

## **Sri Lanka Ports Authority “Authority” and the Authority and its Subsidiary (“Group”) - 2019**

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### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Sri Lanka Ports Authority (“Authority”) and the Consolidated Financial Statements of the Authority and its Subsidiary (“Group”) for the year ended 31 December 2019 comprising the Statement of Financial Status as at 31 December 2019, Comprehensive Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **1.2 Basis for Disclaimer of Opinion**

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I do not express an opinion based 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 disclaimer of 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 Authority’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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Sub-Section 16(1) of the National Audit Act No.19 of 2018, the Financial Statement 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 Authority.

**1.4 Auditor’s responsibility for financial statements**  
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My responsibility is to conduct an audit of the Authority’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

**1.5. Financial statement**  
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**1.5.1 Non- Compliance with the Sri Lanka Accounting Standards**  
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<b>Non-Compliance with reference to particular Standard</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) Although, according to the paragraph 51 of Sri Lanka Accounting Standards 16, useful lifetime and the residual value of fixed assets should be reviewed annually and a variation if any, should be adjusted in accordance with Sri Lanka Accounting Standards 8, assets of Galle and Trincomalee Ports belonging to 10 categories with a carrying value of 15,530 million as at 31 December 2019 had not been reviewed.	The relevant review for 05 asset items had been conducted according to the Accounting Standards and it has been disclosed in No. 53 of the notes to financial statements that the review procedure is being continuously carried out by a committee appointed.	Action should be taken regarding the assets in accordance with Sri Lanka Accounting Standards No.16.
(b) The value of fixed deposit and foreign exchange profit had been overvalued by Rs. 213.56 million as rupee value on the date of converting had not been taken as the base when converting to Sri Lankan Rupee value for the presentation of fixed deposit with a value of USD 181.62 million held by the Authority as at 31 December 2019 in the statement of financial position in terms of	Agreed.  Daily Dollar deposits have so far been accounted through monthly journal entries in dollar values related to those dates.  The calculations will be made as at 31 December 2020 as mentioned.	Action should be taken regarding foreign exchange conversion in accordance with Sri Lanka Accounting Standards No.21.

Section 23 (a) of Sri Lanka Accounting Standards No. 21.

(c) Although each material item is required to be shown separately in the financial statements as per Section 29 of Sri Lanka Accounting Standards No. 01, Rs. 6,809.40 million allocated by the Authority as at 31 December 2019 as a compensation for the cases pending in court had been shown under miscellaneous expenses. It had been 45 percent of total administrative expenses.

(d) The loan amounting to US \$ 22.3 million out of the loan amounting to US \$ 24 million which had been obtained from private bank in the year 2014 by Magampura Port Management Services (Pvt) Ltd. , a subsidiary of the Authority of which the operational activities had been ceased since November 2017, had not been settled and the sufficient funds have not been made available in the company to settle the loan by the date of this report. Further, A letter of demand had been referred by the bank on 02 April 2019 concerned to the Authority as the guarantee for the loan and as the parent company stating that legal action would be taken against the Authority to recover the outstanding loan balance of US \$ 22.3 million. Nonetheless, provision for contingent liabilities had not been made for this purpose by the Authority.

Agreed.

Although the sum of Rs. 6,879,791,203 allocated for the pending cases of the Authority had been included in the miscellaneous expenses., it had been shown separately by a note. Action will be taken to show it in a detailed note in the year 2020.

Contingent liabilities are allocated only if a litigation has been filed. No contingent liabilities have been provided as no litigation has been filed during the relevant financial year. Therefore, action will be taken in the future accordingly.

Material items should be shown separately in the financial statements as per Section 29 of Sri Lanka Accounting Standards No. 01.

The potential financial risk cannot be ruled out as the sufficient funds to repay the loan have not been made available in the subsidiary in which the Authority has full ownership and the Authority acts as a guarantor for the relevant loan. Actions should be taken to make provisions in accordance with Sri Lanka Accounting Standards.

## 1.5.2 Accounting Deficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) According to Section 10 of the Extraordinary Gazette Notification No. 2064/53 dated 01 April 2018, the notional tax can be deducted within three consecutive years from the assessment year 2018/2019. However, the notional tax value amounting to Rs. 70.68 million shown in the tax report for the assessment year 2018/2019, had not been included in the financial statements of the Authority for the year 2019. As a result, the notional tax account and retained profits had been undervalued by the above amount.</p>	<p>Agreed.</p> <p>The nominal tax value amounting to Rs. 70,687,073 which was not included in the final accounts for the year 2019 will be included in the final accounts for the year 2020.</p>	<p>Action should be taken to include all relevant receivable balances in the financial statements.</p>
<p>(b) Taxable income had been understated by Rs. 1,789.06 million when calculating the taxable income for the year under review as the volume rebate allocated differs from the rebate paid according to the income tax calculation documents and as a result, the income tax and the income tax payable have been undervalued by Rs. 500.94 million.</p>	<p>Agreed.</p> <p>Action will be taken to pay income tax. adjusting the correct rebate in the final tax return.</p>	<p>Action should be taken to calculate income tax in accordance with the requirements of the Income Tax Act.</p>
<p>(c) Although the Authority had provided services, the income which had not been accounted was Rs. 16.76 million as at 31 December 2019. As a result,</p>	<p>Agreed.</p> <p>Although these bills have actually been issued to the shipping agent as at 31.12.2019, due to a</p>	<p>Action should be taken to identify and account the total income for the year under review.</p>

the debtor's balance and income of the Authority had been undervalued by the same.

difference in time adjustment between the two systems of Accounts Receivable (AR) and General Ledger (GL), it has been accounted in the year 2021 as a revenue related to the year 2020 . DMS has been informed to remove the difference in time adjustment between these two systems.

