the Inland Revenue Department by submitting the related primary evidences.
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1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
(a) According to the financial statements of the Sri Lanka Ports Authority for the year 2022, although the balance due from the Company to the Authority is amounting to Rs.5,800,921, and also the above balance was not shown as a payable balance according to the financial statements of the Company in the year 2022, the Management had not taken actions to find out about it and to settle.	There is no evidence has been recorded in our Company's books that an amount of Rs.5,800,921 should be paid to the Sri Lanka Port Authority since 2007.	The Management is responsible to discuss with the Sri Lanka Port Authority and if that amount is a payable balance, to report it in the Company's financial statements.
(b) Although the statutory payments should be settled within the respective time periods, the Company had not taken actions during the year under review also to settle the balances of income tax payable amounting to Rs.2,381,117, the balance of Value Added Tax payable amounting to Rs.794,047 and the balance of contribution to Employees' Provident and Trust Funds payable amounting to Rs.223,032 which had been carried forward since before the year 2017.	These balances are prevailing from before 2017 and it has been impossible to find any source document related to their settlement after 2019.	Management should take actions to settle the income tax balance and other balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. 01/2021 dated on 16 November 2021 and Section 2.2 of restated Public Enterprises Circular No. 03/2015	As per the circular, the Company falls under category "F" and, although the recommendation of the Secretary of the Line Ministry and the approval of the Minister of Finance should be obtained for the monthly allowances of the Chairman and Managing Director of the Company according to Paragraph 2.2 thereof, without complying with that, Rs.100,000 and Rs.90,000 had been paid for the Chairman and Managing Director respectively as monthly allowances and Rs.1,100,000 and Rs.990,000 were paid respectively only in the year under review.	According to the Public Enterprises Circular, the Chairman and the Managing Director had been paid Rs.100,000 and the Rs.90,000 each in the years 2019 and 2020 respectively based on the approval of the Board of Directors only, by following the existing system since the establishment of the Company since around 2013. Further, approval has been received to give a monthly allowance of Rs.100,000 to the Chairman and a maximum monthly allowance of Rs.25,000 to the Board of Directors by the Circular No. PS/SP/Circular/02/2020 dated 13 January 2020 issued by President's Office. The Secretary of the respective Line Ministry has been informed about obtaining this allowance and the allowance of Rs.50,000 for using their personal vehicles for duties.	Action should be taken to recover the money paid without obtaining a proper approval.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a loss of Rs.3,914,050,233 and the corresponding loss in the preceding year was Rs.441,980,579. Therefore, a deterioration of Rs.4,356,030,812 was observed the financial result. The foreign exchange conversion loss amounting to Rs.3,484,075,886 had mainly attributed to this deterioration and due to cease of operations of the Magampura Port Management Pvt. on 13 November 2017 based on a policy decision taken by the Government of Sri Lanka and interest on debts had attributed to the further loss remained.

2.2 Trend Analysis of Major Income and Expenditure Items

	2022 (Rs)	2021 (Rs)
Income	-	-
Direct Expenditure	-	-
Administrative Expenditure	(5,540,594)	(9,202,863)
Operational Gain/(Loss)	(5,540,594)	(9,202,863)
Net Financial Cost	(424,433,752)	(143,947,702)
Foreign Exchange Gain/(Loss)	(3,484,075,886)	(288,830,015)
Net Profit before Tax	(3,914,050,233)	(441,980,579)
Income Tax	-	-
Net Profit after Tax	(3,914,050,233)	(441,980,579)

The following observations are made.

- i. The Company did not receive income from operations during the years 2021 and 2022 due to the fact that the Company's operations were ceased on 13 November 2017.
- ii. The foreign exchange loss amounting to Rs.288, 830,015 in the year 2021 had increased up to Rs.3, 484,075,886 in the year under review by 1,106 per cent.
- iii. The administrative expenses during the year under review was Rs.5,540,594 and the allowances paid to the Board of Directors and two Managers amounting to Rs.4,299,000 had been included in it. It was 77 per cent as a percentage of administrative expenses.

