

## **Jaya Container Terminals Limited -2019**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of financial statements of the Jaya Container Terminals Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the profit and loss statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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 reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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**

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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 intends 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 Sub-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 Responsibilities for the Audit of the Financial Statements

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

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Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Circular on Good Governance issued by the Department of Public Enterprises No. PED 12 dated 02nd June 2003			
(i) Section 5.1.1	Although every public enterprise is required to prepare a Corporate Plan, the Company had not prepared such a plan even as at 31 December 2019.	Agreed.  The Company will take actions to prepare Corporate Plan in the future.	It is the responsibility of the management to prepare a Corporate Plan with a long-term vision in accordance with the circular.
(ii) Section 8.2.2	Although the concurrence of the Minister of Finance should be obtained if a state-owned company makes short-term deposits, treasury bills, fixed deposits or other financial investments, such concurrence had not been obtained for investments of Rs. 250,550,020 as at 31 December 2019.	Agreed.  The Company has invested only in fixed deposits and the approval of the Ministry of Finance for future new investments will be obtained.	According to the circular, the relevant concurrence should be obtained in case of investing excess money of a public company.
(iii) Section 8.8	Although every public enterprise is required to obtain Board approval for the delegation of authority	Agreed.  The actions will be taken to obtain the	It is necessary to determine the limits of the exercise of powers in the course of the

	indicating expenditure limits at the beginning of each year, the Company had not complied with the above requirement.	approval of the Board of Directors for delegation of authority in the future.	operation of the Company during the year in accordance with the Circular with the awareness of the Board of Directors.
(iv) Section 9.2	Although every public enterprise is required to register the organization chart and the approved cadre in the Department of Public Enterprises of the General Treasury, the Company had not met the above requirement.	Agreed. Actions will be taken to obtain the approval for this in the future.	Management should take actions to meet these human resources requirements as per the circular.
(v) Section 9.3.1	A formal scheme of recruitment for the Company had not been prepared and the approval of the Board of Directors and the Line Ministry and the concurrence of the Department of Public Enterprises had not been obtained.	Agreed. Actions will be taken to obtain the approval for this in the future.	It is necessary to prepare a scheme of recruitment and obtain the approval as stated in paragraph in order to manage the human resources in a formal and transparent manner.
(b) Letter issued by the Secretary to the Ministry of National Policies and Economic Affairs bearing No. NP / SP / SDG / 17 dated 14th August 2017.	According to the United Nations' "Agenda for the year 2030 "on Sustainable Development, every government institute should take actions and accordingly, Sustainable Development Goals, targets and how to achieve those targets, indicators to measure the targets had not been identified.	Agreed. Steps will be taken to implement this in the future.	It is the responsibility of the management to identify the Sustainable Development Goals, set targets accordingly and take actions towards achieving those targets.

## 2. Financial Review

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### 2.1 Financial Results

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The operating result of the year under review had been a profit of Rs. 92,885,648 as compared with the corresponding profit of Rs. 91,294,628 for the preceding year, thus an increase of Rs. 1,591,020 was observed in the financial result.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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#### Audit Issue

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#### Management Comment

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#### Recommendation

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(a) A sum of Rs. 5,779,760 receivables to the Company from the Ports Authority since more than 4 years for designing a building plan had not been settled even as at 31 December 2019. Further, the amount had not been included as a payable balance in the financial statements of the Sri Lanka Ports Authority for the year 2019 and it was observed in the audit that the recovery of the amount is uncertain. However, the Company had not provided for impairment for this.

Agreed.

According to the audit query issued in the year 2018, the Chairman of the Company has sent a letter to the Chairman of the Sri Lanka Ports Authority requesting to settle the amount of Rs. 5,779,760. According to the reply received to the letter by the Managing Director of the Authority on 19.11.2018, it has been informed that this amount will not be paid. Accordingly, this expenditure will be written off as bad debt in the future by obtaining the approval of the Board of Directors and the Ministry of Finance.

It is necessary to discuss this matter with the Ports Authority and come to a final conclusion giving reasonable grounds.

(b) The value of the consumable items in the Company as at 31 December 2019 was Rs. 1.73 million and out of them, 282 items valued at Rs. 1.2 million had remained for a long period without issuing. Further, unusable items included in the above stock had not been identified and the provision for impairment also had not been made.

Agreed.

The Company will take actions to deploy a technically knowledgeable officer to identify items that have not been issued for a long period of time and to make provision for impairment in the future.

It is the responsibility of the management to maintain up-to-date stocks through the introduction of formal stock control systems.

- (c) Although the validity period of agreements entered into with eight naval oil licensees who use the oil tanks of the Company on lease basis had been expired on 31 December 2019, agreements had not been renewed for the year 2020 until 25 February 2020. As a result, the risk of arising legal issues could not be ruled out in the audit.
- The new Board of Directors of the Company discussed in connection with this at the meeting of Board of Directors held on 23 December 2019. Further, a committee consisting of two members of the Board of Directors who are lawyers was appointed to conduct a proper study on the existing agreement and to consider new issues such as the maintenance of the floating oil storage complex / laboratory facilities. The approval of the Board of Directors was obtained to extend the existing agreement for a period of 02 months (29/02/2020) on the same terms until the recommendation of the said committee is received.
- The recommendation of the said committee was discussed at the meeting of the Board of Directors held on 09/01/2020 and it was decided to obtain the assistance of a lawyer to draft an agreement which includes matters which had not been covered and new legal provisions. The new agreement was approved by the Board of Directors on 28/02/2020.
- (d) A procurement for installation of Fire Form Pouring System to minimize the fire damage in connection with 9 oil tanks of the Company at a cost of Rs. 90 million had been included in the Action Plan for the year 2019. Although the decision to call for tenders for this had been approved by the Board decision No. 05/19 of 20 June 2019, it had not been implemented until the end of the year under review.
- This was discussed at the meeting of new Board of Directors of the Company held on 23 December 2019. Approval for the signing of the relevant agreement for this project is to be obtained at the meeting of the Board of Directors to be held on 29/05/2020. Thereafter, the Sri Lanka Ports Authority will take immediate steps to commence these projects.
- It is the responsibility of the management to complete the construction required for the operations of the organization without a delay.