(d) Although an amount of Rs.7.61 million spent by the Authority in the year 2018 for a renovation work at Galle Face Green had been shown in the financial statements of the Authority as a receivable from the Sri Lanka Ports Management and Consulting Company ,it had not been shown in the financial statements of the relevant company as an amount to be paid to the Authority and the company had informed the Authority in writing that the aforesaid amount could not be paid. As a result although the receipt of the aforesaid amount was uncertain, a provision for impairment had not been made in the financial statements.

Not agreed.

Sri Lanka Ports Management and Consulting Services Company had requested to repair the Viewing Deck of the passenger bridge of the Galle Face by the letter dated 16.01.2017 and the repairs had been completed by the Ports Authority in the year 2018. As the Sri Lanka Ports Authority has paid Rs. 8,750,392.16 including 15% VAT to the relevant contractor relating to the work , the Sri Lanka Ports Authority has informed the Sri Lanka Ports Management and Consultancy Services Company by the letter dated 22.06.2018 to reimburse the amount to the Sri Lanka Ports Authority . However, the Port Management and Consultancy Services Company has informed by a letter dated 16.07.2018 that the amount could not be paid.

The balances to be received should be analysed and a provision should be made for impairment in respect of uncertain balances.

### 1.5.3 Writing off from Accounts without obtaining concurrence.

Audit Issue	Management Comment	Recommendation
Out of the foreign loans which had been obtained for construction of the Port of Hambantota the loan balance of	Not agreed. The loan servicing of the Hambantota Port has been	A final agreement should be entered into in consultation with the General Treasury regarding the relevant matters.

Rs. 147,746 million remained in the accounts of the Authority as at 30 November 2017 had been written off by the Authority from Financial Statements without obtaining the concurrence from the general treasury or the approval of the cabinet of ministers and therefore that loan had not been included in any account of the Government. However, according to the cabinet approval received for the cabinet memorandum titled “Hambantota Port Concession Agreement” No. MPS / SEC / 2017/32 of 20 July 2017, it was stated that the General Treasury will take the responsibility of repaying the above loan balance. According to records of External Resources Department of the General Treasury the balance of the loan had been Rs. 178,628 million, as at 31 December 2019.

Further, the accumulated foreign exchange conversion loss of Rs. 31,545 million calculated up to the period 30th November 2017, in relation to the aforesaid loan had also been written off with the removal of debt from the accounts of the Authority. The accumulated foreign exchange conversion loss of Rs.58,442 million as at 31 December 2019 the including the accumulated foreign exchange loss of Rs. 26,897million for the period from 30th November 2017 to 31st December 2019 had not been entered in the accounts of the General Treasury or Authority.

assigned to the Sri Lanka Ports Authority by a Cabinet decision. Accordingly, the Ports Authority has paid the relevant loans and interest.

The Government has assured under the paragraph (III) of the Cabinet Decision No.17/1580/737/018/II dated 25, July 2017 that the total outstanding loan balance will be paid by the General Treasury and the Sri Lanka Ports Authority will no longer be required to fulfil the service of loans related to the Port of Hambantota.

The foreign loan balance of the Hambantota Port has been removed from the accounts of the Authority as the proceeds from the sale of shares in the Hambantota Port to two public-private partnerships for a period of 99 years was set off to the loan balance when the proceed is remitted to the General Treasury and the General Treasury has been informed by a letter dated 23.02.2018 that the relevant loan balance has also been removed from the financial statements.

Even at the end of the year under review, no agreement had been entered into between the General Treasury and the Sri Lanka Ports Authority in connection with accounting of the debt balance including the above foreign exchange conversion loss.

Further, according to the letter of the Secretary to the Ministry of Finance dated 06 July 2020, the Chairman of the Authority had been informed that the Minister of Finance has ordered to include the relevant assets and loans in the books of Sri Lanka Ports Authority in terms of Section 12 of the Finance Act No. 38 of 1971 and to make the necessary adjustments to the financial statements of 2019 accordingly.

#### 1.5.4 Consolidation

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>There were 3 subsidiaries belonging to the group as at 31 December 2019 and the consolidated financial statements had been prepared including draft financial statements for the year 2019 of Jaya Container Terminals, one of the subsidiaries out of them,. Although according to the Note 47 for the Consolidated Financial Statements, it had been stated that Magampura Port Management Company, which is a subsidiary, will not be consolidated with the Group Financial Statements for the year 2019, it was observed that the assets and liabilities of Magampura Management Company</p>	<p>Not agreed.</p> <p>Magampura Port Management Company has not been still liquidated and as the financial statements had not been submitted as at 31.12.2019, the balances for the year 2018 have been brought forward to 2019 and the consolidated financial statements for 31.12.2019 have been prepared.</p>	<p>The consolidation of financial statements should be done in accordance with Sri Lanka Accounting Standards.</p>

as at 31 December 2018 had been taken into account in the preparation of the consolidated financial statements of the Group. The other subsidiary, Lanka Gas Terminals (Pvt) Ltd had not submitted financial statements as at 31 December 2019.

