

Sri Lanka Ports Authority – 2017

The audit of consolidated financial statements of the Sri Lanka Ports Authority and Its Subsidiaries for the year ended 31 December 2017, comprising the financial position as at 31 December 2017 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, in accordance with Sri Lanka Auditing Standards, consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement.

1.5 Subsidiary Companies and Associated Companies

The Sri Lanka Ports Authority belonged two subsidiary companies viz; Jaye Container Terminal Ltd. and Magampura Port Management Services (Pvt) Ltd. and Ports Management and Consultancy Services Ltd. which was an Associated Company. The equity of the two subsidiary companies and the Associated Company had been 100 per cent and 39.97 per cent respectively. As the operations of the Magampura Harbor had been entrusted to two other companies since 09 December 2017, it was observed in audit that the going concern of this company would be uncertain.

2. Financial Statements

2.1 Opinion

2.1.1 Disclaimer of Opinion – Group

Because of the matters described in paragraphs 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.1.2 Disclaimer of Opinion – Authority

Because of the matters described in paragraphs 2.2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Comments on Financial Statements – Group

In the preparation of Consolidated Financial Statements of the Ports Authority, they had been prepared on the basis of draft financial statements of one subsidiary company and the accounts of the other subsidiary company had not been submitted for audit even by May 2018. As such, the audited financial statements of two subsidiary companies had not been in the preparation of Consolidated Financial Statements of the Group.

2.2.2 Comments on the Financial Statements – Authority

2.2.2.1 Accounting Deficiencies

Of the foreign loans received for the construction of Hambantota Port, the balance of Rs.147,746 million existed in the accounts of the Authority as at 30 November 2017, had been omitted from the financial statements of the Authority without the sanction of the General Treasury or a decision of the Cabinet of Ministers and as a result that loan balance had not been reflected in any of the government accounts. However, there was un certainty in what account this loan should be included. In addition due to removal of this loan from accounts, the financial statements of the Authority had been effected as follows.

- (i) The Foreign loan balance had been understated by Rs.147,746 million.
- (ii) As the foreign exchange conversion loss recognized up to 31 December 2016 amounting to Rs.27,458.93 million had been adjusted to the opening retained earning balance in the statement of change in equity of the year 2017 in the conversion of the loan balance in to Sri Lanka rupees, the balance of the retained earnings as at the end of the year under review had been overstated by a similar amount.

- (iii) As the foreign exchange conversion loss of Rs.4,086 million recognized relating to the loan for the period from 01 January 2017 to 30 November 2017 had not been included in the statement of comprehensive income, the net profit of the year under review had been overstated, by that amount.
- (iv) The foreign exchange conversation profit of the loan for the period from 01 December to 31 December 2017 amounted to Rs.339 million but it had not been considered in the preparation of statement of comprehensive income.

2.2.2.2 Unexplained Differences

According to the financial statements of the Authority, the balance receivable from a shipping agent as at 31 December 2017 amounted to Rs.986.08 million, whereas according to the confirmation letter sent by that shipping agent that balance amounted to Rs.728.14 million thus observing a difference of Rs.257.94 million. However, a reconciliation statement had not been prepared being explained the reasons for the difference.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) In terms of the Section 9.1.3 of the Financial Regulations of the Ports Authority, every consideration should be made by the officers directly or indirectly responsible for the recovery of receivable to the Authority in order to make responsibility not to become arrears of debtors. Nevertheless, out of the debtor balances totaling Rs.2,788 million due to the Authority as at 31 December 2017, the total shipping agents debtors balances of the Colombo Port amounting to Rs. 516 million and non-trade debtor balances totalling Rs.63 million had remained unrecovered for more than the period of one year.
- (b) Due to supply of services on credit basis, receivable from government entities and shipping agents by which services had been obtained from Colombo, Galle and Trincomalee ports as at 31 December 2017 totalled Rs.423.14 million and a provision for bad and doubtful debts had been made for the entire amount.
- (c) As the electricity charges incurred by the Authority in respect of electricity consumption and the rentals of premises given to operate welfare and canteen, shown under non trade debtors included in the accounts receivable balances of Colombo and Trincomalee ports had not been recovered properly the value of those balances amounted to Rs.65 million and the provision for bad and doubtful debts for the value of Rs.63.68 million had been made thereof.
- (d) Problematic / disputed debtor balances and the unsettled debtor balance referred for re-scrutinize as at 31 December 2017 amounted to Rs.46.83 million and Rs.14.70 million, respectively. The final conclusion had not been reached in respect of unsettled debtors lapsed for more than one year amounting to Rs.3.18 million and the unsettled debtors (Re-disputed) referred for re-scrutinized amounting to Rs.4.78 million included in those balances, even by the end of the year under review.

- (e) Even though the Board of Directors had granted approved to allow a concession (to write off charges) in respect of warehouse and port handling charges bills amounting to Rs.113.19 million which had not been recovered up to now from a shipping agent lapsed for more than 30 days, the approval of the Treasury had not been obtained. However, a sum of Rs.112.86 million thereof had been written off on 16 May 2018 as bad debts.

2.4 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	Action had not been taken to establish a General Reserve in terms of provisions in the Act even by 31 December 2017.
(b) Finance Act No.38 of 1971	
(i) Section 11 of and paragraph 8.2.2 of Public Enterprises Circular, No. PED/12, dated 02 June 2003.	The concurrence of the Minister of Finance had not been obtained for the investments of Rs.12,674 million made in fixed deposits and short term deposit by the Authority in the year 2017.
(ii) Section 10 (5)	The net Revenue Surplus of a Public Corporation in any year, after the appropriation mentioned in the Act should be credited to the Consolidated Fund. Nevertheless, the net profit of Rs.1,035.73 million and Rs.13,324.14 million had been earned in the years 2016 and 2017 respectively by the Authority but those profits had not been credited to the Consolidated Fund. Furthermore, the above profits had included a sum of Rs.1,993.47 million recovered by the Authority from 2 private companies engaged in operations in 2 Colombo port terminals as commercial lease rental and a sum of Rs.2,489.28 million recovered as the royalty.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 387 and 156	Even though the paying officer should always ensure that the bank balance is adequate to meet all his payments made by cheques in paying salaries by the Authority, a bank overdraft of Rs.484,171 million had existed and as such an overdraft interest of Rs.0.286 million had to be paid.

