Sri Lanka Ports Authority - 2016

The audit of consolidated financial statements of the Sri Lanka Ports Authority and Its Subsidiaries for the year ended 31 December 2016 comprising the financial position as at 31 December 2016 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

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

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 Auditing 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 judgement, 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

The Jaya Container Terminal Company Ltd. and the Magampura Port Management (Pvt.) Ltd. as Subsidiaries and the Port Management and Consultancy Services Company Ltd. as an Associate Company functioned under the Sri Lanka Ports Authority. The ownership on these companies was 100 per cent and 39.97 per cent for the subsidiaries and the associate company respectively. The audit of these three companies had been done by three Firms of Chartered Accountants engaged in public accountancy profession.

1.5 Basis for Qualified Opinion

My Opinion is qualified based on the matters described in paragraphs 2.2 and 2.3 of this report.

2. Financial Statements

2.1 Qualified Opinion – Group

In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Sri Lanka Ports Authority and its Subsidiaries as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion – Authority

In my opinion, except for the effects of the matters described in paragraph 2.3 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 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on the Financial Statements – Group

The following observations are made.

(a.) The consolidated financial statements of the Ports Authority had been prepared without taking into account the audited financial statements of the two subsidiary companies; instead, the draft financial statements had been taken into consideration.

(b.) The cumulative loss sustained by the Magampura Port Management (Pvt.) Ltd, a subsidy company of the Ports Authority, had amounted to Rs. 1,960,685,373 as at 31 December 2016. Due to that reason, the net assets of the Company had reached a negative value of Rs. 1,885,685,373 as at the said date, and as such, the Company had faced a severe capital scarcity as at that date. Accordingly, the shareholders should have been apprised of the said matter by convening a general meeting within a period of 20 days in terms of Section 220 of the Companies Act, No. 07 of 2007, but the Board of Directors had failed to do so. However, the Company had prepared and presented its financial statements with the assumption that the Company shall continue to operate indefinitely. Nevertheless, a verification to the effect that the financial assistance of the Ports Authority would be provided further in respect of its operations and settlement of liabilities, had not been obtained.

(c.) The stock verification reports and schedules relating to the value of other stocks, except for the stock of bunkering oil, included in the value of the physical stocks of the Magampura Port Management (Pvt.) Ltd as at the end of the year under review, had not been made available to audit. Furthermore, the decision of the Board of Directors on the allocations for impairment during the year amounting to Rs. 585,496, 943 had not been received; hence, the accuracy thereof could not be vouched.

(d.) The loans amounting to Rs. 2,931,386,743 obtained by the Magampura Port Management (Pvt.) Ltd, had been shown only under non-current liabilities, instead of being shown in the statement of financial position by classifying as current and non-current liabilities in terms of Sri Lanka Accounting Standard 01. Had it been classified as current liabilities in terms of the Standard, the net current assets of the Company should have been a minus value. Furthermore, a confirmation of balances in respect of the said loan balance, had not been received from the bank as well.

2.3 Comments on the Financial Statements – Authority

2.3.1 Sri Lanka Financial Reporting Standards

In terms of Section 14 of the Sri Lanka Financial Reporting Standard 07, the carrying amount of the financial assets kept as the security for the liabilities, should be disclosed. Nevertheless, the commitment to the fixed deposit valued at Rs. 315 million relating to the taxes amounting to Rs. 285,437,324 and payable to the Tax Appeal Commission, had not been disclosed in the financial statements.

2.3.2 Sri Lanka Accounting Standards

The following non-compliances are observed.

(a.) Sri Lanka Accounting Standard 01

For the fair presentation of the financial statements, additional information should be provided when required in terms of Section 15 of the Standard. However, such a disclosure had not been made with respect to the adjustment on the reclassification done by the Authority in the year under review relating to Property, Plant and Equipment valued at Rs. 16,614,911.

(b.) Sri Lanka Accounting Standard 08

In terms of Section 49 of the Standard, matters such as, the nature of the error of the preceding year, and the amounts to be adjusted with respect to each year, etc. should be disclosed. Those requirements had not been fulfilled with respect to the adjustments amounting to Rs. 1,277,779,765 done in the year under review relating to the preceding years.

(c.) Sri Lanka Accounting Standard 16

(i) According to the Standard, depreciation on the Property, Plant and Equipment should be commenced from the dated that it was made available for use. However, depreciation amounting to Rs. 101,643,600 relating to the preceding years, had been accounted in the year under review instead of being adjusted retrospectively in terms of Section 42 of the Accounting Standard 08. Hence, the operating profit of the year under review had been undercalculated by a sum of Rs. 101,643,600.

