

## **1. Financial Statements**

### **1.1 Opinion**

The audit of the financial statements of the Colombo Port City Economic Commission (“Commission”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **1.2 Basis for Opinion**

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 opinion.

#### **Emphasis of matter**

I draw attention to Note 2.3.3 of the financial statements, which discusses the commission’s position on the applicability of income tax on the commission. My opinion is not modified in respect of this matter.

### **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 International Financial Reporting 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 Commission’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 intend to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission 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 Commission.

#### **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 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission 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 Documentary Evidences not made available for Audit

Despite the written communications and several reminders, the following documents had not been presented to the audit.

| Item available       | Amount Rs. | Evidence available  | not | Management Comment  | Recommendation   |
|----------------------|------------|---|-----|---|--|
| (a.) Community Rules | N/A        | List of the Community Rules developed under the section 3(4) of the Act |     | During the meetings we had all relevant information and documentation shared. | The management should make necessary arrangements to provide the information required for the audit. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 18,333,220 and the corresponding surplus in the seven (07) months (from 27 May to 31 December 2021) of the preceding year amounted to Rs. 8,862,744. Therefore, a deterioration amounting to Rs. 27,195,964 of the financial result was observed. The reason for the deterioration is increase of administrative expenses by Rs. 224,125,512 for the year under review.

## 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the seven months of the preceding year with the percentage of increase or decrease are as follows.

| Line Item                          | 2022         | Period from                      | Variance    | Variance |
|------------------------------------|--------------|----------------------------------|-------------|----------|
|                                    | Rs.          | 27 May to 31<br>Decemebr202<br>1 | Rs.         | %        |
| Incoming Resources                 | 245,413,217  | 48,771,584                       | 196,641,633 | 403%     |
| Administration expenses            | 262,294,418  | 38,168,906                       | 224,125,512 | 587%     |
| Promotional and marketing expenses | 1,250,637    | 1,582,192                        | 331,555     | 21%      |
| Finance expenses                   | 201,382      | 157,742                          | 43,640      | 28%      |
| Surplus/(deficit) for the year     | (18,333,220) | 8,862,744                        | 27,195,964  | 307%     |

## 2.3 Financial Analysis

| Audit Issue  | Management Comment   | Recommendation  |
|--|--|---|
| <p><b>(a) Working capital management of the commission</b></p> <p>Fixed overhead cost relevant to the commission was around Rs. 136 million per annum when consider the major cost components in the unaudited financial statements of the year 2023. Income generation of the Commission has not guaranteed through its business operations due to slow operational effectiveness of the functions of the Port City. Therefore, meeting of day to day financial commitments may be questionable, if reasonable level of guaranteed funds does not flow to the Commission. Further, the Commission had calculated the number of months, the commission can run with remaining funds as at March 2023 and it was calculated as 8.5 months with estimated monthly burnout amount of Rs. 12,561,620. The major cost components of the Commission were as follows.</p> | <p>The slowdown in investments into the Colombo Port City has been primarily due to the prevailing country situation. The expectation is that as stability continues to improve the businesses would also increase and thereby result in foreign direct investment coming into the Colombo Port City. Additionally, the delay in the publishing of the banking regulations, which is critical for the investor, contributed to the delay in the expected inflow of investments. These regulations have now been finalized with the Central Bank of Sri Lanka and will be published shortly. This should kick start some of</p> | <p>Management should make sure that adequate working capital is available to meet the day to day financial commitments.</p> |

| Major cost components                | Cost incurred during the year 2023 (Rs. 000) |
|--------------------------------------|--|
| Accounting fee                       | 3,742  |
| Office rent                          | 27,168                                       |
| Salaries Wages and personal expenses | 105,079                                      |
| Total                                | 135,989                                      |

the planned investments which have been on hold pending same. Additionally, the Commission has obtained an interest free advance of LKR 200 million from the project company to meet funding requirement to operate and revised fees regulation with increased fees will be published within the next two weeks, where adequate inflow of funds is expected.

