

## **Sri Lanka Ports Authority and Its Subsidiary Companies - 2013**

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The audit of financial statements of the Sri Lanka Ports Authority and Its Subsidiary Companies for the year ended 31 December 2013 comprising the financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 33 of the Sri Lanka Ports Authority Act, No. 51 of 1979. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Subsidiary and Associate Companies**

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The Jaya Container Terminal Company Ltd. and the Magampura Port Management with 100 per cent ownership as Subsidiary Companies and the Port Management Company and Consultancy Services Company Ltd. with 39.97 per cent ownership as an Associate Company functioned under the Sri Lanka Ports Authority. The audit of these three companies had been done by Firms of Chartered Accountants engaged in public accountancy profession.

## **1.5 Basis for Qualified Opinion**

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My Opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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#### **Qualified Opinion – Group**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Ports Authority and its Subsidiary Companies as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Qualified Opinion – Authority**

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In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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

- (a) Even though capitalization of a sum of Rs.1,112.75 million as the borrowing cost of the Colombo Port Expansion Project was revealed during the course of audit test checks, the percentages of the borrowing cost and the loan interest had not been disclosed in terms of the Sri Lanka Accounting Standards No. 23.
- (b) Even though the annual operating results of the Galle and Trincomalee Ports had been separately computed in terms of the Sri Lanka Accounting Standard No. 1 , the accounts had not been maintained in a manner to facilitate separate identification of the income and expenditure of the Hambantota and Oluvil Ports.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Operating buildings and the electrical and electronic equipment with insured value amounting to Rs.597,854,000 and Rs.1,646,000 respectively had been handed over to the Ports Authority by a Lanka Marine (Private) Service Company in July 2008. Those assets had been brought to account at the insured value without carrying out a revaluation through a recognized Valuer.

- (b) A motor vehicle valued at Rs.2 million given for the use of the staff of the Deputy Minister of the Line Ministry 5 ½ years ago had been rendered unusable due to an accident. Action had not been taken to obtain reimbursement of the loss on the motor vehicle from the insurers and dispose of from the books.
- (c) Even though goods and services valued at Rs.1,590,058 had been obtained from supplier advances, those had been shown as advance over a period of 04 years instead of being brought to account as expenditure.
- (d) The balances of the Ministry of Ports and Aviation Services which amounted to Rs.2,218,812 as a debtor at the beginning of the year, had been shown in the accounts as a creditors balance of Rs.5,016,594 as at the end of the year under review. A further examination in this connection, revealed that the non-recording of fuel valued at Rs.7,235,406 in the relevant Stores Account had been the reason thereto. Accordingly it was observed that an erroneous creditors balance of Rs.5,016,594 had been shown in the financial statements.
- (e) Exemption from tax for a period of 05 years had been granted for the profits earned from port operations and neglecting that, a provision of Rs.1,196,144,225 had been made as the tax liability of the preceding year. Even though action for the rectification of the error had been taken in the year under review, the after tax profit of the preceding year had been understated by a sum of Rs.1,196,144,225 due to the failure to make adjustments with retrospective effect and the after tax profit for the year under review had been overstated by that amount.

#### **2.2.4 Accounts Receivable and Payable**

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According to the financial statements, the balances receivable to and payable by the Authority as at 31 December 2013 amounted to Rs.2,669,820,553 and Rs.4,867,617,729 respectively. The following observations are made in that connection.

- (a) The balances receivable as at 31 December 2013 from the Defence Services Sector included recoverable balances amounting to Rs.10,383,625 older than one year.
- (b) The balances receivable as at 31 December 2013, from Shipping Agent debtors referred for legal action included recoverable balances amounting to Rs.339,119,108 older than one year.
- (c) The balance receivable as at 31 December 2013 from the Government Institutions included recoverable balance amounting to Rs.2,815,143 old between 01 year to 04 years and recoverable balances amounting to Rs.38,173,938 older than 05 years.
- (d) Even though advances granted should be settled as early as possible, out of the advances granted to contractors for capital expenditure, the unsettled balance older than 05 years as at 31 December 2013 amounted to Rs.1,732,070.
- (e) The balance receivable as at 31 December 2013 amounting to Rs.136,443,949 receivable on account of the electricity consumption of premises given by the Authority for the maintenance of properties and welfare canteens shown under the Non-trade Debtors included a balance of Rs.3,165,872 older than 05 years.