(d) Public Enterprises Circular No.PED/12 of 02 June 2003.

(i) Section 4.2.3

Even though periodical performance reports of subsidiary companies should be reviewed by the Board of Directors, performance reports of one subsidiary company belonging to the Authority had not been submitted in the year under review.

(ii) Section 5.1.2

Even though Performance Indicators had been introduced relating to the 23 Divisions of the Authority in the year under review, action had not been taken to evaluate the performance ensuring that the actual performance had accomplished as expected based on indicators.

(iii) Sections 9.3.1 (iv)

Even though it was stated that before creation of a new post or increasing the cadre, job evaluation and a study should be precisely carried out, without doing so, recruitments had been made to 6 Divisions of the Authority in the year under review in excess of the approved cadre, as compared with the function.

(iv) Sections 9.3.1 (vi) and (vii)

On the contrary to the Circular instructions, 35 officers had been recruited on acting basis for a period of more than 03 months by the Authority during the year under review.

(e) Sections 2.3 and 3.1 of the Public Enterprises Circular, No. PED1/2015, dated 25 May 2015

(i) On the Contrary to the Circular instructions, 8370 litres of fuel had been given to 86 officers in January of the year under review, who were not entitled for the monthly fuel allowance.

(ii) Contrary to the Circular instructions, monthly fuel limits had been determined for 35 officers of the Authority and according to the audit test check, it was observed that 1459 liters of fuel had been over issued only in the month of January 2017.

(f) Section xiv of the Inland Revenue Act, No. 10 of 2006, and the Public Enterprises Circular, No.PED/03 2016 of 29 April 2016.

Even though 'PAYE' tax should be paid from the salaries of the respective officers by deducting from their salaries, such money had been paid out of the funds of the Authority. Including a sum of Rs.479.94 million so paid in the year 2017, 'PAYE' tax totaling Rs.2,361.62 million had been paid to the Department of Inland Revenue from the assessment year 2011/2012 to December 2017 from the funds of the Authority.

- (g) Section 2 of 'PAYE' tax table 3 of the Inland Revenue Act, No. 10 of 2006, and the letter No.1RD/PAYE/REG/01 dated 07 March 2011 issued by the Department of Inland Revenue. Even though, it was stated that PAYE tax should be deducted from the gratuities paid to the employees of government institutions, without being retained 10 per cent of such tax to be recovered in paying gratuities, the Authority had paid gratuities to employees.
- (h) Inland Revenue Act, No. 10 of 2006, and the letter issued on 07 March 2011 and the circular No.SEC/2015/05 dated 06 July 2015 issued by the Department of Inland Revenue. When bonuses are paid to the employees of the public entities, the PAYE tax should be recovered thereon, but the Authority had paid such taxes from the Authority's funds without being recovered from the employees.
- (i) Treasury Circular No.IAI/2002/02 of 28 November 2002. A separate register of fixed assets had not been maintained by the Authority in respect of computers and computer accessories belonging to the Authority valued at Rs.369.15 million. Similarly the maintenance of that computer register should have been supervised by the Internal Audit Division but that requirement had also not been performed.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the profit of the Group and the Authority for the year ended 31 December 2017 amounted to Rs. 13,384 million, and Rs.13,324 million respectively, as compared with the profit of Rs.583 million and Rs.1,036 million in the group and the Authority respectively for the preceding year. As compared with the preceding year, the financial results of the Group and the Authority had improved by Rs.12,801 million and Rs.12,288 million respectively. Decrease of net foreign exchange adjustment losses by Rs.7,832 million including the foreign exchange conversion loss of Rs.4,086 million written off since the write off of loans obtained for Hambanthota Port as compared with the preceding year, decrease of loan interest expense by Rs.2,219 million, increase of royalty income by Rs.505 million and the increase of interest income on deposits by Rs.575 million had mainly attributed to improve the above financial results.

In the analysis of financial results of the year under review and the preceding 04 years, the Authority had earned profits in other years, except in the year 2015. However, when readjusted the employees remuneration, taxes paid to the Government, and depreciation on non-current assets to the financial result, the contribution of the Authority amounting to Rs.24,052 million in the year 2013 continuously indicated a positive value and it had increased up to Rs. 37,839 million in the year under review.

3.2 Analytical Financial Review

Certain significant accounting ratios for the year under review and the 4 preceding years are given below.

	2017	2016	2015	2014	2013
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(i) Gross Profit Ratio (%)	46	45	35	39	33
(ii) Operating Profit (Loss) on Total Income (%)	36.19	33.34	22.86	27.93	13.00
(iii) Net Profit Ratio (%)	29.00	2.35	(35)	23.73	4.52
(iv) Long Term Loans to Equity Capital	1:0.20	1:2.89	1:2.92	1:2.30	1:2.27
(v) Current (Loss) Ratio	1.22:1	1.27:1	1.52:1	2.16:1	2.51:1
(vi) Liquidity Ratio	1.19:1	1.19:1	1.41:1	2.05:1	2.42:1
(vii) cost per employee Rs.Mn.	1.78	1.66	1.73	1.42	1.38

The following observations are made.

- (a) Due to write off the long term loan obtained for the construction of Hambanthota port from books, the long term loans to equity capital ratio of 1:2.27 existed in the year 2013, had decreased to 1:0.20 in the year 2017.
- (b) Operating profit to total income of 13 per cent in the year 2013 had increased to 36.19 per cent in the year 2017 and the after tax net profit ratio of 4.52 per cent in the year 2013 had increased to 29 per cent in the year 2017. Decrease of foreign exchange conversion loss in the year under review by Rs.7,832 million and decrease of loan interest expense by Rs.2.219 million as compared with the preceding year had mainly attributed to increase the operating profit and Net profit ratios.
- (c) The current ratio and the liquidity ratio in the year 2013 stood at 2.51:1 and 2.42:1 respectively, and it had gradually deteriorated up to 1.22:1 and 1.19:1 by the end of the year under review. Increase of provision for accrued expenditure had been the reason therefor.

