

## Peliyagoda Warehouse Company Limited - 2023

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The audit on operations of Peliyagoda Warehouse Company Limited (“Company”) for the period ended 31 December 2023 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 the Companies Act No. 07 of 2007 and provisions of the National Audit Act No. 19 of 2018. The financial statements for the years 2017, 2018, 2019, 2020, 2021, 2022 and 2023 required to be submitted in terms of Section 150(1) of the Companies Act No. 07 of 2007 had not been submitted at the date of this report. My comments and observations which I consider should be report to Parliament appear in this report.

### 1.2 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.

## 2. The Financial Statement

### 2.1 Submission of the Financial Statement

The Peliyagoda Warehouse Company Limited had not submitted the relevant financial statements for the years 2017, 2018, 2019, 2020, 2021, 2022 and 2023 for Audit until the date of this report.

### 2.2 Assets and Liabilities of the Company

The last audited financial statement of the company that had been prepared as at 31 December 2016 and the Consolidated Financial Statements as at 31st December 2021 had submitted by Urban Development Authority that had considered assets, liabilities, income and expenditure items of the company. The details are given below.

	<b>Audited financial statement as at 31 December 2016 (Rs.)</b>	<b>Values of the consolidated financial statement as at 31 December 2021 (Rs.)</b>
<b>Assets</b>		
Property, Plant and Equipment	16,411,977	16,123,036
Redevelopment Expenditure	721,795	-
Debtors and Other Receivables Balances	12,152,376	14,349,237
Investment in Listed Companies	2,500	2,500
Fixed deposit and Repo Investment	176,324,433	42,436,439
Current Account with Urban Development Authority	900,000	193,172,320
Cash in Hand and at Bank Balances	5,944,541	1,798,935
<b>Total Assets</b>	<b><u>220,557,622</u></b>	<b><u>267,882,467</u></b>

## Equity and Liabilities

### Capital and Reserves

Stated Capital	500,000,000	500,000,000
Retained Earnings	(303,344,897)	(257,855,815)

### Liabilities

Advance Received	4,788,000	4,788,000
Trade and Other Payable Balances		
	7,251,027	20,950,283
Tax payables	11,863,491	-

### Total Equity and Liabilities

220,557,622 267,882,467

### Income and Expenses

Total Income	84,257,403	*
Other Income	-	-
Total Expense	9,775,053	-
Profit Before Tax (PBT)	74,482,350	-
Tax Payment	8,611,414	-
Profit After Tax (PAT)	65,870,936	-

- \* After handing over the operations of the company to the Urban Development Authority, the Authority had earned Rs.527.07 million from the year 2017 to 31 December 2023. It had recorded in the ledger of the Authority as Authority's Rental Income and taken into the Financial Statement of Authority.

## 2.3 Evidences not made available for the Audit

The change of assets, liabilities and equity from the last Financial Statements that submitted on 31 December 2016 to the date of this report could not be identified in Audit due to non-submission of financial statements and ancillary evidence. Further, the evidence on holding of Asset Valuation and Board of Survey had not been submitted to the Audit.

## 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

### Reference to Laws, Rules Regulations

### Non compliance

- (a) The decision No: 208/2017 of the Board of Directors of Urban Development Authority held on 27 of June 2017. Even though the operation and assets of the company should be handed over to the authority and the decision had been taken to complete the liquidation as soon as possible, the liquidation process had not been ended up to the date of this report.
- (b) Companies Act No: 07 of 2007
- (i) Section 324(I) A statutory statement must be given that is of the opinion that the company's debt will be fully paid within a period not exceeding twelve months from the initial date of liquidation but the evidence had not been submitted to the Audit that statement was made.

- (ii) Section 329(I) A meeting of creditors should be called and a statement should be made about the assets and liabilities of the company. However, the evidence had not been submitted to the audit that the meeting was held.
- (iii) Section 330(I) If the period for liquidation is more than one year from the date of commencement of the proceedings, the Trustee shall call a General Meeting and present an account of its proceedings and transactions during the preceding year and a description of the liquidation of the accounts. But the evidence had not been submitted to the Audit that requirements were followed.