- (f) The balance receivable as at 31 December 2013 from the lease and rent income from the premises of the Authority given on lease or rent, shown under the non-trade debtors included a recoverable balance of Rs.48,732,576 older than 05 years.
- (g) The value of the unclaimed goods of the Auction Account not settled as at 31 December 2013 amounted to Rs.7,132,052 older than 02 years, Rs.32,510,865 older than 3 years and Rs.2,254,000 older than 4 years.
- (h) The recoveries of Port damages amounting to Rs.113,372,891 old between 2 to 4 years and Rs.276,612,781 older than 5 years had not been settled.

According to the above matters, the debt recovery and debt payment process of the Authority had been at a very weak level. As such, the possibility of the situation would not adversely affect the liquidity of the Authority cannot be ruled out.

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

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

Reference to Laws, Rules, Regulations, etc.,	Non-compliance
(a) Inland Revenue Act, No. 38 of 2000 – Section 111(a)	Even though the Pay As You Earn Tax on the salaries and other earnings of the Officers of the Sri Lanka Ports Authority should be paid from their personal salaries, the Pay As You Earn Taxes of 6 years from the year 2008 to the year 2013 totalling Rs.2,395 million had been paid from the Fund of Authority.
(b) Public Administration Circular No. 14/2008 of 26 June 2008	(i) A monthly advances at the rate of Rs.40,000 had been paid contrary to the circular to 32 officers who are not entitled to official motor vehicles. The total allowance so paid up to the end of the year under review amounted to Rs.15,360,000.
	(ii) Instead of the monthly allowance of Rs.30,000 an allowance of Rs.40,000 per officer had been paid contrary to the circular to 5 officers who are entitled to official motor vehicles. The overpayment amounted to Rs.600,000.
	(iii) Fuel ranging from 150 to 180 litres had been supplied contrary to the circular for the private motor vehicles of 20 officers who are not entitled to official motor vehicles. The value

of fuel supplied during the year under review alone amounted to Rs.13,487,480.

- (iv) Even though fuel had been supplied for the private motor vehicle of an officer of the Sri Lanka Ports Authority, she had used pool motor vehicles for travelling between the office to the private residence.

### 3. Financial Review

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#### 3.1 Financial Results

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According to the financial statements presented the operations of the Group for the year under review had resulted in a pre-tax net profit of Rs.1,625.3 million as compared with the corresponding pre-tax net profit of Rs.3,612.6 million from the operations of the preceding year. Accordingly, the pre-tax net profit for the year under review as compared with the preceding year had deteriorated by a sum of Rs.1,987.3 million.

#### 3.2 Analytical Financial Review

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

	Year			
	2013	2012	2011	2010
Net Profit per Metric Tonne Rs.	67.22	61.59	3.13	(28.48)
Total Income Rs.Millions	35,240	35,526	31,287	28,506
Total Expenditure Rs.Millions	33,615	31,913	30,965	29,702
Pre-tax Profit / (Loss) Rs.Millions	1,625	3,613	329	(1,196)
Income Tax Rs.Millions	1,198	(1,185)	(207)	157
After Tax Net Profit / (Loss) Rs.Millions	2,823	2,478	122	(1,032)

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

	Year			
	2013	2012	2011	2010
After Tax Profit / (Loss) to Turnover - Percentage	7.59	11.16	0.39	(3.62)
Equity Capital to Long Term Borrowings - Percentage	2.29	1.79	1.55	1.33
Turnover to Non-current Assets - Ratio	0.12	0.15	0.14	0.14

Working Capital Ratio	1:2.48	1 : 2.25	1 : 1.19	1 : 1.34
Quick Ratio	1:2.39	1 : 1.06	1 : 0.78	1 : 1.13
Borrowings Equity Ratio	1:2.46	1 : 1.89	1 : 1.64	1 : 1.21

Even though the Working Capital and Quick Ratios had been at the optimum level, Borrowings Equity Ratio had deteriorated gradually.