(ii) In terms of Section 51 of the Standard, the residual value and the useful life of an asset shall be reviewed at least at each financial year-end, and if expectations differ, the difference should be adjusted to the accounts in accordance with Sri Lanka Accounting Standard 08. However, the fully depreciated assets valued at Rs. 30,593,407,527 had been used by the Authority even by the end of the year under review, but only the motor vehicles and computer accessories therefrom had been reviewed in the year under review. Nevertheless, adjustments had not been made to the accounts in a manner showing the value for which the motor vehicles and computer accessories that had been reviewed, shall be depreciated in the future.

(d.) Sri Lanka Accounting Standard 36

In terms of Sections 12 (e), (f), and (g) of the Standard, that when the operations remain temporarily halted, or exist as an idle asset, it is indicated that an impairment would be resulted in therefrom. Nevertheless, the operations of the oil tank complex in Hambanthota valued at Rs. 6,987,638,384 and belonging to the Ports Authority, had temporarily been halted since the year 2015, but action had not been taken to show the fair value in the financial statements by evaluating the impairments in respect of the said assets.

(e.) Sri Lanka Accounting Standard 37

The cooperate guarantee for a loan of US $ 28 million obtained by a subsidiary company from a bank for purchasing bunkering oil, had not been disclosed in the financial statements of the Ports Authority in accordance with the Standard.

(f.) Sri Lanka Accounting Standard 40

When it is not possible to evaluate the fair value of the investment properties, the reasons thereto should be provided in terms of Section 79 (e) (ii) of the Standard. However, the investment properties valued at Rs. 4,064,444,037 belonging to the Ports Authority had been evaluated as per cost system as at 31 December 2016, but reasons for failing to present to the fair value, had not been given.

2.3.3 Accounting Deficiencies

The following observations are made.

(a.) The Oluvil Harbour had been made use of since the year 2013 for the operations of the Ports Authority, but the loan amounting to 46 million Euros obtained by the Treasury in that connection had not been taken over by the Ports Authority either as a loan or a grant. Hence, the value of the said asset had not been included in the financial statements of the Ports Authority. As such, the assets of the Ports Authority had been undercalculated for the year 2016.

(b.) The Authority had conducted the architectural and construction activities of the international cricket stadium in Suriyawewa on behalf of the Institute of Sri Lanka Cricket. According to the contract agreement entered into between the contractor and the Authority on the said construction, a sum totalling Rs. 5,838 million inclusive of the interest amounting to Rs. 2,881 million had remained payable to the contractor by the Authority up to 31 December 206 in respect of the said constructions made under the variation order of the contract for construction of the Hambanthota Harbour. Despite the non-availability of any verification that the said sum would be borne either by the Treasury or the Institute of Sri Lanka Cricket, the sum had been accounted in the financial statements of the Authority as being receivable from a Government institution, but the receipt of that sum remained doubtful.

(c.) A sum of Rs. 4,471,406 had been paid by a subsidiary company to the Ceylon Electricity Board for the electricity consumed by the lessees who had obtained 02 parts of a building at the premises of the Magampura Harbour on lease. As those monies are reimbursed by the lessees to the Authority in terms of the agreement, it should have been shown that the said value would be paid to the subsidiary company by the Authority, but that value had erroneously been credited to the Electricity Income Account.

(d.) Action had not been taken to recover the ground rent of Rs. 197,888,250 recoverable in respect of 243 vehicles that remained un cleared so far at the yard in Magampura Harbour in excess of the grace period by 07 to 746 days, and the ground rent for 532 containers retained at the yard in Colombo Harbour for a period of 21 – 3039 days without being cleared so far thereby accounting such rents as being receivable.

(e.) The financial statements of the year under review comprised the Fixed Assets Account and the Motor Vehicle Clearing Account wherein information relating to 2 busses valued at Rs. 13,392,858 had been included. Hence, the fixed assets of the Authority had been double counted by a sum of Rs. 13,392,858.

(f.) A sum of Rs. 5,885,801 receivable from an associate company to the Authority in the year under review had been omitted from the accounts.

(g.) Due to failure in calculating and accounting the 39 per cent share to be owned by the Authority on the profit amounting to Rs. 12,531,823 of the associate company pertaining to the Authority for the year 2016, the profit of the Authority had been under calculated by a sum of Rs. 4,885,865.

2.3.4 Unexplained Differences

According to the financial statements as at 31 December 2016, the balance of the Foreign Exchange Clearance Account amounted to Rs. 754,995,979 whereas, that balance amounted to Rs. 733,955,307 as per the Schedule, thus observing a difference of Rs. 21,040,672.

2.3.5 Lack of Evidence for Audit

The evidence shown against the following items of accounts, had not been made available to audit.

Item of Account		Value Rs.	Evidence not Made Available
(a.)	Balances Receivable and Payable	98,568,481	Verification of Balances
(b.)	Allocations for Differed Tax	12,114,566,119	Schedules
(c.)	Foreign Purchasing Advances	754,995,979	Age Analysis, and Schedules

2.4 Accounts Receivable and Payable

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The following observations are made.

