

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Colombo Port City Economic Commission (“the Commission”) and for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in Equity and statement of cash flows 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 of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the Colombo Port City Economic Commission Act, No. 11 of 2021. My comments and observations which I consider should be reported to Parliament appear in this report. To carry out this audit, I was assisted by an International firm Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2023, 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 and 7.1 of the financial statements, which discusses the Commission’s position on the applicability of income tax and non – recognition of cost of the Land belonging to the Commission. My opinion is not modified in respect of these matters.

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 Colombo Port City Economic Commission Act, No.11 of 2021, the Commission shall maintain books, registers and records of minutes, accounts, cash securities, vouchers and other documents in compliance with the applicable International Financial Reporting Standards.

1.4 Auditor's Responsibilities 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 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 Commission'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 Commission'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 Commission 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 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Even though the Commission is of the view that no income tax liability arises on the affairs of the Commission and its fund, the tax consultant is of the view that there may be tax liability since the Commission receives income from various sources. Therefore, it may lead to possible noncompliance with regulatory requirements and additional cost may have to be incurred as penalties. It is observed that the Commission had not taken adequate measures to obtain advise from the Inland Revenue Department.	The Commission upholds that the Commission Fund is administered on behalf of the Government to collect all monies received or receivable in connection with the provision of investment facilitation services, as stipulated under the Colombo Port City Economic Commission Act No. 11 of 2021. Nevertheless, the Commission acknowledges the importance of the matter and the audit committee will review this comment further and following which will be tabled for deliberation at the Commission Meeting.	Commission should have a clear conclusion regarding the applicability of income tax Law on the activities of the Commission and should expedite the process of taking clarification form the Inland Revenue Department.

2. Financial Review

2.1 Financial Result.

The operating result of the year under review amounted to a surplus of Rs. 1,820,286 and the corresponding deficit in the preceding year amounted to Rs. 18,333,220. Therefore, an improvement amounting to Rs. 20,153,506 of the surplus was observed. The reason for the improvement was the decrease of administrative expenses by Rs. 105,603,102 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 preceding year with the percentage of increase or decrease are as follows.

Line Item	2023 Rs.	2022 Rs.	Variance Rs.	Variance %
Incoming Resources	165,466,540	245,413,217	(79,946,677)	(32.57)
Administration expenses	156,691,316	262,294,418	105,603,102	40.26
Promotional and marketing expenses	267,797	1,250,637	982,840	78.58
Surplus/(deficit) for the year	1,820,286	(18,333,220)	20,153,506	109.92

3. Operational Review

3.1 Licenses issued to Authorized Persons (AP)

Audit Issue	Management Comment	Recommendation
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. During the period considered, the Commission had issued 85 licenses and 2 licenses had been cancelled. At present, 83 licenses are active and the total expected foreign direct investments from approved applications was \$ 1,620,002,129. As at 5 December 2024, Fifty-three (53) applications of Authorized Persons are still pending for approvals. In the construction stage, government revenue flow is primarily receiving through obtaining licenses. As per the Section 6(g) of the Colombo Port City Economic Commission Act No. 11 of 2021, the Commission is to be the Single Window Investment Facilitator while being the sole point of contact to investors and promote the ease of doing business through the	The pending applications for license approval and Business of Strategic Importance Designation were 53. Since August 2024 no license was issued and no gazettes were issued for designation APs as business of strategic importance. This was primarily due to the announcement of presidential election which was then closely followed by the parliamentary elections. A new commission was appointed on 13th December 2024 and they had their first meeting on 15 January 2025. Following this meeting and a detailed review of the processes in place and	As per the Colombo Port City Economic Commission Act, the Commission should promote the ease of doing business through the expeditious facilitation and issuance of required registrations, licenses, authorizations and other approval.

expeditious facilitation and issuance of all registrations, licenses, authorizations and other approvals required for engaging in business in and from the Area of Authority of the Colombo Port City. It is observed that the Commission had not taken adequate measures to expedite the process of issuing relevant license.

engagements with the relevant ministry etc, the approval of Authorized Persons licenses commenced April 2025. The next phase required for businesses that have now been licensed as Authorized Persons is for them to be designated as Businesses of Strategic Importance. This process is currently under review by the Ministry of Finance.

3.2 Regulations to be made according to the Colombo Port City Economic Commission Act No. 11 of 2021

Audit Issue	Management Comment	Recommendation
<p>According to the Section 71 of the Colombo Port City Economic Commission Act No. 11 of 2021, The President or in the event that the subject of the Colombo Port City is assigned to a Minister, such Minister may, in consultation with the Commission and any relevant Regulatory Authority make regulations in respect of all matters for which regulations are required to be prescribed. However, regulations relevant to section 71(b) -Local property levies, other levies and (d) - Gaming locations and Gaming activities had not been published yet.</p>	<p>The Commission has been advised that the government is in the process of establishing a Gambling Regulatory Authority which will have regulatory and supervisory authority. Following the review of the proposed law and in consultation with the said Authority, the Commission will consider appropriate regulations for gaming within the Colombo Port City. Rates and levies are currently under review in consultation with the Project Company and will be presented to the Commission for approval upon finalization.</p>	<p>Since specific regulations are important to the smooth function of the Colombo Port City Economic Zone ,the Commission needs to expedite the process of publishing the regulations.</p>