4. Operating Review

4.1 Performance

According to the Sri Lanka Ports Authorities Act, No. 51 of 1979, the main objectives of the Authority consist of the provision of efficient and continuous port operations and the provisions of security services, regularization and control of navigation in access roads, improvement and development of ports, co-ordination and formalization of port function. Observations on planning the achievement of such objectives and the performance are given below.

4.1.1 Planning

4.1.1.1 Corporate Plan

The following observations are made.

- (a) A corporate plan had been prepared by the Authority for the period from 2013 to 2020. According to that Corporate Plan, main targets such as to become the centre for supply of excellent oceanic services by the year 2020, 200 million metric tons of cargo handling, earning an income of US\$ one billion, acquisition of investments valued at US\$ 10 billion (between ports), to become a pioneer in contributing to the National economy and to become an eco-friendly green harbor operator had been targeted for achievement. However, how far those targets were reached had not been reviewed annually and the annual action plans, indicating the manner how to reach main targets and not been included in the corporate plan.
- (b) In the preparation of corporate plan strengths as well as weaknesses within the business, opportunities and threats in the business environment to achieve the goals established in the entity had not been evaluated.
- (c) According to the Corporate Plan of the Authority, it was targeted to complete the Construction works of Eastern Container terminal, 1200 meters in length and operate 2.4 million containers annually therefrom. Even though the construction works of 600 meters in length had been completed in the terminal in the year 2016, container operations had not been commenced and as such the expected targets could not be achieved.

4.1.2 Operation and Review

The following observations are made.

4.1.2.1 Progression of the Activities in the action plan

According to the action plan for the year 2017 and the work done reports, main programs, the estimated value of Rs.3,079.1 million and 39 projects (131 total activities) had been identified to be executed. However, according to the work done reports, only 9 projects (34 activities) valued at Rs.1,195 million had been fully completed during the year under review, representing 23 per cent of the total projects. Thirty projects, the estimated cost of which amounted to Rs.1,884.1 million in the year 2017 had not been completed and the following observations are made in that connection.

- (a) Even though it was expected to complete 40 per cent of the construction of port and shipping business centre, the estimated cost of which amounted to Rs.250 million, only 15 per cent had been completed in the year under review.

- (b) Even though it was expected to prepare a plan, incurring an expenditure of Rs.100 million for the development of infrastructure facilities under the Trincomalee Harbor Development Project and to complete by the end of March 2017, only 40 per cent had been completed by the end of the year under review.
- (c) Nine Projects valued at Rs.795 million included in the Action Plan of the year 2017 and to be completed in the years 2015 and 2016 had not been completed even by the end of the year under review.
- (d) It was expected to prepare and complete a land use master plan by June 2017 but it had not been completed even by the end of the year under review.
- (e) A provision of Rs.15 million had been made for the preparation of a National Port Master plan but the activities relating to that plan such as national port policy direction, Hinterland connectivity project, port access elevated highway phase, expected to be completed before the end of the year 2017 had not been completed.

4.1.2.2 Container handling of Colombo port and the Authority

By the end of the year under review, 04 terminals which operated container handling and other operations within the part of Colombo had existed out of which Jaye Container Terminal and the Samagi Container Terminal were fully owned by the Sri Lanka ports Authority. The balance 2 terminals viz; Colombo International Container Terminal (CICT) and the South Asian Gate Terminal (SAGT) had been leased out on “Built operation and Transfer” (BOT) basis for a period of 35 years to two private entities with an ownership of 85 per cent.

Container handling of the Authority and other Terminals in the years 2016 and 2017 are as follows.

	SLPA Units		SAGT Units		CICT Units		Total Units	
	2016	2017	2016	2017	2016	2017	2016	2017
Transshipments	1,607,792	1,609,114	1,294,631	1,406,265	1,452,838	1,726,203	4,355,261	4,741,582
Domestic	483,109	388,282	317,707	375,944	499,034	619,325	1,299,850	1,383,551
Re-stowing	<u>9,216</u>	<u>13,306</u>	<u>19,869</u>	<u>27,626</u>	<u>50,727</u>	<u>43,003</u>	<u>79,812</u>	<u>83,935</u>
Total	<u>2,100,117</u>	<u>2,010,702</u>	<u>1,632,207</u>	<u>1,809,835</u>	<u>2,002,599</u>	<u>2,388,531</u>	<u>5,734,923</u>	<u>6,209,068</u>

The following observations are made in this connection.

- (a) Even though the container handling of the Colombo Harbour in the year under review had improved by 8 per cent as compared with that of the year 2016, container handlings of the Sri Lanka Port Authority had decreased by 04 per cent as a whole. Direction of certain vessels which should have been arrived at the terminals during the year 2017 belonging to the Authority to the two private terminals in terms of terminal service agreements’ entered into with the Shipping Agents by the Sri Lanka Port Authority had mainly attributed to this decrease.