(a) In terms of the Section 9.1.3 of the Financial Procedure of the Authority, the officers who are directly or indirectly responsible for the recovery of money receivable to the Authority should pay attention in every respect to ensure not to give any room for those money to become outstanding. However, of the total debtor balance of the Ports Authority amounting to Rs. 10,236 million recoverable as at 31 December 2016, a balance of Rs. 711 million had exceeded the loan period, and debtor balance of trade shipping agents totalling Rs. 385,548,364 and non-trade debtor balance totalling Rs. 98,993,092 therefrom had remained non-recoverable for a period of more than one year.

(b) As services had been supplied without properly levying fees, provisions for bad and doubtful debts had been made as at 31 December 2016 for loans amounting to Rs. 409,048,984 receivable from shipping agent debtors relating to harbours in Colombo, Trincomalee, and Galle.

(c) Due to failure in properly recovering the expenses borne by the Authority on the electricity consumption and rentals for the premises given for maintaining the properties, welfare activities, and cafeterias shown under the non-trade debtors of the Harbours in Colombo and Trincomalee included in the accounts receivable, provisions amounting to Rs. 92,920,389 had to be made for bad and doubtful debts.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Section 6 (h) of the Sri Lanka Ports Authority Act, No. 51 of 1979	In terms of the provisions of the Act, action had not been taken even up to 31 December 2016 to establish a general reserve for replacing the assets and new investments. As such, the possibility of arising financial issues when replacing the assets to be disposed of, technologically obsolete, and provisions for depreciation had been made upon, could not be ruled out in audit.
(b) Section 11 of the Finance Act, No. 38 of 1971, and Section 8.2.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The concurrence of the Minister of Finance had not been obtained for the investments amounting to Rs. 5,251 million made in the year 2016 in the fixed deposits and the short term investments.
(c) Public Enterprises Circular, No. PED/12, dated 02 June 2003	
(i) Section 4.2.1, 4.2.2, and 4.2.5	The reports that should have been presented in accordance with the Circular, had not been presented monthly to the Board of Directors by the Authority in the year under review.
(ii) Section 4.2.3	The reports relating to the performance of the subsidiary companies had not been presented to the Board of Directors in a timely manner.
(iii) Section 5.1.2	In terms of the Circular, Key Performance Indicators had been introduced for 23 divisions in the year under review, but action had not been taken to evaluate the performance based on the actual performance indicators as expected.

(iv) Section 7.4.2	Although management meetings had been held in terms of the provisions of the Circular, the decisions taken therein had not been presented for being evaluated by the Board of Directors.
(v) Section 8.5	An insurance cover had not been obtained in order to mitigate the risks associated with the oil tank complex valued at Rs. 9,744,499,541 located in the premises of the Magampura Harbour,
(vi) Section 9.3.1	Although a draft Scheme of Recruitment had been formulated in terms of the Circular, the approval of the relevant parties had not been obtained thereon, and the manner in which the employees would be recruited, had not been included therein.
(vii) Sections 9.3.1 vi, and vii	Contrary to the provisions of the Circular, the Authority had appointed 33 officers on acting basis for a period of over 03 months.
(viii) Section 9.9	Information relating to the overtime payments amounting to Rs. 3,772,463,462 paid to the employees in the year under review, had not been furnished to the Board of Directors.
(d) Public Enterprises Circular, No. PED1/2015, dated 25 May 2015 Sections 2.3 and 3.1	(i) Contrary to the provisions of the Circular, 92 officers not entitled to monthly fuel allowance had been provided with petrol at 100 liters per month for each of them, whereas 15 more officers not entitled to fuel allowance had also been provided with diesel at 125 liters for each per month. (ii) Contrary to the provisions of the Circular, monthly limit for fuel had been decided for 60 officers of the Authority. According to the audit test check, 2,075 liters of fuel had been provided in the month of October 2016 alone contrary to the Circular.
(e) Section 111 (a) of the Inland Revenue Act, No. 38 of 2000, and the Public Enterprises Circular, No. 03/2016, dated 29 April 2016.	The PAYE tax should be paid from the personal salary, but taxes amounting to Rs. 468 million had been paid from the fund of the Authority on behalf of the employees for the year 2016.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the profit of the Group for the year ended 31 December of the year under review had amounted to Rs. 583 million, and the profit of the Authority had amounted to Rs. 1,036 million. As the losses sustained by the Group and the Authority for the preceding year had amounted to Rs. 14,581 million and Rs. 14,169 million respectively, the financial results of the Group and the Authority had improved by sums of Rs. 15,164 million and Rs. 15,205 million respectively as against the preceding year. The decrease in the loss on the net foreign exchange adjustment by a sum of Rs. 10,155 million as compared with the preceding year, had mainly attributed to the said improvement in the financial result.