According to the Companies Act it is also observed that the liquidator fails to comply with the above sections 329 and 330 he shall be guilty of an offense and shall be liable to a fine not exceeding fifty thousand rupees if convicted.

### 3. Review on Operational Activities

#### 3.1 Performance

3.1.1 The information regarding to the receipt of rental income from the year 2017 to the year 2023 after acquiring the Urban Development Authority as follows.

Description	2017	2018	2019	2020	2021	2022	2023
Rental Income (Rs.)	21,376,547	68,269,108	62,694,288	90,767,890	134,040,028	78,240,253	71,666,094

Thus, from the date the company's operations were handed over to the Authority up to 31 December 2023, an income of Rs. 527.07 million had been earned.

#### 3.2.1 Lost of Revenue

- (a) A warehouse along with other facilities around in Peliyagoda area could be provided for storage facilities at a price of Rs. 60 to 100 for a square foot. However, the company had provided storage facilities at a non-competitive rate and therefore the company had to be beared a loss of Rs. 4 million from existing lessees.
- (b) A warehousing complex usually provides storage facilities to store raw materials or finished goods in good condition until they are released to the factory or to the market and the charge is calculated on square foot basis. However, a cement company is using 55,985 square feet of the Company's WH (II) and further to that, this premises had been used without any additional payment for the process of imported cement powder mechanically packing them into bags of 50 kg each in addition to consume storage facility. From this point of view, it is an additional advantage had been given to that company, and further it is observed that by charging the same amount from other companies that are used only for storage facilities, it was a great injustice to those companies. Therefore, the Urban Development Authority had a loss in huge amount of income continuously in collecting income of the Warehouse Company.

(c) Part C of WH 1 warehouse is consisting of 6,750 square feet and it could be provided and collected income from storage facilities without any renovation, but due to keeping that part as idle until the date of this report, as per the current rate per square foot, the monthly lost income was Rs. 405,000 and per year it was Rs. 4.88 million. And also, Urban Development Authority had been used 2,208 square feet for the needs of them. Therefore, the income had been lost by Rs. 132,480 monthly and it was Rs. 1.59 million annually.

### 3.3 Management Inefficiencies

(a) The WH 111 warehouse complex is consisting of 11,490 square feet can be used by doing minor repairs but this warehouse had also remained idle until the date of this report. Therefore, total income of Rs. 689,400 in a month and an annual income of Rs. 8.27 million had been lost.

(b) Sections C and D of WH II warehouse complex consisted of 16,104 and 28,500 square feet respectively should be renovated and strategic decisions should be taken economically, but such a decision had not been taken so far.

(c) At the date of this report, a written agreement had not been made with the below mentioned 04 lessees, who had used a total of 85,974 square feet of storage space.

	<b>Storage used</b>	<b>Commencement Date of Lease Period</b>
(i)	WH1 – AI	2020 August 01
(ii)	WH1 - AII	Non availability of information
(iii)	WH1 – CII and D	2023 October 20
(iv)	WH1B	2023 October 21

### 3.4 Asset Management

	<b>Storage premises WH I</b>	<b>Storage premises WH II</b>	<b>Storage premises WH III</b>	<b>Total</b>
Area (Sq. Ft.)	94,932	103,406	11,490	209,828
Amount given on monthly rent to outside parties	59,584	56,345	--	115,929
Amount to be renovated and unrented	6,750	47,421	11,490	65,661
A quantity and rent had not been charged	28,598	--	--	28,598

The following observations are made in this regard.

- At the date of the report, the company had used only 115,929 square feet which is 55 percent of the total warehouse space owned by the company for revenue generation.
- It was observed that 65,661 square feet equivalent to 31 percent of the total warehouse space needs to be renovated very soon.

- It is observed that Urban Development Authority and Lanka Sathosa Limited were using square feet equal to 14 per cent of the total storage space without paying any amount.