#### 1.5.5 Unsettled receivables

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>Although a sum of Rs.5,149.9 million consisted with an amount of Rs. 4,777 million paid by the Authority as an instalment in the year 2017 for a loan obtained for the Hambantota Port Construction Project and Stamp Duty amounting to Rs. 372 million had been shown in the financial statements as a receivable from the General Treasury, the money had not been received to the Authority until the date of this report. Further, although the confirmations for balance had been called by the Authority in this regard, the General Treasury had not confirmed those balances and it was also observed that the balance had not been shown in the financial statements of the Republic for the year 2019 as a payable balance. Hence, there was an uncertainty about the receipt of this amount.</p>	<p>Agreed.</p> <p>Letters have been sent to the Secretary to the Treasury on three occasions requesting to return the money to the Ports Authority and the Secretary to the Ministry of Ports, Shipping and Southern Development had sent letter to the Secretary to the Treasury requesting a discussion to obtain the relevant money based on the Board decision taken by submitting a Board paper to the Board meeting held on 12 02 2019 and the letters have been sent to the Department of Public Enterprises also requesting the above money.</p>	<p>All the steps should be taken to recover what is to be received.</p>



## 1.6 Receivable and Payable Accounts

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### 1.6.1 Receivables

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Audit Issue	Management Comment	Recommendation
<p>(a) The total shipping agent debt balance which the loan settlement period was exceeded was Rs. 1,445.76 million as at 31st December 2019. It had been 63 percent of the total shipping agent debt balance. According to the Chairman's reply to the draft report, the balance due on 24 July 2020 out of that debt balance had been only Rs. 364.34 million.</p>	<p>Agreed.</p> <p><b>Colombo Port</b></p> <p>-----</p> <p>Total Shipping Agent Debt balance which the approved loan settlement period was exceeded as at 31.12.2019 is Rs. 1,445,759,084.92.</p> <p>The balance as at 24.07.2020 of the above debt balance as at 2019.12.31 had been decreased to Rs. 364,341,748.77.</p>	<p>Debt balance which the approved loan settlement period was exceeded should be recovered without a delay.</p>
<p>(b) There were Dispute Debtors amounting to Rs. 33,074,497 and Re-dispute Debtors amounting to Rs. 3,341,598 as at 31 December 2019. Out of this, the outstanding balances for the periods of 06 months, 01 year and 01 year to 3 years had been Rs. 22,153,743, Rs. 8,795,405 and Rs. 2,125,349, respectively.</p>	<p>Agreed.</p> <p>The value not yet settled out of the balance of the Dispute Bill account of Colombo port amounting to Rs. 33,074,496.84 as at 31 December 2019 was Rs. 23,019,428.20 and Dispute Bills related to this have been referred to the relevant divisions for settlement and the unsettled value of the balance of Re Dispute account is Rs. 24,758.68 and it has also been referred to the relevant division for settlement.</p>	<p>Actions should be taken to recover what is to be received as soon as possible by resolving existing issues.</p>

## 1.7 Non-compliance with the laws, rules and regulations and management decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 11 of the Finance Act No. 38 of 1971 and Section 8.2.2 of the Public Enterprise Circular No. PED 12 of June 02, 2003	Concurrence of the Minister of Finance for an amount of Rs. 46,565 million invested by the Authority in fixed and short-term deposits as at 31st December 2019 had not been obtained.	Not agreed. A letter signed by the Secretary to the Ministry of Ports and Shipping has been sent to obtain the approval of the Secretary to the Treasury for the deposit made in the year 2019 and obtaining the relevant approvals is beyond our control.	The relevant approval should be obtained in accordance with the provisions of the Finance Act and Circulars.
(b) Section 10 (5) of the Finance Act No. 38 of 1971	If a public corporation has a surplus for a certain year, the balance after deductions specified in the Act should be credited to the Consolidated Fund. Nevertheless, only Rs. 600 million out of the net profit totalling Rs. 30,253 million earned by the Authority from the year 2016 to year 2019 had been credited to the Consolidated Fund. Further, above profits had included the rent totalling Rs. 8,514 million which the authority had charged for the period of year 2016 to year 2019 and a sum of Rs. 11,250 million charged as a royalty for that period from two companies engaged in operations of South Asia Gateway Terminal	Not agreed. According to the Sri Lanka Ports Authority Act, it has been stated that dividends should be paid up to a maximum of 8% of the equity capital held by the government at the establishment of the Sri Lanka Ports Authority.	The Finance Act states that if there is a surplus in a public corporation for a certain year, the balance should be credited to the Consolidated Fund after making the deductions mentioned in the Act. Therefore, actions should be taken in accordance with.

(SAGT) and Colombo International Container Terminal (CICT) given to the private sector on a long-term lease basis.

It was further observed that these revenues are not direct operating revenue of the port.