### 3. Operational Review

#### 3.1 Temporary Licenses issued to Leisure and Entertainment Activities

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| (a.) According to Section 65(1) of the Colombo Port City Economic Commission Act No. 11 of 2021 (the Act), all land comprising the Area of the Colombo Port City shall be vested with the Commission from the date of the commencement of the Act. Therefore, if any area occupied in this area should be with the concurrence of Colombo Port City Economic Commission on behalf of government of Sri Lanka. However, it had been observed that eleven (11) temporary licenses had been issued by the Project Company (China Harbor and Engineering Company - CHEC) to operate leisure and entertainment activities within the area of the Colombo Port City for a period of five (05) years without concurrence of the Colombo Port City Economic Commission (the “Commission”). | This matter has been discussed in Parliament over many instances. All the documents were made available to your team. However, the current position is that the operators are allowed to carry on operations until their contract period is over. The Attorney General's office and the Ministry have provided responses and subsequent correspondence with the secretary | Commission need to adhere to the cited Section of the Act. |
| (b.) It was observed that nine (09) licenses had been issued after enactment of the act and all those businesses are located in beach, park which should be under the control of the government of Sri Lanka in accordance with the provisions of the Act. However, it was observed that the revenue generated from issuing those licenses had been only enjoyed by the Project Company and no any revenue benefit delivered to the Government of Sri Lanka. However, the financial benefit from such businesses had not been granted to the project company by  |   |  |

the tri-party agreement or by the provisions of the Act. Further revenue generated by the project company through issuing those licenses had not been available for the audit despite the written request and the several written reminders. to the Committee on Public Finance is given in (ANNEXURE V)

- (c.) According to the Section 26(1) of the Colombo Port City Economic Commission Act No. 11 of 2021, a person other than an authorized person in terms of this Act, shall not be permitted to engage in business, in and from the Area of Authority of Colombo Port City. Therefore, it had observed that issuing of temporary licenses are contrary to the provisions of the Act, since those licenses had been issued without registration as authorized persons under the Act. 11 temporary license had been issued to companies during the year under review.

### 3.2 Promotional Activities

| Audit Issue   | Management Comment  | Recommendation   |
|---|---|--|
| <p>c) According to the master plan of the Colombo Port City, marketable land portion of 62.1 of hectares had been available for the government of Sri Lanka which should be marketed to bring economic benefits to the country. China Harbor and Engineering Company (CHEC) is entitle to lease out other marketable land portion of 116.2 of hectares. Further, it was observed that the CHEC had the marketing strategy when compared to the Colombo Port City Economic Commission. Therefore, it was observed that, if mutually agreed plan had been taken place in between Colombo Port City Economic Commission and CHEC Port City in relation to the lease out the marketable land, probably be more beneficial to the both parties. Therefore, combine effort to find the investors would be more efficient and advantageous to the Sri Lanka. Further it had observed that such</p> | <p>This is duly noted, and the Commission is aware of the importance of a combined marketing. However, there is a clear understanding that, other than for the social infrastructure 10 projects such as School, University and Hospital which are on government marketable lands, a ratio of 6 CHEC marketable lands to be monetized before a government marketable land can be monetized. Thus, the ability to monetize the government marketable lands is subject to this provision.</p> | <p>Commission need to focus on combine effort to market the marketable land portion available for government of Sri Lanka.</p> |

action would mitigate the risk associate with the marketing of the marketable lands.