### **3.5 Expenditure incurred on Dissolution of the Company**

The Urban Development Authority had paid Rs.1.5 million at the rate of Rs.25,000 per month for 05 years until August 2017 to the liquidator who had been appointed for dissolution. However, at the date of this report the dissolution activities had not been completed and so that, this could be an idle expenditure.

## **04. Other Matters**

### **4.1 Liquidation Proceedings of the Company**

Peliyagoda Warehouse Complex Company Limited (PB401) incorporated on 29 July 1993 which was a wholly owned subsidiary of the Urban Development Authority and located at a land of 11 acres, 02 ruda, 23 perches obtained from the Urban Development Authority on a 99-year lease basis.

As per the Articles of the association, the primary objective of the Company is to construct and operate Warehouse Premises. As describe in the Board Paper No 208/2017 at the Board Meeting held on 27 June 2017, the company had incurred the accumulated loss of Rs.468 million and request made by the Port Authority to take over the company land and other lands around it for the Colombo Port Development project. According to the Board paper No 367/2011 dated 21 December 2011 Board had approved voluntary liquidation as per the Companies Act No 07 of 2007.

However, the transfer of the company's land to the Port Authority had been delayed continuously, and accordingly, the liquidation of the company had also been delayed. Due to this, the liquidator, who had appointed by the Authority, had decided to rent the 155,000 square feet to 06 companies at a price of 40 to 45 rupees per square feet for cover the operating expenses of the warehouse premises.

Further to that inability to complete the liquidation of the company until the year 2017, according to the Board Paper No 202/2017 on 27 June 2017, it had been decided to liquidate the company and hand over the assets to the Urban Development Authority. However, up to the date of this report the liquidation of the company had not been completed and the company's assets had not been transferred to the Authority.

### **4.2 Human Resource Management of the Company**

Currently, the company has no staff and the service of 26 employees had been terminated on 31 July 2012 and the compensation of Rs. 15.23 million had been paid for them. Further one employee who is working on a contract basis with the appointment of the Authority had been kept in the company premises to coordinate the current affairs.

### **4.3 Maintaining Company's Records of Accounts and Documents**

The liquidator who had appointed by the company had prepared the financial statements for the financial year 2016 and submitted to the Audit on 14 March 2019. After the board of directors of the Authority had decided to liquidate the company and hand it over to the Urban Development Authority and the revenue received from the rental of the company's warehouse premises from the year 2017 had been updated in the Authority's books. However, from the year 2017 to the date of this report, a formal ledger had not been maintained and the transactions had not been recorded by the company.

#### **4.4 Settlement of Audit Fees**

An amount of Rs.244,463 had to be paid to the National Audit Office for statutory audits conducted from 2014 to 2016, but the amount had not been settled by the company up to the date of this report.

#### **4.5 Long-Term Due Balances**

At the date of this report, an amount of Rs.42.93 million had not been paid by 06 companies that had obtained storage facilities from the company's warehouse premises.

#### **4.6 Idle Lands**

A significant amount of land extent of 1,863 perches with a very high commercial value are still being idle and it is observed that a strategic decision should be made to use this land for effective economic activity instead of keeping as idle.

#### **4.7 Facilities that Physically Exist in the Warehouse Premises**

At present, the rent of Rs. 151 million had been charged by the Authority, which was 70 percent of the annual electricity expenditure of the Urban Development Authority. Further it was observed that income could be contributed to cover the electricity charges of Urban Development Authority but warehouse had been operated under poor facilities.

More over the warehouse premises are not in a clean condition, and it will be a bad image to the Authority among General Public as a government institution.

The land area between WH I and WH II storage premises should be a well-prepared space for the common use of vehicles and equipment handling of all institutions, but such a space had not been observed.

#### **4.8 Ability to Operate as a Strategic Business Unit of the Authority (SBU)**

As this warehouse complex is located in an area with high demand for commercially important storage facilities therefore more competitive advantages can be gained by providing storage facilities, further it is observed that there is a great potential to build this warehouse complex as a Profitable Strategic Business Unit to Urban Development Authority.