An analysis on the financial results for the year under review and 04 preceding years revealed that profits had been gained in the other years except for the year 2014. However, employee remuneration, taxes paid to the Government, and depreciation had been adjusted to the financial result, the contribution of the Authority had continuously stayed at a positive value. The contribution for the year 2012 amounting to Rs. 25,226 million, had increased up to Rs. 33,091 million in the year under review.

3.2 Analytical Financial Review

Some of the quantitative ratios for the year under review and the preceding year, are as follows.

		2016	2015	2014	2013	2012
(i)	Net Profit Ratio (%)	45	35	39	33.39	44
(ii)	Operating Profit against the Total Income/ (Loss) (%)	33.34	22.86	27.93	20.90	24.69
(iii)	Net Profit/ (Loss) Ratio (%)	2.35	(35)	23.73	4.52	6.58
(iv)	Long Term Loans for the Equity Capital	1:2.89	1:2.92	1:2.30	1:2.27	1:2.34
(v)	Current Ratio	1.27:1	1.52:1	2.16:1	2.51:1	2.25:1
(vi)	Quick Ratio	1.19:1	1.41:1	2.05:1	2.42:1	2.13:1

The following observations are made.

i. The ratio between the long term loans and the equity capital of the Authority, that had been 1:2.34 in the year 2012, had increased up to 1:2.89 in the year 2016. The saving of Rs. 173,913 million as at 31 December 2016 from the loans obtained for the construction of Hambanthota Harbour and Eastern Container Terminal, had mainly attributed thereto. Accordingly, the increase in the long term loans had adversely affected the working capital and cost on interest of the Authority.

ii. The operating profit of 24.69 per cent in the year 2012 as compared with the total income, had reached 33.34 per cent by the year 2016. However, as the financial expenses and the losses from the foreign exchange had adversely affected the Authority, the post tax net profit ratio of 6.58 per cent for the year 2012, had reached a minus value of 35 per cent in the year 2015, and decreased to 2.35 per cent by the year 2016.

iii. The current ratio and the quick ratio of the year 2012 had been 2.25 and 2.13 respectively, whereas those values had gradually deteriorated to 1.27 and 1.19 respectively by the end of the year under review.

4. Operating Review

4.1 Performance

In terms of Sri Lanka Ports Authority Act, No. 51 of 1979, the main objectives of the Authority were the provision of efficient and regular port operations and protective services, regularization and control of navigation within approaches, improvement and development of ports, co-ordination and regularization of port activities.

The following observations are made on the achievement of the above objectives.

4.1.1 Four terminals in which containers can be handled, exists in the Colombo Harbour, and 2 of them (Jayabahalu Terminal, and Samagi Container Terminal) are fully owned by the Ports Authority, whereas the other Terminals (Colombo International Container Terminal, and South Asia Gateway Terminal) had been leased out to private institutions for a period of 35 years with 85 per cent of the shares under the basis of build, operation and transfer. Information relating to the handling of containers in the years 2016 and 2015 had been as follows.

	SLPA Units		**SAGT Units**		**CICT Units**		**Total Units**	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
Transshipments	1,691,267	1,607,792	1,028,538	1,294,631	1,168,516	1,452,838	3,888,321	4,355,261
Domestic	541,152	483,109	327,750	317,707	349,069	499,034	1,217,971	1,299,850
Re-stowing	19,904	9,216	14,957	19,869	44,314	50,727	79,175	79,812
	2,252,323	2,100,117	1,371,245	1,632,207	1,561,899	2,002,599	5,185,467	5,734,923

The handling of containers at the Colombo Harbour had increased by 11 per cent in the year under review as compared with the year 2015 as a whole, but the handling of containers at the Sri Lanka Ports Authority had decreased by 7 per cent. The vessels that should have arrived at the terminals belonging to the Authority in accordance with the Terminal Service Agreements entered into between the Sri Lanka Ports Authority and the Shipping Agencies in the year 2016, had arrived at the privately owned terminals due to the following reasons, had mainly attributed thereto.

- The maximum draft of the terminal belonging to the Authority had been exceeded.
- Delays in berthing at the terminals, and
- Inadequacy of the width of the Gantry Cranes of the terminals.

The following observations are made in this connection.

(a) (i) At present , Shipping Agents show more interest in using large vessels in the transport of cargoes. Similarly, upon the amalgamation and centralization of container vessels companies, about 95 per cent of the container capacity in the Asian European Trade Route is handled by four allied shipping companies. This had resulted in creating a sharp competition for obtaining port services. Under such circumstance, the Authority should take appropriate measures to protect and improve its market share, whereas no such step had been taken even by the end of the year under review.