### 3.3 Human Resources Management

#### 3.3.1 Appointment of the Director General of the Commission

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| <p>According to the Section 24(4) of the Colombo Port City Economic Commission Act No. 11 of 2021, Director General (DG) should be responsible for the all matters of the Commission. Further as per Section 25(b) of the Act, the DG shall conduct the day –to –day management and administration of the affairs of the Commission. However, it had been observed that, DG on permanent basis had not been appointed to conduct the management and administration from the beginning of the Commission. Instead a Commission member had been appointed as covering DG on part time basis continuously. From the inception of the Commission, 03 Commission members were served as the Acting DG for the Commission. Therefore, fulfilling the responsibilities of the DG according to the Act could not be possible in an effective manner.</p> | <p>The person acting for the Director General assumes the role of the Director General as detailed in the CPCEC Act. The person who has been acting in the capacity is appointed by the President as per the CPCEC Act. The Commission plans to recruit a permanent DG, with relevant experience in managing such Special Economic Zones, when the regulations and all ancillary matters are in place, as such a recruitment will be a very costly proposition.</p> | <p>Director General (DG) position should be appointed on permanent basis to conduct the management and administration effectively.</p> |

#### 3.3.2 Vacant Positions

| Audit Issue   | Management Comment   | Recommendation   |
|---|--|--|
| <p>According to the organizational structure presented to the audit, Director Technology &amp; Transformation and Manager</p> | <p>The Commission has planned to recruit when the need arises.</p> | <p>Vacant positions need to be filled as soon as possible.</p> |

Human Resources were vacant as at audited date of 09 January 2024.

### 3.4 Effectiveness of attraction of Foreign Direct Investments

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| <p>Foreign direct investment often has a direct impact on economic growth by bringing technology, knowledge, innovation and jobs which have a positive impact on the economy. However, it was not provided any study that have been carried out to identify the risks and challenges faced by the Port City Colombo to attract foreign direct investments, mitigation strategies to overcome those challenges and effective dialogues with respective authorities to overcome those challenges.</p> | <p>We have no record of this being requested for. However, during time spent in the office the market strategy was discussed and all concerns raised were addressed. It was made clear that the investors were holding back from investing in the Colombo Port City due to the prevailing economic situation and the clarity that was being sought with regards to the various regulations.</p> | <p>Commission should have a better awareness on limitations and challenges on Foreign direct investment .</p> |

### 3.5 Environment Issues

#### 3.5.1 Environmental effect in blockage of the Beira Lake

| Audit Issue  | Management Comment   | Recommendation  |
|--|--|---|
| <p>According to the Clause 3.6 of the Schedule 03 to the Tri-Party Agreement, impeding of the Beira Lake outfall could be possible. However, environmental impacts of stagnating of the water, has not been answered through the agreement. Therefore, odor emitting from Beira Lake outfall due to additional wastewater had been noticed. According to the letter dated 11 August 2023, which was issued by the Project Director of Ministry Project Monitoring Unit, it had been requested from the Project Company to conduct a comprehensive analysis</p> | <p>The submerged groyne mentioned in clause 3.6 of Schedule 3 is not the sole solution for addressing the impending Beirra Lake outfall. It requires a comprehensive study for finalization. Additionally, the wave pattern also needs to be studied after the opening of the Port City canal to determine the most suitable structure. These infrastructure developments fall under the jurisdiction of the Project Management Unit established under the Ministry of Investment Promotion. You may</p> | <p>Waste water management and environmental issues need to addressed as soon as possible.</p> |

and provide suitable engineering solution due to Project Company is responsible for designing and constructing submerged groans according to the Tri Party Agreement. However, it was observed that actions had not been taken sufficiently and odor emitting still from Beira Lake outfall was noticed to the audited date of 09 January 2024.

obtain further clarification from them.

Furthermore, it was discovered that the odor issue is not caused by water from Beira Lake, but rather by raw sewage emanating from the storm water line laid parallel to Chaithya Road. This concern was addressed at the Presidential Secretariat under the chairmanship of the Chief of Staff of the President, where it was determined that two government institutions had directly connected their wastewater to the aforementioned storm water line.

Hence, it is the responsibility of the Colombo Municipal Council to address these illegal wastewater connections to the storm water line.