3.3 Conducting Promotional Activities

Audit Issue	Management Comment	Recommendation
<p>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. The Construction company entitled to lease out other marketable land portion of 116.2 of hectares. However, during the year, the Commission had actually spent only Rs. 267,797 for promotional and marketing activities. Government revenue primarily flows in the form of tax income and sales proceeds due from the lease of marketable land plots. However, it was observed that still the Commission was unable to gain success through their marketing and promotional campaigns to lease the marketable land plots.</p>	<p>During 2023 and 2024, the investor confidence was all-time low due to the political climate and economic situation of the country. The Country was in restricted default status, had not finalized the debt restructuring program and had only just had the IMF Extended Fund Facility approved in March 2023. Hence, launching out an extensive promotional campaign was not considered appropriate. The current Commission is actively engaging with the Ministry of Finance to understand and get clarity on the policy directives. Following which the promotional campaign could commence.</p>	<p>The Commission needs to take necessary steps to attract the potential investors through their marketing and promotional campaigns.</p>

3.4 Forming of Estate Management Company (EMC)

Audit Issue	Management Comment	Recommendation
<p>According to the Section 24A.1 of the Tripartite Agreement entered in to between the Secretary to the Ministry of Mega polis and Western Development for and on behalf of the Government of Sri Lanka, the Urban Development Authority of Sri Lanka And CHEC Port City Colombo (Pvt) Ltd an Estate Management Company should be incorporated within 36 months of the effective date of the agreement. Moreover, as per the Section 59 of the Act, there should be a company</p>	<p>The EMC Shareholder Agreement has been reviewed by the Attorney General's Department in consultation with the newly appointed Commission Members since activities commenced in January 2025. The agreement, along with the Articles of Association, has been shared</p>	<p>The Commission need to comply with the Section 24A.1 of the Tripartite Agreement.</p>

incorporated in terms of the Company's Act No. 07 of 2007, which shall be designated as the Estate Manager. It was observed that the Commission was unable to establish an Estate Management Company up to now.

with project company for their review. The EMC will be established following receipt of feedback and conclusion of necessary discussions.

Part XII of the Colombo Port City Economic Commission Act lists out the duties and functions of the EMC. All duties and functions that need to be carried out will be addressed appropriately

4. Human Resources Management

4.1 Scheme of Recruitment (SOR) and approved carder

Audit Issue	Management Comment	Recommendation
According to the Section 6(ca) of the Colombo Port City Economic Commission Act No. 11 of 2021, the Commission has the power to appoint and dismiss the staff of the Commission. However, it was observed that Commission has no Scheme of Recruitment and approved carder as of the year 2023.	The Commission currently has an approved organization structure that has staff grades, salary ranges etc and a HR policy document. With the expansion of the Commission as business continues to grow the Commission has sought the services of specialists in HR to review the existing documents and provide further guidance accordingly.	The Commission needs to develop an approved Scheme of Recruitments and approved cadre.

5. Accountability and Good Governance

5.1 Risk Management Function

Audit issue	Management Comment	Recommendation
As per the prevailing best practices, the Board should have a clear view of the corporate governance structure applicable for the Commission. As a part of corporate governance, there should be a risk management	The Procedure Manual referred to is specific for the Finance Function within the Commission. It lists the procedures for Accounts Payable, Accounts Receivable, Payroll and General Ledger.	As a best practice of good governance, the Commission should have a risk management function within the organization.

function within the Commission to manage their business risk. Moreover, as per the manual of procedure (version 2) issued by the Commission, it was mentioned that the Commission should establish a process for managing investment risk that is consistent with best practices. That process should include an assessment of risk and management of risk involved in investment. However, it was observed that there was no risk management functions or risk officer in the Commission.

The Commission's role is to license businesses that are looking to operate from Colombo Port City. This business will require investments in land, building etc. The Investment decisions in this instance are carried by the Investors looking to commence the said business.

The Commission when issuing a license to the Investor will review the application in accordance with the Colombo Port City Economic Commission Act, No.11 of 2021 and the relevant Regulations.

The only investments the Commission makes are in fixed deposits and those are disclosed in the Balance Sheet. All these are done in terms of the laidout policies and procedures.

The Commission's risk management responsibilities are integrated into the roles of senior leadership finance, legal and compliance.

Having said that, the Audit Committee will bring up to the Commission to implement a risk management plan with defined risks, which will cover

- Environmental risk,
- legal risk,
- cash flow risk, and
- regulatory risk

The Commission will discuss and follow up the progress on a continues basis.

6. Environment Issues

6.1 Environmental effect Management

Audit Issue	Management Comment	Recommendation
<p>As per section 6 (j) of the Colombo Port City Economic Commission Act No. 11 of 2021, the Commission need to develop and approve environmental standards and plan, monitor and execute environmental improvements as may be required within the Area of Authority of the Colombo Port City. Further, as per Meeting Minute of the National Steering Committee Meeting No 6, held on 05 December 2023, waste water management systems have not been finalized yet. Therefore, it is important to monitor the progress of implementation of Mitigation actions of Environment Impact Assessment (EIA) and other environmental issues directly affect the area of Authority of the Colombo Port City.</p>	<p>Part VI of Colombo Port City (Development Control) Regulations No. 01 of 2023 as published in the Extraordinary Gazette No.2334/47 , dated 02 June 2023 , states that all applicable laws, regulations and standards shall be implement and met full as a minimum requirement. The sustainability of objectives, key performance indicators and targets contained therein are to apply to Colombo Port City Development Project as a whole. This Part speaks of Sustainable Design, Energy Efficient Building Design, Rainwater Harvesting Policy, Sustainable Design Water Management and other such provisions.</p>	<p>The Commission need to consider all the environmental matters relevant to the sustainable developments of the Colombo Port City as it is stipulated in Section 6 (j) of the Colombo Port City Economic Commission Act No. 11 of 2021.</p>