(ii) The reshipping which is considered as the Foot Loose represents about 70 per cent of the container handlings of the Colombo Port and a great influence had been posed by the competitive ports in acquiring the increasing container transporting capacity. After the Vallarpadam Port of Cochin Town was declared as a reshipping hub by India, this competition had become intensified. There was a preparation to develop the Vizhinjam Port in South India as a reshipment port and the Indian Government had declared that 12 leading ports existed under the custodian model of ports had been converted as consolidated entity units. This implies that the Colombo Port may have to face competitions posed not only by the ports situated outside the South Asia but also by the ports in Indian Subcontinent. However, the East Container Terminal of the Ports Authority could be used for the operational activities in order to face these competitive situations. Nevertheless, its operational activities had not been commenced as yet.

(iii) Among the terminals presently in operation at the Colombo Port for handling containers, the Colombo International Container Terminal (C.I.C.T.) is the only terminal capable of accommodating vessels over 14.25 meters of Draft and its capacity had been computed as 2.4 Twenty Equivalent Units per annum. Two hundred and thirty two vessels over 14.25 meters of the Draft had arrived at the above terminal in the year 2016 and more than 2 million container units had been handled. Accordingly, there was an increase of 28 per cent in handling containers as compared with the year 2015 and it was observed that if the above increase further remains unchanged in the year 2017 as well, it would be impossible to prevent from reaching its maximum capacity. Nevertheless, the maximum draft of the terminals and the width of the Granty Cranes belonging to the Sri Lanka Port Authority was 14.25 meters and 18 meters respectively and therefore, the Authority did not have a terminal that could accommodate the vessels over 14.25 meters of the Draft.

Accordingly, in taking into consideration the above circumstances, it could not be ruled out in audit that, due to the inefficiency of handling containers and the lack of modern facilities with the terminals, it is not only the Authority but also the Colombo Port as a port was on a operational risk of providing necessary facilities for the vessels arrive at this port surpassing its present capacity.

4.1.2 With the attraction of the container vessels that could have been attracted to the Authority, towards the private terminals and reaching their capacity usage at an optimum level, the following reasons had attributed for the risk of depriving of the increasing reshipment operations of the Colombo Port and failure in facing the competitions posed by other ports.

(i) According to the requirement of the loan agreement entered into between Sri Lanka Government and the Asian Development Bank relating to the Colombo Port Expansion Project and the Development Alternative Strategies Review compiled by the U.R.S. Scott Wilson Ltd. in August 2011, the operations of first stage of the East Container Terminal were scheduled to be commenced in the year 2015. Even though the Cabinet had made proposals and reached concurrences and policy decisions to commence the operations, due to changing the above decisions by the end of the year under review, those had been cancelled and some decisions had not been implemented. Accordingly, by stating that the constructions of the East Container Terminal with a capacity of 800,000 container units carried out at a cost of Rs.11,168,466,578 had been completed, the Final Completion Certificate had been issued in April 2016. Nevertheless, action had not been taken to use it by arranging it to a suitable level for cargo operations.

(ii) In order to carry out container operations efficiently, although plans had been drawn to make procurements amounting to Rs.918 million according to the Action Plan of the year 2016, those had been abandoned and postponed during the year under review. However, due to the reasons such as declining the efficiency of the fully depreciated and technically outdated equipment used in the operations over a long period of time, undergoing them for frequent repairs and lack of equipment to cater to the capacity of the vessels arrive at the port at present, the container operations had been hampered. Accordingly, it is emphasized in audit that the above matters may result in declining the operation productivity and tarnishing its reputation.

4.1.3 The following observations are made on the arrival of vessels to the Colombo Port from the year 2012 to the year 2016.

Year	**2016** No. of Vessels	**2015** No. of Vessels	**2014** No. of Vessels	**2013** No. of Vessels	**2012** No. of Vessels
Container Vessels	3,804	3,643	3,239	3,142	3,092
Traditional Ships	40	45	28	38	52
Others	561	509	475	487	726
	4,405	4,197	3,742	3,667	3,870

The details on the container vessels included in the above vessels from the year 2012 up to the year under review are as follows.

Year	2016 No. of Vessels	2015 No. of Vessels	2014 No. of Vessels	2013 No. of Vessels	2012 No. of Vessels
Port Authority	1,460	1,616	1,926	2,084	1,972
S.A.G.T	1,087	1,026	855	1,011	1,120
C.I.C.T	1,257	1,001	458	47	-
	3,804	3,643	3,239	3,142	3,092

According to the above information, arrival of container vessels at the Colombo Port had increased by 4 per cent and 12 per cent in the year 2016 and 2015 respectively as compared with the preceding years. Nevertheless, arrival of container vessels at the Authority had decreased by 10 per cent during the year under review. However, the number of vessels arrived at the S.A.G.T and C.I.C.T had increased by 6 per cent and 26 per cent respectively. Accordingly, an increase in the arrival of container vessels at the Colombo Port could be observed, whereas Port Authority had failed to acquire the majority of the market share of the above increase or to maintain the number of vessels arrived in the preceding year at the same level.

4.1.4 Details on the container handlings of the Colombo Port from the year 2012 up to the year under review are given below.

