

**1 Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Port Management Consultancy Service (Private) Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs).

**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 Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs), 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 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 Audit Scope (Auditor's responsibility regarding the audit of 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 comply 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 Financial Reporting Standards (SLFRS) by Small and Medium Enterprises (SMEs).**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The residual value or useful life of assets should be reviewed at least at the end of each financial year in accordance with Section 17.18 of the Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs), and if the expected life differs from the previous estimate, the useful life should be re-estimated. There, although the method of depreciation and useful life should be changed accordingly, in contrary to that, the assets which were fully depreciated amounting to Rs.5,341,525 had been shown in the preparation of financial statements and they were further being used without being reviewed.	It is stipulated to review the fixed assets of the Company in the year 2025 and the relevant activities are scheduled to be carried out there.	The residual value or useful life of assets should be reviewed at least at the end of each financial year in accordance with Section 17.18 of the Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises (SLFRS for SMEs)
(b) Although the Company should disclose and make provisions for the liabilities that have a possibility of outflow of the Company's resources in the settlement of liabilities in the financial statements in terms of Section 21.15 of the Sri Lanka Financial Reporting Standard for Small and Medium-sized Enterprises	Since it is the primary purpose of this Company to provide the necessary support services to the Ports Authority, the above service has been provided accordingly and it has been	The entity should make disclosures and provisions in the financial statements regarding the liabilities that may result in an outflow of the entity's

(SLFRS for SMEs), the Port Management Consultancy Services Company had obtained 14 transport vehicles from Tangyo Haulage Private Company on contract basis in 2004 for the transportation needs of the Ports Authority and due to its suspension by the Authority, the supplier company had taken legal actions against it and the court had ordered to pay a compensation of Rs.28.9 million to the supplier for that. But provision had also not been made in the financial statements for the compensation and although an agreement had been entered into with the law firm to pay Rs. 2.5 million for the appeal of the court decision, the necessary approval for that had also not been obtained from the Board of Directors.

shown as contingent resources in the liabilities in the accounts settlement of liabilities in and Chapter 2 of 22.2 terms of Sri Lanka regarding the legal problem Financial Reporting Standards (SLFRS) that may arise in the termination of this service. Section 21.15.

### 1.5.3 Un-reconciled Control Accounts or Records

Item	Value as per financial statements (Rs.)	Value as per corresponding records (Rs.)	Difference	Comments of the Management	Recommendation
Accounts receivable	135,946,028	91,428,528	44,517,500	The balance as per the invoices issued by the Company for the services provided to the Ports Authority in respect of the year 2023 is mentioned herein and the information has been sent by e-mail to the Director of Finance of the Ports Authority on 03 January 2024 by confirming the said balances copying to the National Audit Office Branch of the Ports Authority and the National Audit Office Branch of the Shipping Corporation.	Management should take actions to reconcile the balances and account the correct balances by negotiating with the Ports Authority.
Accounts payable	11,993,878	5,955,164	6,038,714		

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although it had been entered into an agreement to operate a restaurant with a third party in the Mc Callum Lock Gate premises owned by the Sri Lanka Ports Authority for a period of 5 years from 01 February 2018 to 31 January 2023, the outstanding amount of Rs.4,477,679 that should be paid by the said party to the Company from August to April 2020 had not been recovered even by 31 December of the year under review. Also, an agreement had been entered into on 01 March 2023 to sub-lease this premise to another third party without being duly taken over the relevant property from the Ports Authority through a lease agreement and therefore, the Company had lost an income that can be earned during the year under review due to the illegality of the agreements.	It has been sent to the Attorney General's Department to take legal actions in this regard.	The Company should take actions to recover the relevant amount promptly.

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

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Sub-section 131 (1) of the Companies Act No. 07 of 2007	Although a Company is required to submit an Annual Report to the Registrar of Companies in the prescribed format once in every year, it was observed during the audit that the Sri Lanka Port Management and Consultancy Services Company had not submitted the Annual Report periodically from the year 2018 to the year 2023. In case the Company had failed to comply with Sub-section 131 (1) of the Companies Act, the company shall be guilty of an offence as per Sub-sections 131 (4) (a) (b) of the Companies Act and although it had been stated that every officer of the company who committed defaults will be guilty in that regard, the attention in this regard had not been drawn.	Agreed.	The Company should take actions to submit the Annual Report according to the provisions mentioned in the Companies Act.

- (b) Sub-section 223 (d) (i) & (ii) of the Companies Act No. 07 of 2007
- When there is a change in the appointment or resignation of a Director or a Secretary of the Company, although the Company should arrange to send the said change according to the prescribed format to Registrar of Companies within 20 working days after the first time the Company had been came to know about that change, it was observed that there were 38 changes had happened related to the Board of Directors of the time period from 2017 to 2023 and the Company had not complied with the provisions of the Companies Act.
- Agreed. This has been rectified in 2024 and all reports have been registered in the Department of Registrar of Companies and updated.
- The Company should take actions to inform the Department of Registrar of Companies about the changes in the Board of Directors according to the provisions mentioned in the Companies Act.