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| <p>(c) Sections 2.3 and 3.1 of the Public Enterprise Circular No. PED 1/2015 dated 25 May 2015</p> | <p>As revealed by a sample test, 9,227 litres of fuel had been given to 122 officers only in the month of December of the year under review as monthly fuel allowances in excess to the approved limits contrary to the circular provisions.</p>  | <p>As the Sri Lanka Ports Authority operates in 24 hours a day and 365 days a year, in addition to traveling from the officers' home to the institute, there are work stations located about 6 km far from Modara to Galleface, which should be monitored several times a day and extra amount of fuel has to be burned for that.</p> | <p>Action should be taken in accordance with the existing circular provisions and approvals should be obtained for exceeding the limits.</p> |
| <p>(d) Public Enterprise Circular No. PED 03/2016 dated 29th April 2016</p>                        | <p>Although the PAYE tax should be paid by deducting from the personal salaries, those amounts to be paid by the employees of the Authority had been paid from the funds of the Authority. PAYE tax totalling Rs. 3,166 million for the period of assessment year 2011/2012 to December 2019 including Rs.384 million so paid for the year 2019 had been paid to the Department of Inland Revenue from the funds of the Authority. Further, although PAYE</p> | <p>Agreed. PAYE tax on employees of the Sri Lanka Ports Authority has been in effect since April 1997 and has been discontinued with effect from 31 December 2019.</p>  | <p>Action should be taken in accordance with the existing circular provisions</p>  |

tax on bonus should be deducted when they are paid to the employees of public institutions , Rs.52 million had been paid for the year 2019.from the funds of the Authority as PAYE taxes on bonus without charging those taxes from the officers.

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| <p>(e) Circular of the Ministry of Finance and Mass Media No. 03/2018 dated 18th July 2018</p> | <p>In addition to the increase in salaries made under the collective agreement contrary to the provisions of the circular , actions had not been taken so far to obtain the approval of the Department of Management Services although salaries had been increased monthly by Rs. 15,225 to Rs. 31,150 for 560 executive officers of the Authority according to their posts since the year 2018.</p> | <p>The Collective Agreement to increase the salaries of employees in the year 2018 states that the salaries of executives should be increased. Therefore, letters have been presented to the Department of Management Services to increase the salaries of executives. Accordingly, it has been informed that it is appropriate to take a decision in relation to this after reviewing the salaries of the executive officers at an appropriate rate.</p> | <p>Payment had not been approved by the letter of the Department of Management Services and it was informed to review the salary structure. Therefore, the relevant circular provisions should not be exceeded.</p> |
| <p>(f) Section 9.3.1 of the Public Enterprise Circular No. PED / 12 of 02 June 2003</p>        | <p>Although an institution should prepare a scheme of recruitment and obtain the approval of the Department of Public Enterprises and the Authority had prepared draft scheme of recruitment and promotion, the approval from the Department of Management Services had not been obtained .</p>  | <p>Agreed. The approval of the Department of Management Services for the scheme of recruitment has not so far been received.</p>  | <p>Actions should be taken to prepare a formal scheme of recruitment and to obtain relevant approvals.</p>  |

Although it had been informed that not to make all recruitments and promotions of the Authority until the scheme of recruitment and promotion of the Ports Authority was approved, the Authority had recruited 432 officers for 02 primary posts and a manager and 22 promotions had been given only in the year 2019.

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| <p><b>(g)</b> Chapter 83 of the Inland Revenue Act No. 24 of 2017</p>  | <p>Although withholding tax should be deducted in terms of tax cycle 07 from employees who are dual employed and employees who have not given a primary statement of employment , allowances had been paid to the non-executive board members during the year under review without deducting withholding tax.</p>                                | <p>Withholding tax will be deducted after examination the matter that whether the withholding tax should be paid by the Non-Executive Directors representing the Board of Directors of Sri Lanka Ports Authority.</p>  | <p>Actions should be taken in terms of the requirements of the Inland Revenue Act</p>        |
| <p><b>(h)</b> Section 5.4.12 of Government Procurement Circular NPA / 0.8 (Procurement Manual) dated 25 January 2006 and Paragraph 2.14.1 of Public Procurement Circular No. NPA / 09 (Guidelines) dated 01 March 2006</p> | <p>According to the sample audit, although rice had been purchased by the Authority for the kitchen incurring Rs. 493.91 million during the period from January 2018 to August 2019, the approval from the formal procurement committees or recommendations from the technical evaluation committees had not been obtained for that purpose.</p> | <p>Agreed.<br/>As the report points out, action will be taken to obtain the approval of the Procurement Committee when making future purchases. According to the letter of the Secretary to the Ministry of Ports and Shipping, dated 26.05.2020, a committee will be appointed by the Deputy Chairman /</p> | <p>Purchases should be made in accordance with the provisions of the Procurement Manual.</p> |

Managing Director to review the procurement process in the kitchen sector and the committee will discuss and make relevant corrections.