	2016	%	2015	%	2014	%	2013	%	2012	%
Ports Authority										
Local	483,109		541,152		643,317		676,937		665,291	
Re-export	1,607,792		1,691,267		1,882,057		1,779,882		1,584,985	
Others	9,216		19,904		33,965		45,044		66,573	
Total	2,100,117	37	2,252,323	43	2,559,339	52	2,501,863	58	2,316,849	55
S.A.G.T.										
Local	317,707		327,750		337,354		341,510		354,964	
Re-export	1,294,631		1,028,538		1,298,434		1,385,552		1,479,782	
Others	19,869		14,957		26,152		19,740		35,525	
Total	1,632,207	28	1,371,245	27	1,661,940	34	1,746,802	41	1,870,271	45
C.I.C.T										
Local	499,034		349,069		146,314		13,530		--	
Re-export	1,452,838		1,168,516		519,219		42,683		--	
Others	50,727		44,314		21,103		1,328		--	
Total	2,002,599	35	1,561,899	30	686,636	14	57,541	1	--	
Grand Total (Colombo Port)	5,734,923	100	5,185,467	100	4,907,918	100	4,306,206	100	4,187,120	100

The following observations are made.

As compared with the preceding year, an annual improvement in the container handling and reshipping and repackaging of the Colombo Port was observed. Nevertheless, container handlings of the Port Authority had decreased from 2,252,323 to 2,100,117 or by 7 per cent by the end of the year under review as compared with the preceding year. However, the Colombo International Container Terminal Ltd.(C.I.C.T) had improved its market share by rapidly handling containers. Details appear below.

(i) Through the entire container handling in the year under review, Sri Lanka Port Authority, South Asian Gateway Terminal (S.A.G.T) and Colombo International Container Terminal (C.I.C.T) had acquired 37 per cent, 28 per cent and 35 per cent market contribution respectively. It is peculiar that the Colombo International Container Terminal (C.I.C.T) had acquired this contribution within a short period as three years.

(ii) In evaluating container handling efficiency, when the number of container handled per employee (only the employees in the Operating Division) of the Port Authority amounted to 874, it was 6,378 per employee of the Colombo International Container Terminal (C.I.C.T). It had been 7 times higher than the amount of the Port Authority.

(iii) In considering the Terminal Occupancy Ratio relating to container handling of the Authority, it was 78 per cent, 68 per cent and 63 per cent respectively from the year 2014 to the year 2016. Accordingly, the Terminal Occupancy Ratio of the Authority showed a gradual decrease.

(iv) Repairs of the tracks III M, N & T and IV T of the Jaya Container Terminal scheduled to be completed during the first and second quarters of the year 2016 under an estimate of Rs.140 million according to the Action Plan had not been carried out as expected. As a result, the prime mover trucks used for the container transportation may be damaged and the useful life of the tyres may decline since the routes used for prime mover trucks running were not smooth and it could not be ruled out that the above matter may affect the decrease of the efficiency of the container handling.

4.2 Operating Activities

The following observations are made.

(a) Four tanks of the Authority capable of storing 2500 metric tons of oil had been given to a private institution on an annual lease rent of US$. 150,000 for a period of 5 years. After the expiry of above period of lease, those tanks had been leased out again to the same institution for a period of 3 years on an annual lease rent of US$. 157,500 by adding 5 per cent to the value specified in the previous lease agreement without obtaining a valuation report again and calling for new bids.

(b) As a component of the Hambantota Port Development Project, expenditure amounting to Rs.9,872,233,068 had been incurred for the construction of Hambantota Oil Tank Complex under No. BLA 0902 of the loan agreement and the relevant loan installments and the interest had been paid by the General Treasury. Although this loan value had been recognized as an asset (Bunkering facilities) and a payable loan amount in the financial statements of the Port Authority prepared as at 31 December 2016, action had not been taken to transfer this loan amount to the Authority through a sub-loan agreement entered into between the General Treasury and the Port Authority up to date.

(c) In connection with 27 cranes imported by the Authority in the year 2011 without informing the Sri Lanka Customs, the Customs had initiated a customs investigation in terms of Sections 33,47 and 107 of the Customs Ordinance during the year under review. Accordingly, a mitigated customs penalty of Rs.1,580,000,000 had been imposed for those cranes according to Section 163 of the Customs Ordinance and the Port Authority had made a provision of Rs.1,577,700,452 for this contingent liability in the final financial statements of the year 2016. However, in terms of Section 165 of the Customs Ordinance, the relevant penalty can be revised by an appeal made to the Finance Minister within a period of one month from the receipt of the decision of a customs investigation. Nevertheless, attention of the management had not been drawn to settle it by making appeal to the Minister as yet.

4.3 Transactions of Contentious Nature

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The following observations are made.

(a) For the South Asia Gateway Terminal (S.A.G.T) given on long term lease basis to the S.A.G.T institution, the annual rates amounting to Rs.3,338,000 assessed for the year 2016 had been paid by the Port Authority.