- (b) Currently, the shipping Agents prefer more temptation to use vessels with large capacity in the transportation of and cargo with the objective of getting economic of scale. In addition, as the container shipping companies are integrated and centralized, about 95 per cent of the container capacity volume are controlled by few allied shipping companies within the Asian European trade route. This had caused to create a massive competition in obtaining port services. Under these circumstances the Authority had to prepare a marketing plan, containing appropriate competitive strategies in order to protect and increase its market share but action had not been taken to prepare such a plan even by the end of the year under review.
- (c) Out of the terminals operated for container handling in the port of Colombo at present, the only terminal to which vessels more than 14.25 meters in draft can arrive the Colombo International Container Terminal (C.I.C.T.) and its annual capacity is 2.4 million TEUS. In the year 2017, 294 vessels, exceeding 14.25 meters in draft had arrived at that terminal and more than 2 million container units (TEUS) had been handled. Accordingly, the container handling in that terminal had improved 16 per cent as compared with that of the year 2016. If this improvement exists at the same level in the year 2018 as well, it was observed that the operating capacity there of would be reached to its maximum level. Nevertheless it was observed that there would be a requirement of a terminal which can handle vessels, exceeding 14.25 meters in draft and operating equipment as the maximum draft of terminals belonging to the Sri Lanka Ports Authority and the width and air draft of gantry cranes were 14.25 meters and 18 meters respectively. However, the vessels belonging to Nemo, Clg, Fax, Wax companies which could be arrived at the terminals of the Authority had gone to the SAGT in the year under review but the Authority had not prepared and followed competitive market strategies in order to prevent it.
- (d) According to the requirement of the Loan agreement entered in to with the Asian Development Bank and the Government of Sri Lanka relating to the strengthening of Colombo Port and the Development alternative strategic review provided by the U.R.S. Escort Wilson ltd. in August 2011, it was scheduled to commence the operations of the first stage of eastern container terminal in the year 2015. Even though the final completion certificate had been issued stating that the construction work of the eastern container terminal with the draft of 18 meters and the length of 600 meters costing Rs.11,168 million and with the annual capacity of 1,200,000 container units in April 2016, action had not been taken to commence operation even up to 30 September 2018 by supplying gantry cranes including other equipment required for cargo handling.
- (e) The following observations are made in respect of Jaye Container Terminal and Samagi Container Terminal belongs to the Authority.
- An equipment installation plan of the above terminals had been prepared in the year 2017. According to that plan, the efficiency of the equipment had declined as the existing equipment had been 19 to 31 years old.

Accordingly, the Technical Evaluation Committee had recommended that 8 Gantry Cranes and 6 yard crains to be removed and to purchase 3 large size crains of post panama type during the year 2017. Accordingly, the approval of the Cabinet Ministers had been granted on 18 July 2017 to appoint the Procurement Committee and the Technical Evaluation Committee for the initiation of organization function by purchasing 3 crains valued at US\$ 25 million for harbour civil functions and to purchase container handling equipment valued at US\$ 30 million for the improvement of capacity of the Jaye Container Terminal. Even though the Cabinet approval stated that this task was an expeditious requirement, only the invitation for proposals had been called for by the end of May 2018.

- The approval of the Board of Directors had been granted by its decision No.PAM/148//2017 dated 13 July 2017 for the purchase of 14 new terminal tractors from the capital provision of 2017, in place of 34 existing terminal tractors older than 21 years for the improvement of productivity and efficiency of the Jaye Container terminal. Even though the purchase of new equipment would have been expeditiously effected, due to outdated the old equipment, the Authority had failed to select a suitable supplier and to purchase even up to May 2018.

Due to such reasons that the diminution of efficiency of equipment which had technically become obsolete, as a result of using for operations for a long time as mentioned above, regular repairs and lack of equipment, suitable for the capacity of vessels arrive at the port at present it was a hindrance to the container handling. Accordingly, the risk of declining the efficiency of those terminals cannot be ruled out and it was observed in audit that this might cause to reduce the operating productivity and badly effect the credibility of the Authority. Furthermore, as 2 vessels with the length 330 meters could not be anchored at a time in the Jaye Container Terminal with the length of 600 meters and the depth of 14.25 meters, the Authority had deprived of business opportunities.

4.1.2.3 Analysis of Sailing Vessels

- (a) The number of sailing vessels arrived at all ports from 2013 to 2017 appear below.

Name of port	2017	2016	2015	2014	2013
Colombo	4,329	4,405	4,197	3,742	3,667
Trincomalee	233	216	164	127	134
Galle	87	96	72	60	36
Kankasanthurai	63	25	32	34	48
Hambanthota	230	281	295	335	139
Total	<u>4,942</u>	<u>5,023</u>	<u>4,760</u>	<u>4,298</u>	<u>4,024</u>

According to the above information, a decrease of the arrival of vessels were indicated in the ports of Colombo, Galle and Hambanthota in the year 2017 as compared with that of the year 2016.

- (b) Information on the arrival of containerized sailing vessels from the year 2013 to the year under review appear below.

Year	<u>2017</u> No. of Vessels	<u>2016</u> No. of Vessels	<u>2015</u> No. of Vessels	<u>2014</u> No. of Vessels	<u>2013</u> No. of Vessels
Port Authority	1,352	1,460	1,616	1,926	2,084
S.A.G.T	1,073	1,087	1,026	855	1,011
C.I.C.T	1,258	1,257	1,001	458	47
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Total	<u>3,683</u>	<u>3,804</u>	<u>3,643</u>	<u>3,239</u>	<u>3,142</u>

According to the above information, the arrival of containerized sailing vessels in the year 2016 to the Colombo Harbour had increased by 4 per cent as compared with the year 2015 but it had dropped by 3 per cent in the year 2017 as compared with the year 2016. Similarly the number of container handling vessels arrived at the Port of Colombo had decreased by 7 per cent during the year under review. The number of vessels arrived at the C.I.C.T had not increased considerable as well and decrease of arrival of containers vessels at the Port of Colombo was observed. Carrying container by heavy vessels with more draft due to integration of shipping companies had attributed therefore.

4.1.2.4 Analysis of Container Handling

- (a) Particulars of container handling in all terminals of the Port of Colombo as domestic and re-export from the year 2013 to the year under review are given below.

	<u>2016</u> Units	%	<u>2016</u> Units	%	<u>2015</u> Units	%	<u>2014</u> Units	%	<u>2013</u> Units	%
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Domestic	388,282		483,109		541,152		643,317		676,937	
Re-export	1,609,114		1,607,792		1,691,267		1,882,057		1,779,882	
Others	13,306		9,216		19,904		33,965		45,044	
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Total	<u>2,010,702</u>	32	<u>2,100,117</u>	37	<u>2,252,323</u>	43	<u>2,559,339</u>	52	<u>2,501,863</u>	58

S.A.G.T.