#### 4. Operating Review

##### 4.1 Performance

Matters observed during the course of an analysis of the statistics and reports on operating activities furnished by the Authority are given below.

##### Port of Colombo

###### (a) Arrival of Vessels (Number of Vessels)

	Year			Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
	2013	2012	2011		
	Number of Vessels				
Container	3,142	3,092	3,187	1.61	(2.9)
Conventional	38	52	68	(26.92)	(23.5)
Other	487	726	869	(32.92)	(16.4)
	3,667	3,870	4,124	(5.24)	(6.2)

The arrival of vessels in the Port of Colombo during the year under review, as compared with the year 2012 had decreased by 5.24 per cent.

###### (b) Arrival of Container Vessels

	Year			Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
	2013	2012	2011		
	Number of Vessels				
Sri Lanka Ports Authority	2,084	1,972	2,103	5.67	(6.23)
South Asia Gateway Terminal Company	1,011	1,120	1,084	(9.73)	3.32
Colombo International Container Terminal Company	47	-	-	-	-
	3,142	3,092	3,187	1.62	(2.98)

The arrival of container vessels to the Ports Authority during the year under review as compared with the year 2012 had increased by 112 or 5.67 per cent. As compared with that the arrival of vessels to the private company operating as a competitor in the Port of Colombo had decreased by 9.73 per cent or 109 vessels.

(c) Container Handling (Twenty Equivalent Units)

	Year			Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012		Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011	
	2013	2012	2011	Quantity	Percentage	Quantity	Percentage
	Number of Containers						
<u>Port of Colombo</u>							
Local	1,031,977	1,020,255	1,046,886	11,722	1.15	(26,631)	(2.54)
Reshipment and Repackaging	3,274,229	3,166,865	3,216,001	107,364	3.39	(49,136)	(1.52)
	4,306,206	4,187,120	4,262,887	119,086	2.84	(75,767)	(1.77)

The total container and goods handling of the Port of Colombo in the year under review as compared with year 2012, had increased by 2.84 per cent.

	Year			Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
	2013	2012	2011		
	Number of Containers				
<b>Sri Lanka Ports Authority</b>					
Local	676,937	665,291	647,482	1.75	2.75
Re-export	1,779,882	1,584,985	1,583,195	12.29	0.11
Other	45,044	66,573	68,769	(32.34)	(3.19)
<b>Total</b>	<b>2,501,863</b>	<b>2,316,849</b>	<b>2,299,446</b>	<b>7.98</b>	<b>0.75</b>
<b>South Asia Gateway Terminal</b>					
Local	341,510	354,964	399,404	(3.79)	(11.12)
Re-export	1,385,552	1,479,782	1,540,633	(6.36)	(3.94)
Other	19,740	35,525	23,404	(44.43)	51.79
<b>Total</b>	<b>1,746,802</b>	<b>1,870,271</b>	<b>1,963,441</b>	<b>(6.60)</b>	<b>(4.74)</b>
<b>Colombo International Container Terminal Company</b>					
Local	13,530	-	-	-	-
Re-export	42,683	-	-	-	-
Other	1,328	-	-	-	-
<b>Total</b>	<b>57,541</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand Total</b>	<b>4,306,206</b>	<b>4,187,120</b>	<b>4,262,887</b>	<b>-</b>	<b>-</b>

- (i) According to a comparison of the containers and goods handed by the Sri Lanka Ports Authority in the Port of Colombo, an improvement of 0.75 per cent had been achieved in the year 2012 as compared with the year 2011 while an improvement of 7.9 per cent had been achieved in the year 2013 as compared with the year 2012. The competitive private institution had reported deterioration of 4.74 per cent in the year 2012 as compared with the year 2011 and 6.6 per cent in the year 2013 as compared with the year 2012. Nevertheless, that institution had handled nearly 40 per cent of the total container handling in the Port of Colombo.