(b) In granting rebates according to the agreements entered into with the shipping Agencies engaged in the re-export and other container handling activities as per the capacity, the Authority had granted rebates amounting to Rs.338,382,368in controversial manner during the year under review contrary to the budget prepared relating to the year 2016 under Section 37(1) of the Sri Lanka Ports Authority Act, No. 51 of 1979.

(c) As an agreement entered into between an associate company of the Authority with a private institution had been terminated subsequently, that private institution had filed a case against the associate company and the Port Authority had made a provision amounting to Rs.75.4 million in the financial statements in respect of the payment of compensation that may be incurred relating to the that case.

4.4 Idle and Underutilized Assets

The following observations are made.

(a) For the construction and development activities of the Hambantota Port, a sum totalling Rs.144,170,407,498 comprising Rs.73,833,638,533 for the first phase and Rs.70,336,768,965 for the second phase had been spent by 31 December 2016 and a foreign loan amounting to Rs.129,848,194,161 had been obtained therefor. As the Port remained underutilized from its inception, it was sustaining continuous losses and the accumulated loss inclusive of foreign currency exchange loss on foreign loan up to the year 2016 had been Rs.46,699 million. Further, since the Magampura Port Management Company had decided to halt the Bunkering oil operations, 9 oil storage tanks and the relevant drainage system valued at Rs.6,987,638,384 constructed from the above capital expenditure had remained underutilized from the year 2015.

(b) The period of lease relating to 10 old oil storage tanks of the Authority with the capacity of 6,400 metric tons had expired in the years 2012/2013 and giving them on rent on daily basis for the usage as well had come to end on 13 October 2015. As necessary steps had not been taken to lease out those oil tanks or rent them on daily basis and thereby earn an income to the Authority, those 10 old oil storage tanks had remained as an idle asset during the year under review.

(c) Twenty two official quarters of the Authority valued at Rs.25,712,000 and 33 official quarters, the value of which had not been identified and not included in the Register of Fixed Assets had remained idle by the end of the year under review.

(d) The Oluvil Navel and Fisheries Port had been constructed by incurring EUR 46.09 million obtained from Nordea Bank in Denmark and Rs.531 million of the Port Authority. As the Port had been constructed with a lower depth as 9 meters, only small vessels can arrive at the Port and due to the reasons such as the erosion taking place at southern coast of the port, accumulation of sand within the breakwater and deposition of sand and silt in the access of the port, it had found difficult to use as a naval port. Under such circumstances, although a period of more than 3 years had elapsed from the opening of this port in the year 2013, any vessel had not arrived at the port even by the end of the year under review. Accordingly, it had not been possible to carry out any operation activity and as such it had become an idle asset.

4.5 Uneconomic Transactions

The following observations are made.

(a) Instead of carrying out additional services essential to the Authority directly, those had been carried out through the associate company and an additional expenditure amounting to Rs.21,047,975 had been incurred thereon as commissions during the year under review.

(b) No income whatsoever had been earned from the date of stoppage of the oil operating activities of the Hambantota Port up to 31 December 2016 and due to decrease in the stock value and as maintenance expenses, loan interests and employees' salaries, expenditure totalling Rs.821,150,819 had been incurred.

4.6 Identified Losses

The following observations are made.

(a) In the acquisition of lands required to the Authority, the payment of compensations to the land owners had been delayed and as such, the Authority had paid a sum of Rs.801,994 as interests.

(b) In the purchase of spare parts required for the repairs of cranes in the year 2016, purchasing had been made without considering the recommendations made by the Engineering Division relating to the calling for quotations and as a result, the Authority had sustained a loss of Rs.4,078,166.

4.7 Delayed Projects

Under the SL-P 85 loan agreement entered into between the Sri Lanka Government and the Japan Bank for International Cooperation (JBIC) on 28 March 2006 with the objective of developing Southern area, it had been agreed to grant Yen 14,495 million to the Sri Lanka Government for the construction of a multi-purpose terminal in the Galle Port. According to the agreement, this project should have been completed by June 2014. However, for the creation of comprehensive design and for the completion of all services up to the pre-construction phase including technical and financial evaluation, a sum of Rs.549,025,990 equivalent to Japan Yen 458.85 million had been paid to a private consultancy company. In addition, a sum of Rs.15,037,267 equivalent to Yen 11,102,120 had been borne as interest as at 31 December 2016. Even though this project had been recognized as an urgent Government project, constructions had not been commenced even by 30 April 2017 as the period of loan had not been extended although the approval of the UNESCO had been received.

4.8 Staff Administration

The following observations are made.

(a) Even though an acute dearth of employees of the divisions directly involved in the operations of the Sri Lanka Port Authority could be observed, instead of fulfilling the above dearth, an excess cadre of 345 employees had been attached to the other services not directly involved in the operations of the Authority.

