

Sri Lanka Ports Authority - 2012

1. Financial Statements

1.1. Qualified Opinion

1.1.1 In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the consolidated financial statements give a true and fair view of the financial position of the Sri Lanka Ports Authority and its Subsidiary Company as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.1.2 In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Ports Authority as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

Instances of Non-compliance with the following Sri Lanka Accounting Standards were observed.

(a) According to the Sri Lanka Financial Statements Reporting Standard No.7, the nature and the amount of the risk arising from the computation of the fair value of financial instruments on the last date of the year of accounts and the courses of management action taken in that connection should be disclosed in the financial statements. But such risks had not been disclosed.

(b) The value of buildings demolished and the value of buildings earmarked for demolition, had not been disposed of from the balances of the Property, Plant and Equipment Accounts in terms of Sri Lanka Accounting Standard 16.

1.2.2 Accounting Polices

The following observations are made.

- (a) Even though the annual operating results of the Colombo, Galle and Trincomalee Ports had been separately computed and presented, the operating results for the Hambantota Port had not been separately computed and presented.
- (b) As the operating income and expenditure of the Hambantota Port for the year under review had been adjusted to the operating income of the Port of Colombo, the actual operating results of Colombo and Hambantota Ports could not be identified separately.

1.2.3 Accounting Deficiencies

The following observations are made.

- (a) Operating buildings insured for Rs.597,854,000 and electric and electronic equipment valued at Rs.1,646,000 had been transferred to the Port Authority in July 2008 by a private service company. Even though those assets had not been shown in the financial statements of the Authority for the years 2008, 2009 and 2010, those assets had been brought to account in the year under review at the insured value without being revalued by a recognized Valuer.
- (b) A motor vehicle valued at Rs.2 million released 5 ½ years ago for the use of the staff of a Deputy Minister of the Line Ministry had met with an accident and damaged beyond repair. Action had not been taken for claiming reimbursement of the loss to the motor vehicle from the insurance and for the write off from the books. The Chairman informed that a case in connection with the motor vehicle is pending in the Courts.
- (c) No construction work whatsoever had been done in connection with the sum of Rs.4,715,000 paid for carrying out repairs to the breakwater of the Kankesanthurai Port. Instead of disclosing that amount as an advance recoverable, it had been written off as expenditure.
- (d) Even though goods and services had been procured from the advances amounting to Rs.1,590,057 granted for purchases, those had been shown as

advances in the financial statements over a period of 04 years as advances instead of accounting for those as expenditure.

1.2.4 Accounts Receivable and Payable

According to the financial statements, the balances receivable and payable of the Authority as at 31 December 2012 amounted to Rs.20,808,894,876 and Rs.4,467,833,192 respectively. The following observations are made in this connection.

- (a) Letters calling for confirmation of balances in connection with the sum of Rs.243,462,030 receivable as at 31 December 2012 by the Authority had not been sent.
- (b) Out of the balances payable as at the end of the year under review, letters for confirmation of balances had been sent in connection with balances amounting to Rs.188,267,940 only. That represented approximately 4 per cent of the total of the accounts payable.
- (c) The balances receivable from and payable to the Shipping Agents as at 31 December 2012 amounting to Rs.776,329,102 and Rs.238,006,720 respectively had been adjusted and the net value had been shown as Rs.538,322,382. The following observations are made in this connection.
 - (i) The balances older than one year as at 31 December 2012 recoverable from Shipping Agent Debtors referred for legal action totalled Rs.272,815,237.
 - (ii) Out of the balances receivable from Government institutions as at 31 December 2012 included old debtor balances amounting to Rs.24,153,565 existing over periods for 01 year to 04 years and recoverable balances older than 05 years amounting to Rs.21,168,033.
- (d) Out of the advances granted to contractors for capital expenditure, the unsettled balances older than 05 years as at 31 December 2012 amounted to Rs.5,719,890.
- (e) The balance of Rs.80,956,850 recoverable as at 31 December 2012 in connection with the consumption of electricity of the properties and premises made available by the Authority for running Welfare Canteens shown under non-trade debtors included a balance of Rs.1,943,983 older than 05 years.
- (f) The balance of lease rents are rents income recoverable as at 31 December 2012 on the rent and lease of the premises belonging to the Authority shown under

the non-trade debtors, included balances older than 05 years amounting to Rs.31,892,451.