- (ii) Sri Lanka Ports Authority receives a higher income from the port charges collected on resh Shipments and repackaging and as such greater attention should be paid further to get a much larger share of resh Shipment handling by the Sri Lanka Ports Authority.

(d) Cargo Handling (Metric Tonnes)

Type of Vessel	2013 (Metric Tonnes)	2012 (Metric Tonnes)	2011 (Metric Tonnes)	Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
Container	56,195,460	53,504,467	54,108,976	5.0	(1.11)
Other	7,286,492	8,165,087	7,906,369	(10.7)	3.27
Total	63,481,952	61,669,554	62,015,345	2.93	(.55)
According to Institutions					
Sri Lanka Ports Authority					
South Asia Gateway Terminal Company	35,013,312	32,128,290	31,587,516	8.97	1.71
Ceylon Petroleum Corporation	23,551,366	24,802,379	25,996,790	(5.04)	(4.59)
Colombo International Container Terminal Company	4,172,208	4,738,885	4,431,039	(11.95)	6.9
	745,066	-	-	-	-
Total	63,481,952	61,669,554	62,015,345	2.93	(.55)

Comparison of cargo handling in metric tonnes indicates that the Sri Lanka Ports Authority had achieved an improvement of 1.7 per cent in the year 2012 as compared with the year 2011 and an improvement of 8.97 per cent in the year 2013 as compared with the year 2012. Nevertheless, a private company had reported deterioration of 4.59 per cent in the year 2012 as compared with the year 2011 and 5.04 per cent in the year 2013 as compare with the year 2012.

(e) Containerised Gross Tonnage Handled average per Vessel

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	<b>2013</b>	<b>2012</b>	<b>2011</b>
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Sri Lanka Ports Authority	37,887	36,836	33,994
South Asia Gateway Terminal Company	37,417	38,976	37,643
Colombo International Container Terminal Company	57,319	-	-

The containerized cargo handled per vessel by the Sri Lanka Ports Authority during the year under review had been 37,887 gross tones and the cargo handled per vessel by a private company had been 37,417 tonnes. Accordingly, the cargo handled per vessel by the private company had been lesser than that of the Authority by an average of 470 tonnes. Nevertheless, the private company had made a force competition to the Authority. Similarly, another private company had handled 57,319 tonnes of cargo per vessel and the container handling of vessels with higher capacity arriving in the Port of Colombo had been referred to that company.

(f) Average Handling of Cargo per Vessel (Twenty Equivalent Units)

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	<b>2013</b>	<b>2012</b>	<b>2011</b>
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Sri Lanka Ports Authority	1,200	1,175	1,093
South Asia Gateway Terminal Company	1,728	1,670	1,811
Colombo International Container Terminal Company	1,224	-	-

The number of containers per vessel handled by the Sri Lanka Ports Authority (twenty equivalent units) during the year under review had been 1,200 while the number of containers per vessel handled by the private company (twenty equivalent units) had been 1,728. Accordingly, the handling of containers of the vessels with higher capacity arriving in the Port of Colombo had been referred to a private company

Port of Trincomalee

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(a) Arrival of Vessels

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	2013	2012	2011	Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
	Number				
Cargo Vessels	113	139	114	(18.70)	21.92
Other Vessels	21	22	12	(4.5)	5.9
Total	134	161	126	(16.77)	27.77

The arrival of cargo vessels in the year 2013 had decreased by 18.70 per cent and the other vessels by 4.5 per cent in the year 2013 as compared with the year 2012.