- (i) Paragraph I and II of Sri Lanka Ports Authority Internal Circular No. 2017/26 dated 20 September 2017
- The period allowed to reside in the official quarters provided to the officers of the Authority is limited to a maximum of 5 years from the date on which house was first provided and after the expiration of that period, it is possible to stay for another year with the approval of the Housing Committee, charging 12.5 percent of the monthly basic salary of the resident officer. However, according to the sample inspection carried out regarding the official quarters given to the officers as on 31st December 2019 according to the information provided by the Authority, it was revealed that the number of officers who did not leave their respective quarters during the period ranging from 6 to 28 years was 379.
- Agreed.
- Allocation of houses / eviction of recipients of houses after 5 years and collection of fees etc. could not be done as per the existing circular provisions for a long time. Therefore, the present administration has appointed a committee headed by the Vice-Chairman and several divisional heads to rectify the situation. The committee will take actions to charge fees in accordance with existing circulars, regulations and government regulations, and to rectify existing errors and omissions by studying these issues.
- Deficiencies in existing circulars should also be rectified and a formal and fair procedure in connection with the provision of official quarters to employees should be followed.

<p>(j) Sections 1.9 (i) and 3.4 of the Trade and Investment Circular No. 01/2018 dated 15th February 2018</p>	<p>Contrary to the provisions of the above circular, when calculating the active service period for issuing a vehicle import license on concessionary duty basis to an officer of the Authority, the period of 6 months which the officer was suspended had been also calculated as an active service period. Accordingly, although a license had been issued to the above officer on the recommendation given by the Authority to import a motor vehicle on the basis of duty relief , no action had been taken to recover the relevant amount so far.</p>	<p>A reply had not been provided by the management.</p>	<p>Actions should be taken in terms of the provisions of circular.</p>
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## 1.8 Information Technology (IT) General Control Systems

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
<p>It was planned to install a CCTV camera system for all gates and bound warehouses incurring a cost of 60 million and Rs. 150 million respectively through capital budget of the year 2017 and 2018 in order to ensure the security of the port premises which have been designated as High Security Zone. Although, Rs. 150 million had been allocated in the year 2019 for that , the work had not been completed as expected even at the end of the year under review. As a result, the risk of not being able to get the required information in a security issue cannot be ruled out.</p>	<p>A formal security plan for the security of the Port of Colombo is being implemented jointly by the Navy and the Security Division and the Security Division identified the need to install a CCTV camera system in order to make the process of obtaining the required information efficiently . Accordingly, Rs. 50 million has been allocated by annual budget of the year 2017 for the installation of a CCTV camera system covering all entrance gates of the Port of Colombo. A Cabinet Appointed Procurement Committee and a Technical Evaluation Committee have been appointed and future activities are in progress.</p>	<p>It is the responsibility of management to implement the tasks expected to be implemented through the action plan as planned.</p>

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the Consolidated Financial Statements submitted, the profit of the group for the year ended 31st December of the year under review was Rs. 11,264 million and the profit of the authority was Rs. 11,646 million. Since the profit of the group and the Authority was Rs. 3,064 million and Rs. 4,247 million respectively, in comparison with the previous year, the financial results of the group and the Authority had increased by Rs. 8,200 million and Rs. 7,399 million respectively. Transforming the Authority's previous year foreign exchange loss of Rs. 11,317 million to a foreign exchange profit of Rs.1,359 million in the year under review had mainly attributed to the increase in the financial result mentioned above.

### **2.2 Trend analysis of the main income and expenditure Objects**

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- (i) Compared to the previous year, the revenue of the Authority had increased by Rs. 2,223.5 million or 5.7 percent and the revenue from other operations had decreased by Rs. 427.58 million or 3.69 percent.
- (ii) Compared to the year 2018, administrative expenditure during the year under review had increased by 69 percent and a foreign exchange gain was observed while decreasing the foreign exchange loss by 112 percent in the current year.
- (iii) Compared to the total income, operational profit of 22.90 percent in the year 2018 had increased in the year 2019 up to 38.92 percent and the net profit ratio of 11.02 percent in the year 2018, had increased up to 28.57 percent in the year 2019.
- (iv) The current ratio and the quick asset ratio of the year 2018 was 3.29:1 and 3.15:1 respectively and by the end of the year under review it had gradually decreased up to 2.66:1 and 2.57:1 respectively.
- (v) Direct operating net profit as a percentage of revenue was negative at 8.77 percent in the year 2018 and it had grown up to 10.55 percent in the year under review.
- (vi) When considering the staff costs of the Authority as a percentage of the total cost, it had been 46.16 percent in the year 2018 and had grown up to 50.18 percent by the end of the year under review.
- (vii) The long-term debt to equity ratio stood at 3.91: 1 in the year 2018 and it had grown up to 4.59: 1 in the year under review.



### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) 1347 employees were employed in excess to the approved cadre of the Authority as at 31 December 2019 and 464 employees had been vacant in sections where there was a direct relationship to the operational activities of the Authority. Similarly, there was a surplus of 653 employees in 13 sections where there was no direct relationship to the operational activities of the Authority. However, Rs. 4,787 million had been paid as overall overtime, including overtime payment of Rs. 1,156 million paid for employees of sections with excess staff. Further, as per Section 2 (I) of Chapter viii of the Establishments Code a responsible officer should be satisfied that overtime work has been done properly and fairly as adequate to obtain overtime allowance. For that purpose a proper inspection and record system should be set up to ensure that the assigned workload is carried out and overtime allowances are not paid during inactive hours. However, the reports on work done regarding the above overtime payment were not submitted for audit.</p>	<p>Not agreed.</p> <p>Funds had been allocated for overtime through budgetary provisions for the year 2019 on the requirement of the duty of various divisions of the Authority and the total actual overtime expenditure for the year 2019 has not exceeded the amount allocated.</p> <p>However, the actual overtime expenditure in 10 divisions has exceeded the amount allocated by the budget. Since most of these divisions are directly involved in operations, the increase in overtime in those divisions was due to the requirement of duty.</p> <p>Nevertheless, relevant divisions / divisional heads were informed that the actual overtime expenditure and the expenditure allocated by the budget should be maintained in balance. Similarly, monthly reports on actual financial expenditure and budget allocation for the next year will be submitted to each divisional head and this situation will be prevented.</p>	<p>Action should be taken to reduce overtime expenses by employing the staff effectively.</p>