- (g) Services had been supplied without recovering the money from the Shipping Agents and as such the sums recoverable from the Shipping Agents of the Port of Trincomalee as at 31 December 2012 amounted to Rs.48,480,202. Out of that provision for bad and doubtful debtors had been made for Rs.11,976,498 or 25 per cent.
- (h) The sum of Rs.15,828,326 recoverable after the year 2009 in connection with the services supplied by the Authority to the operations of the Vessel Jet Liner maintained by Sri Lanka Navy on commercial basis had not been recovered even by 31 August 2013.

In view of the above matters the debt recovery and settlement procedure of credits of the Authority had been at a very weak level. The possibility of this situation would not create an adverse impact on the liquidity of the Authority cannot be ruled out.

1.2.5 Lack of Evidence for Audit

The documentary evidence indicated against the following items of account had not been furnished to audit.

Item	Value	Evidence not made available
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	Rs.'000	
Radio Data Network receivable from Sri Lanka Customs	60,739	Confirmation of balances
Expenditure reimbursable by the Ministry	1,798	Confirmation of balances
Other Government Departments	1,761	Confirmation of balances
Auction of Goods implemented	(353,321)	Confirmation of balances

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
(a) Section 111(a) of the Inland Revenue Act, No.38 of 2000	Even though the Pay As You Earn Tax on the salary and other earnings of the officers of Sri Lanka Ports Authority should be paid from their personal salary, the Pay As You Earn Tax in respect of the 05 years from the year 2008 to the year 2012 totalling Rs.1,998 million had been paid from the funds of the Authority
(b) Sri Lanka Ports Authority Circular No.FD/FA/C/41/2012 of 24 October 2012	According to the Circular, the relevant letters for the confirmation of the third party balances should have been given to the Audit Branch before 31 January 2013. Nevertheless 74 letters relating to the confirmation of balances valued at Rs.158,056,334 had been furnished to the Audit Branch only on 03 April 2013.
(c) Public Administration Circular No.14/2008 of 26 June 2008	(i) Contrary to the Circular the sum of Rs.20,720,000 had been paid to 44 officers at the monthly rate of Rs.40,000 who were not entitled to official motor vehicles. (ii) Contrary to the circular, a sum of Rs. 920,000 had been over paid to 05 officers who entitled to official motor vehicles due to use of allowances of Rs. 40,000 instead of Rs. 30,000 monthly. (iii) Contrary to the circular, a sum of Rs. 6,468,142 had been paid to 29 officers

who were not entitled to official motor vehicles for fuel ranging 150 to 180 liters per month.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Group for the year under review had resulted in an after tax net profit of Rs.4,167.74 million as compared with the corresponding after tax net profit of Rs.122.37 million received from the operations for the preceding year. As such, the after tax net profit for the year under review as compared with the preceding year had recorded a favourable improvement of Rs.4,045.37 million. The increase of activities and other income for the year under review by Rs.6,765 million and the decrease of expenditure on voluntary retirements by Rs.1,944 million as compared with the preceding year had been the main reasons for the improvement.

2.2 Analytical Financial Review

The statistical information of the Group for the year under review and the preceding two years is given below.

	<u>Year</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Profit per Metric Ton (Rs.)	278	180	87
Total Income (Rs.Millions)	37,341	30,577	28,512
Total Expenditure (Rs.Millions)	32,039	30,248	29,701
Net Profit/(Loss) before Tax (Rs.Millions)	5,302	329	(1,189)
Income Tax (Rs.Millions)	1,135	207	157
Net Profit/(Loss) After Tax (Rs.Millions)	4,167	122	(1,032)

Several significant ratios and percentages of the Group for the year under review and 02 preceding years are given below.

	<u>Year</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
After Tax Profit (Loss) to Turnover Percentage	11.16	0.39	(3.62)
Equity Capital to Long Term Loans - Percentage	0.51	0.58	0.79
Turnover of Assets Percentage	0.15	0.14	0.14
Working Capital Ratio	1 : 2.2	1 : 1.19	1 : 1.34
Quick Ratio	1 : 1.06	1 : 0.78	1 : 1.13
Loan Equity Ratio	1 : 1.89	1 : 1.64	1 : 1.21

3. **Operating Review**

3.1 **Performance**

The matters observed at the analysis of the statistics and reports relating to the operations furnished by the Authority are given below.