(b) Cargo Handling (Tonnes)

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	2013	2012	2011	Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
	Number				
Total Unloadings	2,275,794	2,645,965	2,336,672	(13.99)	13.23
Total Loadings	159,460	213,362	236,979	(25.26)	(9.96)
Total	2,435,254	2,859,327	2,573,651	(14.83)	11.10

Even though the unloading of cargo in the year 2012 had increased by 13.23 per cent as compared with the year 2011, loading of cargo had deteriorated by 9.96 per cent. The unloading and loading in the year 2013 as compared with the year 2012 had deteriorated by 13.99 per cent and 25.26 per cent respectively.

Port of Galle

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Arrival of Vessels and Cargo Handling

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	2013	2012	2011	Percentage of Increase / (Decrease) in the year 2013 as compared with the year 2012	Percentage of Increase / (Decrease) in the year 2012 as compared with the year 2011
Arrival of Vessels	36	69	73	(47.8)	(5.47)
Cargo Handling (Tonnes)					
Unloading	199,848	421,665	463,519	(52.6)	(9.02)
Loading	6,692	8	253	--	(96.83)
Total	206,540	421,673	463,772	(51)	(9.07)

The arrival of vessels and the handling of cargo in the year 2013 as compared with the year 2012 had decreased by 47.8 per cent and 52.6 per cent respectively.

Magampura Mahinda Rajapaksa Port

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Vessel Arrivals	2013
Cargo Vessels	136
Yachts	03
Total	139

According to the information furnished to audit, 136 cargo vessels and 03 yachts totaling 139 vessels had arrived up to the end of the year under review. A very small number of vessels had arrived at this Port over a period exceeding 2 years since the opening of the Port in the year 2010 and as such urgent attention should be paid for taking effective action for attracting vessel arrivals at this port. Even though the Gantry Cranes should be installed expeditiously for speeding up the operations of the port, cranes had not been installed even up to the end of the year under review.

All Ports

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The increase of gross cargo handling of all ports in the year 2011 as compared with the year 2010 had been 3,667,471 metric tones and that represented 4.3 per cent improvement. The increase of gross cargo

handling in the year 2012 as compared with the year 2011 had been 1,631,416 metric tones and that represented 1.8 per cent improvement.

#### 4.2 Management Inefficiencies

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The following observations are made.

- (a) The Authority had not included a condition in the lease agreement for the payment of rates by the lessee on the land leased out to a private company on the Build, Operater and Transfer basis and as such the Authority had paid a sum of Rs.6,776,000 as the rates on the land leased out and the equipment installed on the land in respect of the years 2012 and 2013.
- (b) Even though a sum of Rs.4,715,000 had been paid to the Maga Neguma Institution for carrying out repairs to the breakwater of the Kankesanthurai Port, no construction work had been done.
- (c) Even though the Colombo Port Expansion Project had been scheduled for completion on 31 October 2010, the project implementation period had been extended in two instances since that date. Even though a loan of Rs.110.78 million obtained from the Asian Development Bank had not been utilized, interest thereon at 1.2 per cent had been paid as Commitment Charges and that expenditure had to be spent due to the failure to complete the project within the targeted period.
- (d) Provision for bad and doubtful debts amounting to Rs.9,827,479 representing 31 per cent of the sum of Rs.31,686,580 receivable as at the end of the year under review from the Shipping Agents of the Port of Trincomalee had been made due to the supply of services without causing prompt recovery of money from the Shipping Agents. Nevertheless, 100 per cent provision for had and doubtful had been made for the receivable from the following Shipping Agents.

Category	Amount Receivable	Percentage of Provisions for Bad and Doubtful Debts	Provision for Bad and Doubtful Debts
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	Rs.		
01. Shipping Agents not in Operation at present	2,322,036	100	2,322,036
02. Shipping Agents referred for Legal Action	586,981	100	586,981
03. Receivable from Government Departments and Institutions	6,892,826	100	6,892,826
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			9,801,843
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Provision of Rs.9,801,843 had been made for bad and doubtful debts but adequate action for the recovery of the money had not been taken.

### 4.3 Operating Inefficiencies

The following observations are made.