- (b) Although an appeal can be made to the Minister of Finance on the decision of a customs investigation in terms of Section 165 of the Customs Ordinance to mitigate the Customs penalty of Rs. 1,580 million imposed by the Customs on 27 cranes imported without informing the Sri Lanka Customs in the year 2011, the Authority had not made such appeal to the Minister. However, a provision for contingent liabilities of Rs.1,577.7 million had been made in the accounts in relation to this. The Authority had dismissed the case filed in the Court of Appeal in this regard and the Authority had filed a motion in the Supreme Court in the year 2018 against the order of the Court of Appeal.
- (c) When the South Asia Gateway Terminal Ltd (SAGT) was established in 2010, it was agreed that the shares of the company will be issued to the Authority for a value of Rs. 141.63 million for the value of exchange of three cranes provided by the Sri Lanka Ports Authority. However, the ownership of the shares had not been transferred to the Authority until the end of the year under review and there was no confirmation that the shares would be issued by the
- This case is not still over. However, the Attorney General's Department has instructed the Secretary to the Ministry of Ports and Shipping and the Secretary to the Ministry of Finance to take steps to resolve this dispute taking into consideration the Cabinet decision dated 22.05.2018 in this regard.
- Agree with the matter that the claim has not been received. The Ports Authority has recorded Rs. 141,632,993 which is currently entitled to receive as a receivable from SAGT Ltd.. SAGT Ltd. had taken actions to write off the amount recorded related to this in the accounts of SAGT Ltd. without the concurrence of the Authority.
- All necessary steps should be taken to resolve the dispute on a fair basis as soon as possible.
- A final agreement in relation to the receivable should be reached in consultation with the relevant company.

company. As result a of the failure to enter into an agreement with the South Asian Access Terminals Company in this regard,. the receipt of the shares of the company to the Authority was uncertain and the Company had not made any provision for impairment for it.

According to the reply given by the Chairman of the Authority to the Auditor General for the draft report., it was informed that the amount recorded in the accounts of the South Asian Access Terminals Company had been written off without the concurrence of the Authority.

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| <p><b>(d)</b> According to the letter No. Premises 1/1/156 of the Deputy General Manager (Premises) of the Authority dated June 30 2020, the periods of lease agreements of 10 plots of a land with an extent of 3acres 2 Roods and 3.163 Perches and around 49.034 square meters owned by the Sri Lanka Ports had expired by December 31, 2019. Nevertheless, as the Authority had not taken the necessary steps to renew the agreements, the risk of arising legal issues cannot be ruled out in the audit</p> | <p>Agreed.</p> <p>Lease agreements signed by the Sri Lanka Ports Authority are short term as 03 years, 05 years, etc. and long term as 30 years, 35 years etc. Necessary actions have been taken to renew the agreements at least three months before the expiry of each of these agreements. However, there are instances where considerable delays occurred in re-leasing caused by the Department of valuation in case of issuing valuation reports. Action has been taken to renew the agreements in all occasions except in cases where required approval is delayed due to some administrative reasons.</p> | <p>Necessary actions should be taken to update the lease agreements in a timely manner.</p> |
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- (e) Although the right of use of the land which holds Plan No. CO / COL / 2012/1047 with an extent of 1.1372 hectares at D. R. Wijewardena Mawatha Colombo had been handed over to the Urban Development Authority for the construction of the Lotus Tower, the land had not been transferred by a deed of title as per the formal procedures. According to the reply given by the Chairman to the Auditor General, although the Divisional Secretary of Colombo had conducted compensation investigations on the land as the relevant compensation reports has not been submitted to the Authority until July 31 2020 , the relevant land could not have been removed from the asset register. However, according to Notes No. 57 to the Financial Statements, it had been disclosed that Rs.4,496 million had been requested by the Divisional Secretary of Colombo as a compensation for this land.
- Agreed.
- Although the Urban Development Authority has taken over the right of use of the land at D. R. Wijewardena Mawatha Colombo where the Lotus Tower was built in terms of Section 38 (b) of the Land Acquisition Act , ownership of the land had not been acquired when paying compensation. The Divisional Secretary of Colombo has conducted the compensation inquiry related to this. There, all relevant documents in our possession have been submitted to prove our ownership. Although the Divisional Secretary has been requested to submit the report of the compensation investigation, the conclusion / report of that investigation has not been given to us up to now.
- Action should be taken to reach a final solution in consultation with the relevant parties.
- (f) Although the 02 acre land which holds Plan No. L / S / MIS / 344 bordering to Colombo 01, Main Street and Olcott Mawatha had been given to the Customs Department for the construction of a building, the land had not been assessed
- Since a land with an extent of 94 perches near the dagoba which was owned by the Customs Department has been given to the Ports Authority during the construction of Gate No. 01 in the year 1981 in exchange for the 02 acre land given by the Ports Authority for the construction of the Head Office
- Action should be taken to reach a final solution in consultation with the relevant parties.

and legally transferred until July 31, 2020.

of the Customs Department, it was agreed in the initial discussions to assess each other and if there is a difference, to pay the amount and settle.