Domestic	375,944		317,707		327,750		337,354		341,510	
Re-export	1,406,265		1,294,631		1,028,538		1,298,434		1,385,552	
Others	27,626		19,869		14,957		26,152		19,740	

Total	<u>1,809,835</u>	29	<u>1,632,207</u>	28	<u>1,371,245</u>	27	<u>1,661,940</u>	34	<u>1,746,802</u>	41

C.I.C.T

Domestic	619,325		499,034		349,069		146,314		13,530	
Re-export	1,726,203		1,452,838		1,168,516		519,219		42,683	
Others	43,003		50,727		44,314		21,103		1,328	

Total	<u>2,388,531</u>	39	<u>2,002,599</u>	35	<u>1,561,899</u>	30	<u>686,636</u>	14	<u>57,541</u>	1
Grand Total	<u>6,209,068</u>	100	<u>5,734,923</u>	100	<u>5,185,467</u>	100	<u>4,907,918</u>	100	<u>4,306,206</u>	100

The following observations are made in this regard.

- (i) Development of container handling, transshipment and repacking in the Port of Colombo in the year under review had indicated as compared with that of the previous year. However, the number of Container handling of the ports Authority had dropped from 2,100,117 to 2,010,702 or 4 per cent by the end of the year under review as compared with the previous year. Nevertheless, the Colombo International Container Terminal Company (C.I.C.T) had improved its mark share by speedy container handling.
- (ii) The Authority South, Asian Gate Terminal (S.A.G.T) and the Colombo International Container Terminal (C.I.C.T) had acquired market contribution of 32 per cent, 29 per cent and 39 per cent respectively in the year under review through overall container handling. The Colombo International Container Terminal Company (C.I.C.T) had acquired the highest contribution during the last 3 years and this is one and only terminal located within the part of Colombo now at which vessels with more than 14.25 meters can arrive had caused thereto.
- (iii) In considering the terminal occupancy ratio in respect of the container handling of the Authority, it had been 68 per cent, 63 per cent and 60 per cent in the years from 2015 to 2017 respectively. Accordingly it was observed that the terminal occupancy ratio of the Authority was gradually decreasing since the year 2015.

(b) Analysis of Containers operated by terminals within the Port Colombo belonging to the Authority.

	2017 units	2016 units	2015 units	2014 units	2013 units
Jaye Container Terminal					
JCT-1	338,434	364,749	405,555	469,831	414,596
JCT-2	361,561	383,759	369,317	415,781	417,388
JCT-3	537,963	617,553	568,259	585,145	607,669
JCT-4	613,447	579,645	580,956	616,228	623,030
JCT-CBN	-	-	-	-	-
JCT-CBS	97,332	22,112	185,204	246,363	237,662
JCT-NFB	-	33,994	28,716	60,251	45,218
Total	1,948,737	2,001,812	2,138,007	2,393,599	2,345,563
Samagi Container Terminal					
UCT -1	2,986	5,449	12,817	27,617	64,687
UCT -2	58,903	92,852	101,494	138,119	91,604
Conventional Quays	76	04	05	04	09
Grand Total	2,010,702	2,100,117	2,252,323	2,559,339	2,501,863

According to the above statistics, it was observed that container operations in the Jaye Container Terminal and the Samagi Container Terminal were continuously decreased since the year 2015.

4.2 Management Activities

The following observations are made.

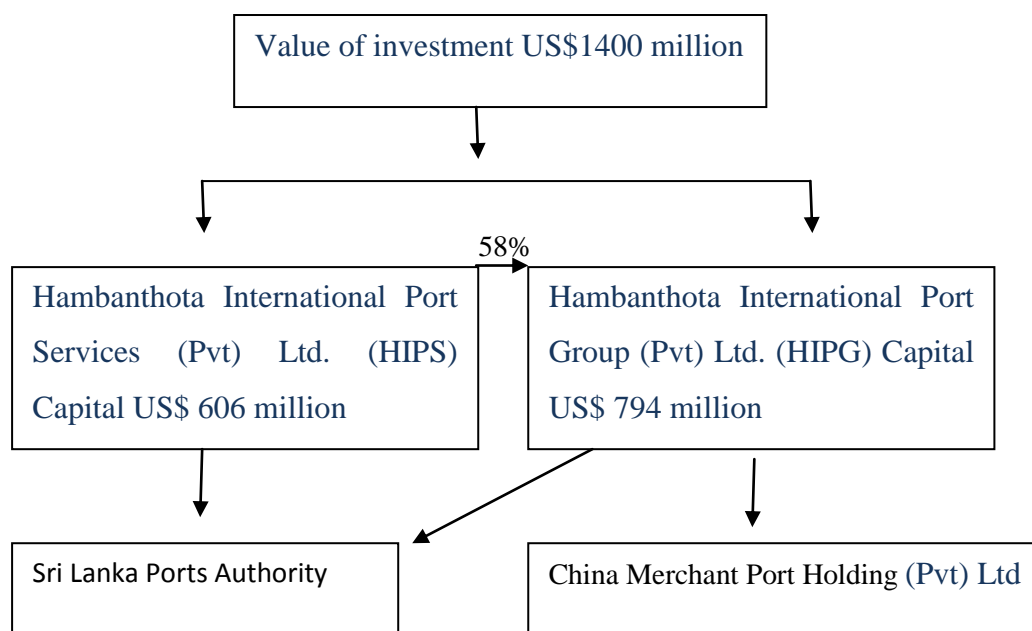
- (a) Construction works of the stage I of the Hambantota Harbour had been completed in the year 2009 and the operations had been started while being constructed the work of stage II. The total expenditure including the foreign loans for the construction of stage I and II, Domestic loans, direct contribution of the Ports Authority and indirect cost by 31 July 2018 amounted to US\$ 1,541 million as detailed below.