(a) **Port of Colombo**

(i) **Arrival of Shipping Vessels (Number of Vessels)**

<u>Type of Vessels</u>	<u>Years</u>			<u>Variance</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Favourable/(Adverse)</u>	<u>2011/12</u>	<u>2010/11</u>
-----	-----	-----	-----	-----	-----	-----
Containers	3,092	3,187	3,076	(2.9)	3.6	
Conventional	52	68	56	(23.5)	21.4	
Others	726	869	778	(16.4)	11.7	

----- 3,870 =====	----- 4,124 =====	----- 3,910 =====	----- (6.2) =====	----- 5.5 =====
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Even though the comparison of the years 2010 and 2011 indicated an increase of 214 arrivals of ships at the Port of Colombo or 5.5 per cent, the comparison of the years 2011 and 2012 indicated a deterioration of 254 or 6.2 per cent in the arrival of ships

(ii) **Container Handling (Twenty Equivalent Units)**

	<u>Years</u>			<u>Variance</u>	
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Favourable/(Adverse)</u> <u>2012/11</u>	<u>2011/10</u>
<u>Port of</u> <u>Colombo</u>	-----	-----	-----	----- %	----- %
Local	1,020,255	1,046,886	932,244	(2.54)	12.30
Re-shipment and Re-packaging	3,166,865	3,216,001	3,205,197	(1.53)	0.34
Total	----- 4,187,120 =====	----- 4,262,887 =====	----- 4,137,441 =====	----- (1.78) =====	----- 3.03 =====

The following observations are made.

- As compared with the year 2010, the container handling of the Port of Colombo in the year 2011 indicated an improvement of 125,446 twenty equivalent units or 3.03 per cent whereas the comparison with the year 2011 indicated a deterioration of 75,767 twenty equivalent units of container handling or 1.78 per cent in the year 2012.
- Even though the Authority can easily earn a higher income from the port charges recovered on re-shipments and repackaging, a greater attention had not been paid for obtaining larger quantities of re-shipments by the Authority. Re-shipments as compared with the preceding year had deteriorated by 1.52 per cent in the year under review.
- The total handling of containers during the 10 years period from the year 2003 to the year 2012 taken as a percentage of the capacity of the Authority

for handling of containers indicated a rapid decrease from 68 per cent to 55 per cent.

(b) Port of Trincomalee

As compared with the year 2010, the arrival of shipping vessels at the Port of Trincomalee in the year 2011 had decreased by 17 vessels or 15.59 per cent and as compared with the year 2011 the arrival of shipping vessels in the year 2012 had improved by 35 vessels or 27.77 per cent.

(c) Port of Galle

As compared with the year 2010, the arrival of shipping vessels at the Port of Galle in the year 2011 had improved by 04 vessels or 5.7 per cent and as compared with the year 2011 the arrival of vessels in the year 2012 had deteriorated by 25 vessels or 34 per cent.

(d) All Ports (Colombo, Trincomalee and Galle)

The gross cargo handling of all ports as compared with the year 2010 had increased by 3,667,471 metric tons in the year 2011 and represented an increase of 4.3 per cent. The increase of gross cargo handling in the year 2012 as compared with the year 2011 had been 1,631,416 metric tons and represented an improvement of 1.8 per cent. As such the pace of improvement for the year under review had decreased as compared with the preceding year.

(e) Magampura Mahinda Rajapaksa Port

During the period of 26 months since the opening of this port for operations in November 2010 up to the end of the year under review, a low number of 43 ships only had arrived at this port. The Authority should have paid attention for taking effective action to get ships to arrive at the port and for the speedy installation of the gantry cranes required for operations.

3.2 Management Inefficiencies

The following observations are made.

- (a) According to the age analysis of the non-moving stocks older than 05 years amounted to Rs.959,252,462 and represented 57.45 of the value of the total stock. As the stores accommodation of the Authority is limited, this stock had been a hindrance for the effective utilization of the stores.
- (b) Agreement had been reached between the Authority and a Government Company for the improvement of the road system and the jetty of the Port of Kankasanthurai at an estimated cost of Rs.36,379,222 and contrary to the Guideline 5.4 of the Government Procurement Guidelines, an advance of 50 per cent of the contracted sum amounting to Rs.17,257,001 exceeding the specified 20 per cent had been paid without obtaining an acceptable advance guarantee. Out of that advance, a sum of Rs.5,719,890 had been carried forward as unsettled advances over a period of 06 years.
- (c) Rates for the year 2012 amounting to Rs.3,388,000 on the land leased out to a private company for a period of 35 years and in respect of all the assets of the company therein including machinery had to be paid by the Authority.