Later, while these activities were being carried out, the facts were presented that the above land with an extent of 94 perches also owned to the Sri Lanka Ports Authority. Due to this, a final decision on the land transfer could not be reached.

- (g) Approval had been granted by the Cabinet decision No. 19/2051/129/028 dated 07 August 2019 to purchase 30 terminal tractors to make the operation of the Jaya Container Terminal competitively and more productively which is the main operating terminal of the Authority. Also, in the action plan of the Authority for the year 2019, Rs. 600 million had been allocated for this and it had been expected to complete 50 percent of the purchasing procedure during the year 2019. However, only bids had been called during the year and it had been only 5 percent of the targeted performance. Further, the Authority had failed to select a suitable supplier even as at July 31, 2020.

Ministry of Ports and Shipping published quotations on 29.02.2020 and 01.03.2020 for 30 terminal tractors on the request of the Ports Authority by opening file bearing CES / FP / 05 / PT / 6051 and handed over to the Ports Authority. After that, although the tender documents were released, the Ministry did not open the bids on the relevant day due to the situation of the country. By the letter of Vice President which holds the No. CES / FP / 05 / PT / 6051 (MP) of 2020.06.22, the Secretary to the Ministry has been informed the matter that the purchase was postponed to 2021 with the purpose of controlling capital expenditure considering the financial position of the Ports Authority due to the situation in the country.

The efficiency of the Authority can be enhanced by making the necessary purchases to the institution as planned.

- (h) Although the Government of Sri Lanka and the Japan Bank for International Cooperation (JBIC) have agreed to enter

It had been agreed to provide 14,495 million Yen to the Government of Sri Lanka under the SLP-85 loan agreement

In project planning, formal and adequate feasibility studies, cost-benefit analysis, and national requirements should be

into a loan agreement dated 28 March 2006 for the construction of a Multipurpose Terminal at the Galle harbor with the purpose of development of the Southern Province, UNESCO approval had to be obtained for the construction in the vicinity of Galle Fort which have been declared as a World Heritage. Since it took more than 3 years for that it was decided to suspend the project as the lender did not extend the loan period. Accordingly, the consultation fee of Rs. 418 million incurred for this had been an uneconomic expense.

entered in between the government of Sri Lanka and the Japan Bank for International Cooperation (JBIC) on 28 March 2006 for the construction of a breakwater and a multipurpose terminal at the Galle harbor for the purpose of developing the southern areas. On the request of the Government of Sri Lanka in March 2016, this loan agreement was extended by the Japan Bank (JBIC) for International Cooperation until July 2017.

considered.

The Sri Lanka Ports Authority, in collaboration with the Ministry of National Heritage, requested UNESCO approval for this project and obtained the conditional approval for this in the year 2016. The government has decided to suspend the project in 2017 as only the breakwater can be constructed under the JBIC loan and although the project is currently operated, it will not bring the expected benefits to the country.

### 3.2 Operational Inefficiencies

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
(a) Out of the container handling terminals currently operated in the Port of Colombo, the only terminal where ships over 14.25 Draft can call on, is the Colombo International Container Terminal( C.I.C.T) and annual capacity of it is over 2.4 million TEUs. In the year 2019, 374 ships of over 14.25 draft had called on to this terminal and the volume of containers handled was	The data presented here, and its contents are correct.	It is very important to commence operations at the Eastern Container Terminal to recover the losing terminal supply service revenue nationally. Market share of the Authority can be protected by implementing this under the Authority.

over 2.6 million. It was observed that, it was a condition which exceeded the maximum capacity. Accordingly, compared to the year 2018, container handling at the terminal had grown by 8 percent. According to a study carried by Scott & Wilson Company in the year 2011 it was pointed out that the existing terminal capacity of the Port of Colombo will reach its maximum by the year 2015 and the Eastern Terminal should be activated to meet the demand at that time.

Meanwhile, in connection with the Colombo Port Expansion Project and funding by Bank of Ceylon, the construction work of the stage 1 of the East Container Terminal which is 18 meter deep and 440 meter long with an annual volume of 800,000 container units and with a construction cost of Rs. 11,168 million had been completed in April 2016. Further, Sri Lanka, India and Japan had entered into a Memorandum of Corporation on 28 May 2019 to operate the terminal. However, even by the end of the year under review, the Eastern Terminal had not been opened for operations and the loss of terminal demand due to the lack of acceptable statistics on terminal service demand and thus the loss of revenue

as a port could not be calculated.