- (a) The total container handling capacity of the Authority in the Port of Colombo from the year 2001 to the end of the year 2013 had decreased rapidly from 86 per cent to 59 per cent. Nevertheless, the container handling capacity of a private company operating as a competitor had achieved rapid increases during that period. The container handling operation of the Authority had gradually decrease as follows in the past 12 years.

Year	Private Company handling Containers in the Port of Colombo	Percentage	Authority	Percentage	Total
2001	229,670	19	1,396,946	81	1,726,616
2002	558,025	32	1,206,694	68	1,764,717
2003	624,439	32	1,334,900	68	1,959,339
2004	899,720	41	1,320,845	59	2,220,565
2005	931,526	38	1,523,794	62	2,455,300
2006	1,335,411	43	1,743,669	57	3,079,078
2007	1,546,497	46	1,834,734	54	3,381,231
2008	1,739,668	47	1,747,670	53	3,687,338
2009	1,749,809	51	1,714,488	49	3,464,297
2010	1,970,268	48	2,167,173	52	4,137,441
2011	1,963,441	46	2,299,446	54	4,262,887
2012	1,870,271	45	2,316,849	55	4,187,120
2013	1,746,802	41	2,501,863	59	4,248,655

Accordingly, the share of the container handling operations, which is a main operation of a port, had ranged between 49 per cent to 59 per cent during the preceding 05 years. This situation had arisen as a result of the release of more than 06 best deep quays of the Port of Colombo to two private companies on the Build, Operate and Transfer basis for a period of 35 years.

- (b) The number of containers handled per container yard in the Port of Colombo had been 416,976 while the South Asia Gateway Terminal had handled 582,267 containers. That represented 165,291 per terminal over that of the Port of Colombo and amounted to 40 per cent of the number handled by the Port of Colombo.
- (c) The average number of containers handled per Gantry Crane had been 108,776 in respect of the Sri Lanka Ports Authority while the units in respect of the South Asia Gateway Terminal

Company had been 145,576. Accordingly, each Gantry Crane of the South Asia Gateway Terminal Company had handled 36,791 containers more than the Ports Authority. That represented 34 per cent excess over the average of handling done by the Authority.

- (d) The continuous losses incurred by the Ports of Trincomalee and Galle had been due to the very poor level of handling operations and the lesser number of vessel arrivals. Even though the losses incurred in the past years had been decreased to Rs.47 million in the year 2012 it had increased to Rs.96 million in the year under review.

Year	Loss Rupees Million	
-----	Port of Trincomalee	Port of Galle
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2007	405	275
2008	379	279
2009	319	399
2010	383	345
2011	318	147
2012	240	47
2013	232	96

- (e) The construction of the Magampura Mahinda Rajapaksa Port had commenced in the year 2008 and the First Stage thereof had been completed in November 2010. A sum of Rs.105,109 million including a loan of Rs.98,079 million from the Exim Bank of the People's Republic of China had been spent on the First and Second stages of the construction of the Port. As the Gantry Cranes had not been installed in the port constructed, containers could not be handled and due to that reason, the arrivals at the Port had been mostly limited to the vessels transporting motor vehicle. It was not possible to ascertain whether an adequate income had been earned from the operations of the Port. But sums of Rs.2,208 million at Rs.2,479 million had been paid in the year 2012 and the year under review respectively as the interest on the above loans.
- (f) Even though the Oluvil Port constructed from a loan of Rs.6,029 million obtained from a Danish Lending Institutions and a sum of Rs.444 million contributed by the Sri Lanka Ports Authority had been opened in the latter half of the year under review, not even a single vessel had arrived at the port up to the date of issuing this report. The reason for that is only the small vessels that can be berthed up to a depth of 8 metres. However, the operating expenses of the Oluvil Port for the year under review amounted to Rs.72,342,554.

#### 4.4 Transactions of Contentious Nature

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The following observations are made.

- (a) The services of the Authority had been executed through Sri Lanka Ports Management and Consultancy Services Company deviating from the Procurement Procedure. An additional expenditure of Rs.22,594,876 had been incurred as the commission.