	US\$ Millions

- Foreign loans, Domestic loans and Direct Contribution of SLPA	1,302
- Amount further payable for equipment	60
- Land acquisitions, payment of Inland tax, project management unit expenses and other expenses	179

Total	1,541
	=====

Operation activities of the Hambantota Harbour had been carried out by the Magampura Port Management Company during the period from 2009 to 2016 and according to the financial records of the Authority, the operating loss of the port up to 31 December 2017 amounted to Rs.21,904 million. According to a policy decision of the Government, assets owned by the Port had been entrusted to two private companies with the state private partnership by the decision No.අමප/16/2592/752/033 dated 16 December 2016 of the Cabinet of Ministers in the year 2017 for 99 year – period at US\$1400 million. According to the cabinet decision No.අමප/17/1580/737/018 dated 04 August 2017, the above investment comprised as follows.



Total Share Holding in Two Companies	US\$ (million)	Share Holding
-----	-----	-----
		(%)
China Merchant Port Holding (Pvt) Ltd 674.9+298.758 =	973.658	69.55
Sri Lanka Ports Authority 119.1+307.242 =	426.342	30.45
	-----	-----
	1400.000	100.00
	=====	=====

Under the above transaction, US\$ 973.658 million had been paid by the China Merchants Port Holding Ltd. to the Sri Lanka Ports Authority by 3 installments as at 30 June 2018 for the purchase of its shares and that money had been remitted to the Treasury by the Authority. The following matters were observed in this connection.

- (i) The value of investment had not been determined on the value of properties of the Authority assessed by an accredited valuer and the particulars of the computation of the value of investment amounting to US\$ 1400 million were not made available to audit. Evidence to ensure whether the lease rental to be recovered for the period of 99 years in respect of 1103 hectares of vested land had been considered in the determination of the value of investment was not made available to audit.
 - (ii) The operations of the Port had been entrusted to the new companies since 09 December 2017. However, most of the employees of the Magampura Ports Management Company had been terminated being pond compensation. However, a plan had not been prepared to terminate the activities of the Company and 7 officers were still in service.
- (b) Even though an appeal can be made to the Minister of Finance within a month after receiving a decision of a custom investigation in terms of section 165 of the Customs Ordinance to mitigate the custom penalty of Rs.1,580.00 million imposed by the Sri Lanka Customs in respect of import of 27 crane in the year 2011 without making aware of the Sri Lanka Custom, the Authority had not made such an appeal to the Minister of Finance. However, contingent liabilities of Rs.1577.70 million had been made in the account in this connection and a case in the Court of Appeal was being heard.
- (c) Even though the period of leasing agreement signed with private parties by the Authority in respect of 27 plots of land belonging to the Authority had lapsed as at 31 December 2017, action had not been taken to renew the periods of agreements. As a result, lease rent revenue on the updated assessment is not recovered and as such the revenue receivable by the Authority would be under recovered. Therefore, creating a risk of legal problems due to non – availability of a valid agreement could not be ruled out.

- (d) According to a test check carried out in respect of official quarters given to officers by the Authority as at 31 December 2017, they should leave after 5 years period in terms of internal circular No.26/2017 issued on 20 September 2017. However, there were 359 instances that officers had not left the official quarters even after the lapse of 6 years and the officers who applied again but not selected.
- (e) Even though the approval for the Cabinet Memorandum submitted under the No.අමප/16/0087/737/007 dated 26 January 2016 had been granted for the sale of lands, about 13 acres in extent, which was the balance of land after being used from lands required by the Sri Lanka Ports Authority in the construction of Oluwil Harbor, by calling for tenders, action had not been taken to sell them even by the end of the year 2017. However, the chairman informed the audit that the compensators had expressed their willingness to obtain lands instead of indemnity.
- (f) Approval of the Board of Directors had granted in terms of decision No.PA/HD/32 dated 05 January 2016 to establish a contract management unit in the Legal Division with the intention of preventing losses and difficulties confronted by the Ports Authority due to various weaknesses existed in the agreements entered in to by the Authority. However, action had not been taken to establish the relevant contract management unit even up to May 2018.
- (g) Even though the approval had been granted under the Board of Directors decision No.PA/HD/26 dated 17 May 2017 to set up a security training unit under the Mahapola Ports and Maritime Academy of the Authority, action had not been taken to execute the decision even during the year under review.
- (h) The land 1.1372 hectares are in extent situated in D.R.Wijewardana Road, Colombo bearing plan No.CO/COL/2012/1047 and the land, 2 acres in extent, bounded to the Olcott Mawatha and Main street, Colombo 01, bearing plan No.S/MIS/344 had been given for the construction of 'Nelum kuluna' and to construct a building to the Department of Customs but those properties were still shown in the financial statements of the Authority and final agreement had not been reached by both parties in respect of the transfer.
- (i) Since the operations of the Hambanthota Harbour had been acquired by 2 companies, the operations of the Magampura Port Management Services (PVT) Ltd. which was a subsidiary had been terminated by 31 December 2017. However, the loan of US\$ 24 million obtained for the purchase of bunkering oil had not been settled by that company, and sufficient money was not available with the company up to the date of this report. However, the payable loan balance as at 31 December 2017 amounted to Rs.3,151 million and the Authority had been a guarantor of this loan.
- (j) Operations of the development and construction of suriyawewa International Cricket Ground had been carried out by the Ports Authority on behalf of the Sri Lanka Cricket Institute. According to the agreement entered in to with the contractor by the Authority relating to this construction, a total sum of Rs.5,838 million including the interest of Rs.2,881 million had to be paid as at 31 December 2016 by the Ports Authority according to the books of the Authority for the above construction works carried out under the

variation order of the contract for the construction of Hambanthota Harbor. According to a decision of an international arbitration both parties had agreed to pay a total sum of Rs.3,950.8 million on 29 December 2017, comprising a sum of Rs.2,957 million as construction expenses and a sum of Rs.993.8 million as interest as the money had not been paid to the contractor on the due date. Even though the cricket ground had been constructed on behalf of the Sri Lanka Cricket Institute the Sri Lanka Cricket Institute, had not agreed to the construction cost and the interest thereon, as a result of not reaching a formal agreement with that Institute and as such the Treasury had agreed to pay that money.

