

Jaya Container Terminals Limited - 2016

The audit of financial statements of the Jaya Container Terminals Limited for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the profit and loss account, 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. . My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report. In carrying out of this audit, I was assisted by a firm of Chartered Accountants in public practice.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these 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

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. 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Jaya Container Terminals Limited as at 31 December 2016 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

2.2.1 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, and Regulations	Non-compliances
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Public Enterprises Circular No. PED/12 of 02 June 2003 -----	
(i) Section 5.1.2	Even though performance indexes should be introduced and the performance should be evaluated in the year under review in terms of the circular, action had not been taken accordingly.
(ii) Section 5.2.5	The budget approved by the Board of Directors should be referred to the line Ministry, Department of Public Enterprises, General Treasury and the Auditor General 15 days before the commencement of the ensuing year. Nevertheless, the above requirement had not been complied with in respect of the Budget prepared for the year 2016 by the Company.
(iii) Section 7.2	A Procedure Manual/System covering all major operations of the Company had not been prepared.
(iv) Section 9.3.1	Even though a staff of 91 employees existed as at 31 December 2016, a Scheme of Recruitment had not been formulated and the necessary approval had not been obtained.
(v) Section 9.12	A sum of Rs.1,604,731 had been spent on 04 Welfare Schemes for which the approval of the Department of Public Enterprises was not received in the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a profit of Rs.77.6 million as compared with the corresponding profit of Rs.36.8 million for the preceding year, thus observing an improvement of Rs.40.8 million or 111 per cent in the financial result as compared with the preceding year. The increase in the income from oil operations by Rs.34 million had been the main reason for the said improvement in the financial result as compared with the preceding year.

The analysis of the financial result of the year under review and 04 preceding years revealed that the profit of the year 2012 amounting to Rs. 81,119,462 had fluctuated in the following years, and decreased to Rs. 77,651,525 by the end of the year under review. In considering the employee remuneration, Government tax, and depreciation on the non-current assets, the contribution of the Company amounting to Rs. 214,506,082 in the year 2012 had fluctuated and it had reached to Rs. 199,852,023 by the end of the year 2016.

4. Operating Review

4.1 Performance

According to the Memorandum of Association, the main objective of the Company is to supply of bunkering oil to the Colombo Harbour and the management of the Jaya Container Terminal according to the duties and orders assigned to the Company by the Ports Authority from time to time in accordance with the instructions issued to the Sri Lanka Ports Authority by the Minister in charge of the Ports Authority.

The key function of the Company is to loading, storing and unloading of bunkering oil of three types and the details thereon relating to the year under review and three preceding years were as follows.

Units Metric Tons

Type of Oil	2016		2015		2014		2013	
	Loading	Unloading	Loading	Unloading	Loading	Unloading	Loading	Unloading
IFO 180	26,610	26,513	38,172	36,377	46,083	48,131	31,817	31,147
HFO 380	378,300	386,345	347,143	338,750	226,153	243,460	185,377	179,001
MGO	56,522	57,523	50,714	50,274	61,402	61,997	54,450	44,975
Total	461,432	470,381	436,029	425,401	333,638	353,588	271,644	255,123
Increase Units	25,403	44,980	102,391	71,813	61,994	98,465	--	--
Percentage	6	11	31	20	23	39	--	--

The following observations are made in this connection.

- (i) As compared with the year 2015, loading of IFO 180 oil had decreased by 30 per cent while the Marine Gas Oil (MGO) and HFO 380 oil had increased by 11 per cent and 9 per cent respectively.
- (ii) As compared with the year 2015, unloading of IFO 180 oil had decreased by 27 per cent while the unloading of Marine Gas Oil (MGO) and HFO 380 oil had increased by 14 per cent each.
- (iii) As compared with the overall operating activities of oil in the year 2015, loading of oil had increased by 25,403 metric tons or 6 per cent and the unloading of oil had increased by 44,980 metric tons or 11 per cent.
- (iv) Out of the 13 tanks belonging to the Company for operating activities of oil, 06 oil tanks were storing HFO 380 oil and instances of using the maximum capacity thereof were observed during the year under review. The overall unloading of oil had increased gradually by 215,258 metric tons or 84 per cent during the 4 years from the year 2013 up to 2016 and the average rate of increase per year had been 71,753 metric tons or 28 per cent. Accordingly, in case of further increase in the demand for storing bunkering oil even in the ensuing year, the inability of satisfying that demand cannot be ruled out in audit.

5. Internal Audit

In terms of Section 7.4.1 of the Public Enterprises Circular No. PED/ 12 of 02 June 2003 and Section (1) of the Public Enterprises Circular No. PED/ 55 of 14 December 2010, the Audit Committee should meet, and recommendations for the improvement of internal control system and the operations of the Company should be made based on the findings made through the internal audit. Nevertheless, an Internal Audit Unit had not been established by the Company while an internal audit had not been carried out and meetings of the Audit Committee had not been held as well.

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 Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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a) Staff Management	Failure to get the approval for the Scheme of Recruitment.
b) Internal Audit	Failure to establish an Internal Audit Unit.