2.3 Ratio Analysis

	2022	2021
Current Assets Ratio	0.218:1	0.278:1
Quick Assets Ratio	0.216:1	0.276:1

The Current Assets Ratio and the Quick Assets Ratio for the year 2021 were 0.278:1 and 0.276:1 respectively and it had been 0.218:1 and 0.216:1 respectively by the end of the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>Although the Board of Directors had decided to liquidate the Company's operations on 15 February 2018, the liquidation proceedings were not completed although 04 years had elapsed by 31 December 2022 and it was observed that an amount of Rs.31,983,639 had been incurred as administrative expenses from 2019 to 2022 due to time delay in liquidation of this inactive Company. Further, it was observed that a sum of Rs.1,100,000 had been paid for two part-time Finance Managers with a monthly salary of Rs.50,000 each from January to November 2022 and written confirmation was not submitted to the audit justifying the need to employ two Finance Managers in a situation where the Company's transactions do not take place.</p>	<p>The need to employ two managers has been clearly verified as per the Memorandum of Board of Directors regarding the appointment of the two part-time Finance Managers.</p>	<p>The decisions taken by the Management should be effective and fair.</p>

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
<p>The disputed situation that occurred in the removal of employees of the Company with compensation was ended in the year 2018 had been concluded as per the Decision of Industrial Arbitration No. A/37/2017 of the Industrial Court, Colombo and the agreement entered into on the terms of settlement reached between the parties on 02 February 2018. Accordingly, it had been agreed that if outstanding overtime allowances for the month of November 2017 and/or arrears of wages up to January 2018 had to be paid only those payments should be made before 28 February 2018, the Company had paid other allowances amounting to Rs.12,211,073 as traveling expenses, subsistence allowances, performance allowances and vehicle allowances to the employees for the months of December 2017 and January 2018 when the Company's operations were inactive. In contrary to the agreed conditions, although the audit reports of the years 2017, 2018, 2019, 2020 and 2021 had also indicated this, the Management had not taken actions to recover these over payments.</p>	<p>We were informed by the then Finance Manager that the said payments have been made in relation to the said approvals of the Board of Directors.</p>	<p>Payment of compensation should be made according to settlement terms. If any payment has been made in contrary to those conditions, the Management should take actions to recover them from the officials responsible for the respective payments.</p>

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>Although the Company should pay attention to ensure a better transparency and good administration in procurement as per the objectives of the Procurement Manual and Procurement Guidelines, and also the Company had paid an amount of Rs.7,250,000 to a law firm who had appeared for the Company's legal affairs in the year 2020, a sum of Rs.3,005,000 to the law firms in the year 2021 and Rs.109,235 in the year 2022 as legal expenses, information and evidence that a transparent system was followed for the selection of those lawyers was not submitted to the audit. Likewise, the agreements entered into with the relevant legal consultancy company were also not submitted for the audit.</p>	<p>The expenses incurred by the lawyers who have appeared for the legal affairs of the Company were paid with the approval of the Board of Directors. The new Board of Directors was appointed in late July 2021. At that time, the case of DDR 1347/19 filed in the Colombo District Court was presented to the Meeting of Board of Directors. At that instance, that type of case (as a DDR case) has been forwarded and the court was scheduled to be heard on 18.08.2020 as the next summoning date. The specialty of these cases is that objections must be filed on the very first day of calling the case. If not, the Company faces a serious crisis if the Nisi Order is prescribed for the amount of Rs.4.4 billion demanded in the case by the Honorable Court. Because the Company had nearly an amount of Rs.1.2 billion even then. Accordingly as there was no time available for that the Honorable Court wanted to file aforesaid objections as soon as possible and since it was a key requirement to get legal advice to prepare the objections faithfully and as quickly as possible the assistance of the above lawyers have been obtained subjected to the approval of the Board of Directors. There, the legal fees have been paid in cash for the lawyers for the entire litigation. No payment whatsoever will be made for this. The amount of Rs.3,005,000 is the payment made in the year 2021 as attorneys' fees paid to Lawyers appointed to engage with the dissolution of the Company. It has also been selected with the approval of the Board of Directors.</p>	<p>Management is responsible to follow a transparent and well-administered methodology in procurement activities.</p>