3.3 Operating Inefficiencies

The following observations are made.

- (a) The Capacity of the Authority in handling containers during the period of 12 years up to the year 2012 taken as a percentage of the total handling of containers had rapidly deteriorated from 86 per cent to 55 per cent. Nevertheless, a private company carrying out competitive operations in the Port of Colombo had achieved a rapid improvement during that period. Container handling during the past 12 years had deteriorated as follows.

Twenty Equivalent Units of Containers Handled

<u>Year</u>	<u>Authority</u>		<u>Private Company</u>		<u>Total</u>
	<u>Units</u>	<u>%</u>	<u>Units</u>	<u>%</u>	<u>Units</u>
2001	1,396,946	86	229,670	14	1,626,616
2002	1,206,694	68	558,025	32	1,764,719
2003	1,334,900	68	624,439	32	1,959,339
2004	1,320,845	59	899,720	41	2,220,565
2005	1,523,794	62	931,526	38	2,455,320
2006	1,743,669	57	1,335,411	43	3,079,080

2007	1,834,734	54	1,546,497	46	3,381,231
2008	1,747,670	50	1,739,668	50	3,487,338
2009	1,714,488	49	1,749,809	51	3,464,297
2010	2,167,173	52	1,970,268	48	4,137,441
2011	2,299,446	54	1,963,441	46	4,262,887
2012	2,316,849	55	1,870,271	45	4,187,120

Even though container handling is the major activity of a port, the above data confirms that it is systematically slipping away from the Authority.

The major reason for the deterioration is due to the handover of the 03 best deep quays to the private company for a period of 35 years under the Build, Operate and Transfer system and retaining only 02 quays with the Authority.

- (b) The container losses incurred by the Port of Trincomalee had been due to the weak level of operations of the port and the lesser number of ships calling at the port. Nevertheless, the losses incurred during the preceding years had decreased gradually.

<u>Year</u>	<u>Loss</u> <u>Rs. Million</u>
2007	405
2008	379
2009	319
2010	383
2011	318
2012	240

- (c) The decrease in the number of ships calling at the Post of Galle and the very weak level of operation resulted in increasing continuous losses. Nevertheless, the losses increased during the preceding years had decreased gradually.

<u>Year</u>	<u>Loss</u> <u>Rs. Million</u>
2007	275
2008	279
2009	399
2010	345
2011	147
2012	47

(d) The Tug Boats owned by the Authority were not adequate for the shipping operations of all the ports in Sri Lanka and those were old vessels which had been in use for periods ranging from 15 years to 30 years. Those were subjected to frequent repairs due to frequent breakdowns. In such a situation, the particulars of tug boats handed over for repairs and remaining without being repaired and returned for more than two years as at 31 December 2012 are given below.

Name of Tug Boat	Date of Handover for Repairs
Airawana	09.01.2011
Singhabahu	07.04.2011

3.4 Transactions of Contentious Nature

The following observations are made.

- (a) Authority had paid an additional sum of Rs.52,064,941 as commission for the procurement of the additional services required by the Authority, through a consultancy firm deviating from the approved procurement procedure.
- (b) Three premises in the buildings belonging to the Authority had been leased out without charging rent to a State Bank while 03 other premises had been leased out to another State Bank and a private Bank at a very low nominal lease rent for maintaining banking activities.
- (c) The work on the breakwater of the Port of Galle on a construction contract of Rs.6,000 million under the Japan Bank for International Co-operation aid

programme had been stopped on 31 December 2008 after spending a sum of Rs.455.5 million.

- (d) The Authority and the Asian Development Bank together had spent a sum of Rs.1,199 million on a consultancy service contract on the Port of Colombo Efficiency and Expansion Project under aid from the Asian Development Bank. The implementation of this proposal had been abandoned after spending a sum of Rs.399 million on the improvement of efficiency of the Port of Colombo.

3.5 Uneconomic Transactions

The following observations are made.