- (c) Without being properly revised the rebate section of the Tariff prepared for the year 2017 under section 37(1) of the Sri Lanka Ports Authority Act No.51 of 1979, on the contrary to the existing Tariff, rebates totaling Rs.196.266 million had been paid in accordance with the agreements entered into with the shipping agents which engaged in re-export and other container handling by the Ports Authority.
- (d) The Urban Development Authority had destroyed the housing complex situated in lot No.8, Estate 484 and Estate 486 belonged to the Authority and taken over those lands and a flat consisting of 117 houses had been handed over to the Ports Authority instead. However, the handing over the lands belonged to the Ports Authority to the Urban Development Authority and the houses constructed by the UDA had not been legally vested in the Ports Authority.
- (e) Confirmations for the receivable and payable balances totaling Rs.667.31 million were not made available for audit.

4.3 Transactions of Contentious Nature

The following observations are made.

A provision of Rs.75.4 million had been made in the financial statements of the Ports Authority in respect of compensations which would be payable relating to a court case filed by a private entity against an associated company belonging to the Port Authority due to rescission of an agreement entered into with that private entity by the Associated Company.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Ten Bunkering tanks with the capacity of 6,400 metric tons located in the Port of Colombo belonging to the Port Authority had been given to private companies on leasing basis and the relevant leasing period had lapsed in the year 2012/2013. Since them, those tanks had been given for use from time to time on daily basis and those tanks had existed as an under- utilized asset.

- (b) Equipment valued at Rs.6.98 million had been purchased for the new kitchen of the part of Colombo commenced in November 2014. Even though several years had lapsed after operations of the kitchen functions, such equipment had not been used for cooking and being idle.
- (c) Out of the land belonging to the Sri Lanka Ports Authority stated in the register of fixed assets, lands 6.79 hectares in extent, valued at Rs.3,399.11 million had not been used for any purpose even by 31 December 2017.

4.5 Personnel Administration

The following observations are made.

- (a) In addition to the approved cadre of the Authority as at 31 December 2017, 121 employees attached on contract basis through the Ports Management and Consultancy Company Ltd., which was a man power supply Company and 426 persons for 27 posts, exceeding the approval cadre had been employed in service. Furthermore, there was a shortage of 308 employees who directly involved in the operations divisions of the Authority and without filling those vacancies, it was observed that there was an excess of 398 employees in 12 divisions who had not directly involved in operations of the Authority. Similarly, a sum of Rs.533 million had been paid as overtime allowances during the year 2017 for those divisions where excess cadre had existed.
- (b) Even though a scheme of recruitment had been prepared and presented to the Department of Management Services on 19 July 2011 in terms of paragraph 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the approval therefore had not been given even up to 10 August 2018. Similarly the scheme of recruitment did not state the manner how to recruit for the posts in terms of the Circular.
- (c) Apart from a formal methodology, 110 officers for 9 posts had been recruited during the year 2017. The Management of the Authority had informed the audit that those recruitments had been made, based on the applications received by the Minister on the people's day. Accordingly, it was observed that recruitments for the non-executive posts were done without transparency.
- (d) Even though the Administrative Procedure Code in use now had been referred to the Department of Public Enterprises on 12 December 2014 for approval such as approval had not been granted even upto the end of the year under review. As a result, it was observed that its validity would be problematic.

(e) Monthly Salaries and overtime per employee

	2017	2016	2015	2014	2013
	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	Rs.	Rs.
Salaries, Wages and allowance	111,814	103,205	107,345	85,315	84,310
Overtime	33,835	32,574	33,244	29,283	27,297
Total	145,649	135,779	140,589	114,598	111,607
	=====	=====	=====	=====	=====

It was observed that overtime allowance is being increased as compared with the year 2013.

(f) Total cost of personnel

	2017	2016	2015	2014	2013
	-----	-----	-----	-----	-----
Cost of Personnel (Rs.million)	16,389	15,725	16,112	13,196	13,114
Cost of Personnel to total expenditure *	51%	36%	47%	47%	40%

*Foreign exchange profit/loss had been disregarded in the calculation of total expenditure.

It was observed that the cost of personnel, taken as a percentage of total expenditure is being gradually increased as compared with that of the year 2013.

4.6 Market Share

According to the Alpha Liner Report issued in respect of world ports operations for the year 2017, the Colombo Port had detained 23rd place in the world by handling 6,209,068 Twenty Equivalent Units (TEUS), and it had reached to a growth of 8.27 per cent, as compared with the year 2016. Nevertheless, the container handling of the year 2017 of the Sri Lanka Port Authority had decreased by 4 per cent as compared with the year 2016.

The container handling capacity of the Ports Authority within the Colombo Harbor during the period 2001 to 2017 had drastically dropped from 81 per cent to 32 per cent. However, two companies viz; S.A.G.T and the C.I.C.T competitively operated within the Port of Colombo had accomplished a speedy growth from 19 per cent to 29 per cent and 01 per cent to 39 per cent respectively during that period. Particulars are given below.

<u>Year</u>	<u>S.L.P.A.</u>		<u>S.A.G.T</u>		<u>C.I.C.T</u>		<u>Total</u>	
	<u>Units</u>	<u>of Percentage</u>	<u>Units</u>	<u>of Percentage</u>	<u>Units</u>	<u>of Percentage</u>	<u>Units</u>	<u>of</u>
	<u>Containers</u>		<u>Containers</u>		<u>Containers</u>		<u>Containers</u>	
2001	1,396,946	81	229,670	19	-	-	1,626,616	
2002	1,206,694	68	558,025	32	-	-	1,764,719	
2003	1,334,900	68	624,439	32	-	-	1,959,339	
2004	1,320,845	59	899,720	41	-	-	2,220,565	
2005	1,523,794	62	931,526	38	-	-	2,455,320	
2006	1,743,669	57	1,335,411	43	-	-	3,079,080	
2007	1,834,734	54	1,546,497	46	-	-	3,381,231	
2008	1,747,670	53	1,739,668	47	-	-	3,487,338	
2009	1,714,488	49	1,749,809	51	-	-	3,464,297	
2010	2,167,173	52	1,970,268	48	-	-	4,137,441	
2011	2,299,446	54	1,963,441	46	-	-	4,262,887	
2012	2,316,849	55	1,870,271	45	-	-	4,187,120	
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	
2017	2,010,702	32	1,809,835	29	2,388,531	39	6,209,068	

Accordingly, the container handling functions which is the main operation of a port had eluded gradually from the Ports Authority and were being brought under the control of the private sector.