(b) Due to the shortage of employees in the Operation Division, overtime expenditure of Rs.2,940,958,878 had to be incurred during the year under review and the management had not paid attention to reduce that expenditure and train the excess employees in the divisions on the operations and attach them to those divisions as a remedial measure to the shortage of employees. Further, the post of Chief Human Resources Manager of the Authority had been in vacant from 01 July 2016, whereas action had not been taken to make the relevant recruitment even by the end of the year under review. Hence, the objectives anticipated by the human resources management had not been fulfilled sufficiently.

(c) The recruitment of 463 Work Assistants, 113 Security Guards, 24 Management Assistants (Accounts), 07 Nursing Aid and 06 Trainee Programmers in the years 2015 and 2016 without publishing advertisements had been controversial. Accordingly, no transparency was observed in the recruitment method of the Authority.

4.9 Market Share

In terms of the Alpha Liner Report issued on the world ports operations for the year 2016, having operated 5,734,923 Twenty Equivalent Units, the Colombo Port stood at its 23rd place and as compare with the year 2015, a growth of 10.6 per cent had been achieved. Nevertheless, the container handling of the Sri Lanka Port Authority had decreased by 7 per cent in the year 2016 as compared with the year 2015.
The capacity of container handling of the Colombo Port had rapidly declined from 81 per cent to 37 per cent during the period from the year 2001 to 2016 as compared with the preceding year. However, the S.A.G.T and C.I.C.T companies which are the companies competitively carry out operations in the Colombo Port had achieved a rapid increase from 19 per cent to 28 per cent and 01 per cent to 35 per cent respectively during the above period. Details appear below.

Year	S.L.P.A. Units of Containers	Percentage	S.A.G.T Units of Containers	Percentage	C.I.C.T Units of Containers	Percentage	Total Units of Containers
2001	1,396,946	81	229,670	19			1,726,616
2002	1,206,694	68	558,025	32			1,764,717
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			2,455,300
2006	1,743,669	57	1,335,411	43			3,079,078
2007	1,834,734	54	1,546,497	46			3,381,231
2008	1,747,670	53	1,739,668	47			3,687,338
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
2013	2,501,863	58	1,746,802	41	57,541	1	4,306,206
2014	2,559,339	52	1,661,940	34	686,636	14	4,907,915
2015	2,252,323	44	1,371,245	26	1,561,899	30	5,185,467
2016	2,100,117	37	1,632,207	28	2,002,599	35	5,734,923

Accordingly it was observed that the function of container handling, which is the main operation of a port was gradually leaving from the hands of the Authority and it was gradually grasping by the private institutions.

5. Accountability and Good Governance

5.1 Procurement Plan

The Sri Lanka Port Authority had not prepared a Procurement Plan and a Procurement Time Schedule in terms of Guideline 4.2 of the Government Procurement Guidelines 2006.

5.2 Internal Audit

The Audit Committee should meet at least once in every three month and the Annual Internal Audit Plan, internal control system of the institute and internal audit reports and external audit reports etc. should be reviewed. Although external audit reports had been reviewed in the year 2016, the audit observations included in 166 audit reports prepared by the Internal Audit Division of the Authority had not been reviewed.

5.3 Fulfilment of Environmental and Social Responsibilities

The following observations are made.

(a) The granites and soil removed in the construction of Hambantota Port had been scattered on some locations and potholes had been formed in the Port premises so as to collect water. Further, debris left over by the demolished structures of the lands acquired for the development activities of Port as well could be observed. In this connection, by the Letter No. H.D.S/L.N.D/12/F/1 dated 08 February2017, the Hambantota Divisional Secretariat had informed the Port Authority that with the rainy condition prevailing in the Hambantota area, the above zone had been recognized as Dengue risk increasing zone by the Public Health Inspectors and necessary steps be taken regarding this problematic situation. Nevertheless, the Authority had failed to take necessary steps even by 30 April 2017.

(b) It was observed that the Authority had not taken action to dispose of the tyres and tubes which had remained exposed to rain over a long period of time after the removal from the usage and as a result, there was a risk on spreading the Dengue disease by breading mosquitoes in water collected in such tyres during the heavy rainy seasons. It was observed that 193 tyres and 1200 tubes thus removed from the usage in the year 2016 had been insecurely heaped up at the port premises even by the date of audit.

5.4 Budgetary Control

In comparing budgeted and actual expenditure, significant variances ranging from 47 per cent to 172 per cent were observed in 10 out of 18 Items of expenditure , thus indicating that the Budget had not been made use of as an effective instrument of management control.

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 arrears of control.

Areas of Systems and Controls	Observations
(a) Accounting	Failure to comply with the accounting standards.
(b) Debtors Control	Existence of longstanding unrecovered loan balances.
(c) Staff Administration	Failure to obtain approval for the Scheme of Recruitment.
(d) Stock control	Use of two codes in respect of one stock item.