- (a) Even though a sum of Rs.80,467,283 had been spent in the year under review on the Oluwil Shipping Training Institute fully equipped with all facilities, any course whatsoever had not been conducted. Even though only 05 students had followed the course in the preceding year, a staff of 68 had been deployed in that connection. As such the primary objective of the establishment of the Institute had not been achieved, while the Authority had to incur heavy additional expenditure due to the deployment of a large staff. The Chairman informed the audit that action is being taken at present to handover the Training Institute to the South Eastern University.
- (b) Even though the Authority had invested a sum of Rs.2,500,000 in two companies in the years 2000 and 2008, the Authority had not received any returns up to the end of the year under review. The value of shares of the EDI Network (Private) Company amounting to Rs.500,000 purchased in the year 2013 had been written off from the books.
- (c) Despite the possibility of purchasing a brand new tug boat for a price ranging from Rs.600 million to Rs.700 million, a sum of Rs.600 million had been spent on two tug boats procured on hire for the years 2010 – 2012. The following matters were revealed in this connection.
- (i) The payments made for the 03 tug boats procured on hire basis in the preceding years ranged between US \$ 3,750 and US \$ 5,000 per day. Nevertheless, the hired tug boats had not been used to ensure maximum utilization. According to relevant data a certain number of those tug boats

with high engine capacity and low fuel consumption had been used for only two trips per day.

- (ii) Even though one vessel had been used for less than 02 trips per day, the minimum daily rent payable for that vessel amounted to Rs.465,000.

3.6 Identified Losses

The following observations are made.

- (a) According to the Port Charges Tariff, the stores/ ground rent recoverable for retaining 04 CMB 3515 boats brought by Shipping Agents for re-export in a port for 112 days amounted to Rs.67,233,290. Due to the erroneous computation of the charges by the Senior Executive Officers of the Port Operation Division, an under recovery of Rs.55,213,465 had been made causing a financial loss of that amount to the Authority.
- (b) Due to the prevailing weaknesses in the recovery of charges receivable by the Authority, charges amounting to Rs.105,491,135 remaining recoverable in respect of the years 2006 to 2009 had been written off from the accounts.
- (c) The entire sum of Rs.5,659,734 receivable in respect of year 2007 to year 2009 for the services supplied by the Authority for a ship maintained on commercial basis had been written off against the income in the year under review.
- (d) The Attorney General had informed that legal action cannot be taken for the recovery of a sum of Rs.2,656,871 out of the lease rent recoverable from the leasing out of the premises belonging to the Authority.
- (e) A sum of Rs.1,615,659 reimbursable by the Line Ministry as at 31 December 2012 had been written off from the books without recovery due to the changes in the names of Ministries.

3.7 Idle and Underutilized Assets

Even though the Authority has three Level Potter Cranes of which two are not in use, two more similar cranes had been purchased. Those two cranes had been installed in a quay used for carrying out minor repairs to ships where large numbers of ships are not berthed.

3.8 Release of Assets to other Institutions

The Authority had allowed the use of motor vehicles, fuel, employees and equipment from the Media Unit of the Authority at 11 instances for the media coverage of the Deputy Minister of the Line Ministry. Additional 2,390 litres of fuel valued at Rs.274,850 exceeding the approved monthly fuel limit had been used for 03 motor vehicles for media coverage not relevant to the Authority.

4. Accountability and Good Governance

4.1 Corporate Plan

The following observations are made.

- (a) According to the Vision of the Authority, it had been stated that the Sri Lanka Ports Authority will be made the major port handling ships in Asia by the year 2015. However, according to the data on the financial position of the Authority, handling of containers and arrival of ships as compared with the preceding years, a sufficient course of action had not been taken for the enhancement of efficiency.
- (b) According to “Our Mission” appearing in the Corporate Plan, it had been aimed at improvement of benefits through the supply of client based world acclaimed facilities and an excellent service. Nevertheless, the contribution of the private company in the cargo handling in the Port of Colombo during the ten preceding years as compared with the contribution of the Sri Lanka Ports Authority had gradually increased.
- (c) Even though the development of the Port of Galle as a regional port as well as the development as an alternate port for the handling of commercial cargo handled by the Port of Colombo had been stated under the objectives of the Authority, such objectives had not been achieved as the data for the years from the year 2008 to the year 2012 indicate a decrease by arrival of ships and the continued losses incurred by the Port.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Debtors/Creditors Control
- (c) Investments
- (d) Stock Control
- (e) Assets Control