4.7 Uneconomic Transactions

Instead of performing the additional services such as sanitary services, sales of scrap etc. of the Ports Authority directly, those services had got done by Associated Company and as a result, an additional sum of Rs.57.9 million had been incurred as commissions in the year under review.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public entity should act in accordance with the '2030 agenda' of the United Nations on Sustainable Development and the letter No. NP/SP/SDG/17 of 14th August 2017 issued by the Ministry of National Policies and Economic Affairs but the Authority was not aware about how to perform the functions subjected to the scope of the Authority relating to the year under review. As such, Sustainable development goals, targets and how to reach those targets, indicators to measure the targets had not been identified.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

A detailed Procurement Plan with a Procurement Time table had not prepared by the Sri Lanka Port Authority in terms of Guideline 4.2 of the Government Procurement Guidelines, 2006.

6.1.2 Delayed Projects

The following observations are made.

- (a) Under the loan agreement SL-P 85 entered into with the Japanese Bank for International Cooperation (JBIC) and the Government of Sri Lanka on 28 March 2006 for the construction of multi-purpose terminal in the Galle Harbor with the objective of Development of the Southern Province, it was agreed to grant a sum of Rs.14,495 million to Sri Lanka. According to the agreement, the work of this project had to be finished by June 2014. However, a sum of Rs.549.03 million equivalent to Yen 458.85 million had been paid to a private consultancy firm to complete all services up to pre-construction phase relating to the project including the design of detailed plan and the technical and financial evaluation of tender and a sum of Rs.1.81 million equivalent to Japan Yen 1.33 million as the loan interest as at 31 December 2017 had been incurred. Even though this project had been recognized as an accelerated project of the Government, the approval of the UNESCO should have been obtained as the Galle fort was named as a world heritage and it had been taken for more than 3 years. However, the donor had not extended the period of loan and as such it was decided to abandon the project, resulting the consultancy expenditure incurred thereon had become a fruitless expenditure.
- (b) According to the Cabinet Memorandum No.PM&S/2017/43 dated 26 September 2017, it was suggested to hire 3 tugboats for the use of Harbor for 3 years based on such reason that the Authority should use tugs enabling for pulling more than that of the thugs used in the pool, 3 tugs currently used by the Authority had to be handled over back to the company by which operations are carried out at Hambantota Harbor etc. Accordingly, the Cabinet of Ministers had decided at its meeting held on 17 October 2017 to appoint a discussion committee and a project committee appointed by the cabinet and perform the relevant procurement process and to present recommendation thereon to the Cabinet. Even though, it was proposed to obtain those tugs on hire basis under the accelerated procurement process, according to the observations of the Ministry of Finance, procurement functions were being in progress even by 11 May 2018 and the approval was sought from the procurement committee.

6.2 Audit Committees

The following observations are made.

- (a) In terms of paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Audit Committee should meet at least once in 03 months and review the Annual Internal Audit Plan, the system of internal control of the entity, internal audit reports and external audit reports etc. However, the external audit reports had been reviewed in the year 2017, but 40 Internal Audit reports of the Authority out of 42 reports had not been reviewed in that year.
- (b) According to the Management Audit Circular No.DMA/2010(5) dated 26 July 2010, internal audit should be carried out in respect of projects executed under the foreign Aids or local funds, but an internal audit had not been carried out in respect of foreign project implemented under the Ports Authority. Even though this Circular had been issued to ensure that the government resources had been utilized efficiently, effectively and economically, the anticipated objectives were not achieved as an internal audit had not been carried out.

6.3 Fulfillment of Environmental and Social Responsibilities

As the used tires removed from use by the Authority had opened to rain and not been disposed of for a long time and it was observed that there was a risk of expanding dengue being infected mosquitos by congregating rain water inside tyres during the rainy season. It was observed that 153 used tires so discarded in the year 2017 had been improperly stacked in the Port Premises even by the date of Audit.

6.4 Budgetary Control

The following observations are made.

- (a) Even though a sum of Rs.533.43 million for local purchases and Rs.1,150.70 million for foreign purchases of 28 items had been budgeted, only the local purchases valued at Rs.48 million and foreign purchases of 05 items valued at Rs.88.31 million had been made respectively. Similarly, 11 items, the budget value of Rs.231.70 million had been cancelled whereas the purchasing of 5 items valued at Rs.571 million had been at the initial stage. Further, the purchasing process of 04 items, the budgeted value of which amounted to Rs.216 million had not been commenced.
- (b) Even though it was planned to install CCTV camera system by incurring a sum of Rs.60 million though the capital budget of the year 2017 for all gates and bonded ware houses in order to establish the security of Port premises which had been declared as a high security zone, implementation of a container terminal management system for the information Technology Division by incurring a sum of Rs.400 million, formulation of the RFID system by incurring an expenditure of Rs.50 million and to make the audio telecommunication system for all divisions by the engineering division by incurring a sum of Rs.20 million, any of those capital works whatsoever had not been commenced during the year under review.

6. Systems and Controls

Weaknesses 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
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(a) Accounting	(i) Non – compliance with certain Accounting Standards. (ii) Non-accounting of all liabilities being identified.
(b) Debtors Control	(i) Existence of debtor balances unrecovered for a long period. (ii) There was no formal methodology to grant rebates. (iii) Write off of debtor balances not done under a proper approval.
(c) Personnel Management	(i) Scheme of Recruitment had not got approved. (ii) Excessive recruitments. (iii) Payment of overtime allowances to employees in the divisions where excess staff had existed (iv) Non – compliance with certain circulars.
(d) Procurements	Procurements not performed in accordance with the proper time table.
(e) performance	Targets had not been set by indicating functions of the Authority in the action plan and not reaching targets.