- (e) According to the financial statements, the balance receivable to the Company from the Sri Lanka Ports Authority as at 31 December 2019 had been stated as Rs. 11,519,327 and according to the letter of confirmation of balance at that date given to the Company by Sri Lanka Ports Authority, the amount payable to the Company by the Authority had been stated as Rs.10,198,415. Accordingly, a difference of Rs. 1,320,912 was observed in the balance to be received.
- Agreed.
- The reason for this difference is the fact that three invoices of Rs. 1,320,912 issued to three companies have not been paid to the Sri Lanka Ports Authority. Instead of recovering the money from the relevant institutions, the Sri Lanka Ports Authority has deducted the money from the management fees payable to our institution.
- These differences can be minimized by incorporating them into the financial statements after reaching a final agreement regarding the receivable balance to the Company in consultation with the Sri Lanka Ports Authority.
- (f) A sum of Rs. 712,290 receivable to the Company for providing sanitary facilities to the Sri Lanka Ports Authority in the year 2013 had not been recovered till 31st December 2019 although 6 years had elapsed since the service was provided and an impairment also had not been provided. Similarly, no balance confirmation had been obtained regarding this receivable amount.
- Agreed.
- These are two invoices issued by our company in October 2014 and December 2015 for providing cleaning services on behalf of the Pilot Station and Operations Division of the Sri Lanka Ports Authority. Whenever inquired regarding this, Sri Lanka Ports Authority has informed that money has been paid to our Company and no money has been received for these two invoices. A provision will be made for impairment in the future with the approval of the Board of Directors.
- Appropriate actions should be taken after finding out details. (Details such as payments made by Sri Lanka Ports Authority)
- (g) A sum of Rs. 1,832,607 had been shown in the Statement of Financial Position of the Company as at 31 December 2019 as withholding tax receivable. Although the withholding tax certificates have to be submitted to settle those withholding tax from the Department of Inland Revenue, the Company was in an uncertain position regarding the settlement of
- Agreed.
- In case of accounting for fixed deposits, the institution accounts interest income and withholding tax till 31 December every year on accrual basis. However, the Bank issues certificates for withholding tax only up to the relevant maturity date. As the available amount of the withholding tax certificates is
- It is the responsibility of the management to maintain the relevant certificates for withholding tax expected to obtain tax credit.

the aforesaid amount as a result of the absence of such certificates. deducted in case of paying income tax, some amount is left in the withholding tax account each year and it is brought forward.

### 3.2 Operating Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) Sri Lanka Customs had confiscated 546 metric tons of leftover oil during the year due to measurement errors caused by non-use of modern technology to estimate oil in 13 tanks of the Company. Further, it was also observed that no storage charges are levied for the storage of the undeclared oil stocks until they are confiscated and resold annually by the Sri Lanka Customs.</p>	<p>Agreed. Action will be taken by Jaya Container Terminals Ltd to install Mass Flow Meters in the future to carry out accurate measurements. Since the time of confiscation of oil stocks collected and their calculations are done by the Sri Lanka Customs, our institution is unable to intervene directly.</p>	<p>It is the responsibility of the management to use technologically advanced methods for oil quantification.</p>
<p>(b) Although the approval of the Board of Directors had been given by the Board Decision No. 05/19 of 20 June 2019 to release Rs. 50 million to Sri Lanka Ports Authority for the construction of a new petrol tank with a capacity of 3200 MT at an estimated cost of Rs. 125 million, no release of funds or commencement of construction had been made until the end of the year under review.</p>	<p>Approval of the Board of Directors of the year 2019 is further analyzed by the new Board of Directors appointed in January 2020. Moreover, As the Ports Authority has agreed to make the relevant payments without the bank guarantee requested by the Ports Authority, the approval for the signing of the relevant agreement for this project is to be obtained at the meeting of the Board of Directors to be held on 29/05/2020. Thereafter, Sri Lanka Ports Authority will take immediate steps to commence these projects.</p>	<p>Actions should be taken to carry out the construction as planned by solving problems.</p>
<p>(c) Tank No. 117 contained 72 metric tons of 380 (HSFO) oil</p>	<p>Not Agreed. We have continuously sent</p>	<p>Management should take actions to introduce the necessary systems</p>



belonging to the Sri Lanka Ports Authority and 75 metric tons belonging to the Ceylon Petroleum Corporation and although the oil had been stored in the tank for a long period, tank storage charges had not been levied by the relevant organizations. written reminders to pay the charges levied on the stock of oil belonging to Ceylon Petroleum Corporation. Further, the agreements with the 02 companies have been also cancelled and there is no possibility of issuing invoices. to recover storage charges in a timely manner.