- (b) The Authority together with the Asian Development Bank had spent a sum of Rs.1,199 million on a Consultancy Service Contract for the Colombo Port Efficiency and Expansion Project under Asian Development Bank Aid. The implementation of the proposal had been abandoned after spending a sum of Rs.399 million out of that on the improvement of the efficiency of the Colombo Port.
- (c) The shares valued at Rs.141,632,944 receivable for the cranes transferred to the South Asia Gateway Terminals Company had not been received and that had been brought to account as shares receivable.
- (d) Out of the advances of Rs.5,000,000 granted to a Trade Union affiliated to a political party, the unsettled balance as at the end of the year under review amounting to Rs.4,499,996 had been disclosed as advances for capital constructions.
- (e) Even though the transport / exchange of containers among the terminals had been given to a private container transport company, the Sri Lanka Ports Management and Consultancy Company had with the consent of the Sri Lanka Ports Authority, entered into an agreement with another private company of container transport for the transport of containers. As the opportunity provides for the transport of containers had been deprived of contrary to the agreement the risk of paying compensation had arisen as the former company contracted by the Sri Lanka Ports Authority had filed a case in District Court. In such circumstances a provision of Rs.276 million for compensation payable had been made in the accounts of the Sri Lanka Ports Authority.

#### **4.5 Uneconomic Transactions**

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The following observations are made.

- (a) Even though a sum of Rs.71,197,529 had been spent in the year under review for the maintenance of the fully equipped Oluvil Nautical Institute, no courses whatsoever had been conducted by the Institute.
- (b) Even though a sum of Rs.2,000,000 had been invested in the year 2008 on 200,000 shares of Lanka Coal Company, no return whatsoever had been received by the Authority even up to the end of the year under review.
- (c) The Authority had incurred gross losses amounting to Rs.18,720,471 and Rs.35,700,092 in the years 2012 and 2013 from the sale of scrap iron below the market value through the Sri Lanka Ports Management and Consultancy Company without calling for bids.

#### **4.6 Identified Losses**

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The following observations are made.

- (a) Even though a sum of Rs.67,233,290 should have been recovered as stores / ground rent according to the Ports Tariff for the retention of 04 boats of 3,515 Cubic metre brought in by Shipping Agents for reshipment for 112 days inside the Port of Colombo, the Authority had



incurred a financial loss of Rs.55,213,465 as the Senior Executive Officers of the Port Operations Division had under computed the charges erroneously.

- (b) In view of the weaknesses in the recovery of charges due to the Authority, a sum of Rs.105,491,135 that remained receivable in respect of the years 2006 to 2009 had been written off from the accounts without the approval of the Treasury.
- (c) The total sum of Rs.5,659,734 receivable in respect of the years 2007 to 2009 for the services supplied by the Authority for a vessel maintained on commercial basis by the Defence Services had been written off against income without the approval of the Treasury.

#### **4.7 Idle and Underutilised Assets**

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Even though the Authority had purchased 02 Level Luffing Portal Cranes at a cost of Rs.444,008,467 in the year 2008 and those cranes had been idling without being used as the rails to operate the cranes had not been laid. Even though the rails were laid for the track after this matter was pointed out in audit, cranes had not been operated for handling nautical goods. The Authority had not carried out a feasibility study on the need for these cranes.

### **5. Accountability and Good Governance**

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#### **5.1 Corporate Plan**

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The following observations are made.

- (a) According to the Vision of the Authority it had been stated that the Port will be made the best ship handling port in Asia by the year 2015. Nevertheless, a comparison of the data on the financial position of the Authority, handling of container operations and arrival of Vessels with the preceding years indicates that adequate steps had not been taken for enhancing the efficiency.
- (b) Even though the development of the Port of Galle as a regional port and the development as an alternative port for the handling of commercial cargo handled by the Port of Colombo had been shown under the objectives of the Authority, according to the data of the years 2008 to the year under review, the port of Galle had been incurring losses continuously due to the decrease in the arrival of vessels at the port.

### **6. Systems and Controls**

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

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