- (b) Approval had been granted by the Cabinet decision No. Amapa / 17/1479/737/025 dated 26th July 2017 to purchase three cranes capable of operating from ship to land for the Jaya Container Terminal. A supplier had been selected to purchase the three cranes following the procurement process and the three cranes had been subsequently approved for installation at the Eastern Container Terminal (ECT) by Board decision No. PA / HD / 25 dated 07 February 2020 after obtaining Cabinet approval. However, Cabinet approval had not been obtained for that. The ship carrying the three cranes had arrived at the Port of Colombo on June 20, 2020 and the landing had been delayed until 03 July 2020 due to a dispute over the landing of the three cranes at the Eastern Container Terminal. Although by the letter dated 26 June 2020 the supplier had requested US \$ 660,000 daily for 11 days at a rate of US \$ 60,000 per day from 23 June 2020 from the Authority ,a final agreement had not been reached with respect of the payment of such late fees even by 31 July 2020.
- The Board of Directors had approved the installation of these 03 container handling cranes at the Eastern Container Terminal (ECT) and it had been submitted to the Cabinet for approval. These cranes were landed at the Eastern Container Terminal (ECT) on 03 July 2020 and actions are being taken to resolve the late payment.
- Necessary actions should be taken in consultation with the relevant parties to minimize this expenditure arose due to government policy decisions.



- (c) As at 31 December 2019, the Mechanical Engineering Division of the Authority had 138 Prime Mover vehicles used for operations and it was observed in the audit that out of Prime Mover vehicles around 20-30 were being repaired per day. However, Prime Mover repair section has the facility to repair only 6 vehicles at a time. Due to this, it was observed in the audit that there is a possibility of a delay in the repair of the prime mover vehicles.
- According to the limited space currently available at Jaya Container Terminal (JCT), it is difficult to allocate space to expand that section. After the commencement of operations at the Eastern Container Terminal (ECT) as planned by the Ports Authority the Eastern Container Terminal (ECT) and the Jaya Container Terminal (JCT) were to be jointly operated through the Ports Authority. Accordingly, the plan to upgrade the Jaya Container Terminal, which was planned to implement after the division of container handling between the two terminals, intended to expand this segment as well. Accordingly, actions will be taken to expand this division under future Jaya Container Replacement Projects.
- Necessary actions should be taken to repair the Prime Mover vehicles in a timely manner in order to carry out operations without a delay.

### 3.3 Unutilized or Underutilized Property Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) Ten old oil tanks with a capacity of 6,400 MT located within the Colombo Port premises of the Authority have been underutilized since the year 2015.	The Ministry Tender Board has invited bids and selected a lessee to award this oil tank complex with a capacity of 6400 MT on a lease basis. Further, the tax income and the income which can be received on daily basis (TARIFF) is compared and then it is decided to transfer it to the lessee.	Necessary Actions should be taken to lease out the oil tank complex.
(b) According to the Letter No. 1/1/156 dated 13th July 2020 of Deputy General Manager (Premises), out of the lands included in the Fixed Asset Register of Port of Colombo as at 31 December 2019, a land with	Agreed. This land with an extent of 36 acres 2 Roods 26.43 perches referred to as underutilized includes lands belonging to the Ports Authority in the Premises of Mahara Galwala, D.R.	Those lands should be utilized in a manner which is economically effective.

an extent of 36 acres 2 Roods 26.43 perches valued at Rs. 2,284.42 million had been underutilized.

Wijewardena Mawatha and on both sides of Beira Lake.

Newspaper advertisements have been published and tenders have been called for long term lease of lands in D.R. Wijewardena Mawatha and on both sides of Beira Lake.

As these lands are valuable commercial lands located in the Colombo city centre, they have to be leased out subject to the approval of the Ministry of Urban Development and its criteria in accordance with the Government Urban Development Plan. Therefore, these lands should be dealt with in accordance with the development plan of the government and with its concurrence.

### 3.4 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
<p>02 Tugboats from 09 December 2017 to 05 October 2018 and 03 Tugboats from 05 October 2018 for 3 years had been obtained by the Authority on a rental basis. The authority had spent US \$ 9,573,886 (Rs. 1,542.18 million) from 09th December 2017 to 28th March 2020 to obtain Tugboats on rental basis. According to the reply given by the Chairman of the Authority to the Draft Audit Report, it has been informed that Rs. 4500 million had been allocated in the capital budget of the Authority for the year 2020 to purchase two Tugboats and releasing of said provisions had been refused due to the situation that has arisen.</p>	<p>The Ports Authority has obtained Tugboats on a lease basis and paid for those boats and 03 Tugboats have to be paid for the forthcoming period (up to 25.10.2020). Although, hiring a Tugboat is more advantageous compared to buying a Tugboat, maintaining it, or spending money on salaries for employees, as it is not appropriate to hire Tugboat for port operations, focussing on purchase of tug boats, steps have been taken to obtain financial provisions for that.</p>	<p>Having at least a few of own Tugboats in a commercial port such as Port of Colombo is important for the smooth running of operations.</p>

### 3.5 Human Resources Management

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
The Authority had not taken actions to recruit a suitable person for the post of Director (Human Resources and Development) of Sri Lanka Ports Authority which had been vacant since 03 September 2019.	Agreed.  Action will be taken in this regard in the future.	As human resources management is a very important sector, action should be taken to fill the vacancies as soon as possible.