## 2 Financial Review

### 2.1 Financial Results

The operating result of the year under review was a profit of Rs.2,410,435 and the corresponding profit of the preceding year was Rs.7,125,632. Accordingly, a decline of Rs.4,715,197 was observed in the financial result. The decrease of the revenue received from the labour hiring service by Rs.26,606,522 equal to 78 per cent, and the decrease of the revenue from other income by Rs.1,519,108 equal to 72 per cent had mainly attributed for this deterioration.

### 2.2 Trend Analysis of Major Income and Expenditure items

The legal and professional fee in the year 2024 was Rs.2,851,679 and it was Rs.5,155,587 in the year 2023. As a result of that, the legal and professional fee had increased by Rs.2,303,908 equal to 81 per cent as compared to the preceding year.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs.34.9 million had retained in 04 current accounts in the year under review and the Management of the Company had not taken actions to earn interest income by putting the said money in an effective investment method or in a fixed deposit.	Updated information (Form 20, Form 15) could not be able to provide to the banks since the Board of Directors of the Company has not been properly registered with the Department of Company Registrar in the last few years. Therefore, it was not possible to invest money of the Company during the period from March 2023 to March 2024 as the banks did not agree to accept the signatures of the authorized signatories of the Company or the decisions of the Board of Directors. However, banks are managing that money properly by now as its problems have been over by early 2024.	The money should be put in an effective investment activity or in a fixed deposit to earn interest income.

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| (b) | The revenue had exceeded the expenditure in the current year by 548 per cent as compared to the previous year, in the examination of the revenue and expenditure of the administration of Galle Face Green in the last 5 years 2019-2023. | According to the agreement made with the Sri Lanka Ports Authority in November 2022, the management fees of 20 per cent on the revenue of Rs.4,044,199 have been paid for the year 2023. Since it has been recognized as a direct expense, it has affected to increase the operational loss of Galle Face Green as well as decrease the overall profit of the Company. | Actions should be taken to earn profits by making efficient of operational activities. |
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### 3.2 Operating Inefficiencies

#### Audit Observation

Although the Company had leased out a property with an area of 22,456 square feet owned by the Sri Lanka Ports Authority to the same person since 2014 for the amount of Rs.459,857 annually without carrying out a procurement process and an assessment, the relevant activities had not been done to enter into a contract in that regard.

#### Comments of the Management

The approval of the Board of Directors had been obtained for the related payments.

#### Recommendation

The human resource of the Company should be utilized effectively, and unnecessary expenses should be minimized.

### 3.3 Human Resource Management

#### Audit Observation

- (i) Although two officers had been recruited by paying Rs.1,682,143 as allowances in the year under review in order to solve human resource management problems and legal problems, no assignment of duties, timely supervision and information about duties performed of them whatsoever had been submitted to the audit. An amount of Rs.3310,032 had been paid to an external party in 14 instances for the said cases of the Company.
- (ii) Operational Manual of Public Enterprises Circular No. 01/2021 of the Ministry of Finance dated 16 November 2021.

#### Comments of the Management

The approval of the Board of Directors had been obtained for the related payments.

#### Recommendation

The human resource of the Company should be utilized effectively, and unnecessary expenses should be minimized.

- (a) As per Paragraph 3.1 (i), The approval of the Department of Public Enterprises of the General Treasury had not been obtained for the approved cadre of the Company.

Agreed. Actions will be taken to adhere in future.

The Management should make arrangements to get approved the number of cadre of the Company in accordance with relevant circulars.

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| <p>(b) As per Paragraph 3.2,<br/>The preparation of a proper Scheme of Recruitment for the staff of the Company and the approval of the Line Ministry and Department of Management Services thereon had not been obtained.</p> | <p>Agreed. Actions will be taken to adhere in future.</p> | <p>The Management should take actions to prepare proper Scheme of Recruitment in accordance with relevant circulars and to obtain approval of the Line Ministry.</p> |
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**4. Accountability and Good Governance**

**4.1 Annual Action Plan**

**Audit Observation**

Although the Action Plan and finalized Strategic Plan together with the Annual Budget should be submitted to the Director General, Department of Public Enterprises through Secretary to the relevant Line Ministry in terms of Paragraph 2.3 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, the Company had not prepared and submitted the Action Plan pertaining to the year 2023.

**Comments of the Management**

Agreed. Actions will be taken to prepare and adhere in future.

**Recommendation**

The Management should take actions to submit the Action Plan and finalized Strategic Plan together with the Annual Budget to the Director General, Department of Public Enterprises through Secretary to the relevant Line Ministry as per the relevant Circular.