**Jaya Container Terminals Limited –** 2018

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**Opinion**

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The audit of financial statements of the Jaya Container Terminals Limited for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the profit and loss statement and statement of comprehensive income, statement of changes in equity and statement of cash flows 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 provisions of the National Audit Act, No.19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

## 1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

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

The following observations are made.

| | Reference to Laws, Rules, Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
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| (a) | Section 40(1) and (3) of the National Audit Act, No.19 of 2018, Circular No. DMA/2009(3) of 01 October 2009 of the Department of Management Audit and the Internal Auditing Standard 1110. A1 for the institutions in public sector of Sri Lanka. | Even though Internal Audit Reports should be presented to the governing body to safeguard the independence of internal audit, the Internal Audit Reports of the Company had been issued to each Divisional Head. | Action will be taken in terms of provisions in Section 40 of the National Audit Act in due course. | Internal Auditor should take action in terms of the provisions referred. |
| (b) | Sub-section 40(4) of the National Audit Act, No.19 of 2018 | Copies of the audit reports submitted by the internal auditor had not been forwarded to the Department of Management Audit. | Action will be taken in terms of Sub-section 40(4) of the National Audit Act in due course. | Internal Auditor should take action in terms of the provisions in the Act. |

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| (c ) | Paragraph 2 of Management Services Circular No.01/2014 of 06 January 2014 | According to Management Services Circular No.30, the Company is an institution which does not decide the staff and the relevant salaries, thus it is an entity which does not receive the Cost of Living allowance. Nevertheless, a sum of Rs.8,847,915 had been paid as Cost of Living allowance during the year 2018. | In response to the letter sent to the Secretary of the Line Ministry on 16 February 2018 to obtain the approval for the decision of the Board of Directors dated 03 May 2018 to grant the Cost of Living allowance, the Secretary of relevant Line Ministry has sent a letter to the Director General of the Department of Management Services on 23 February 2018 seeking the approval in this connection. A written approval has not yet been received from the said Department. | The Management should take action in terms of the circular provisions. |
| (d) | Circular No.PED 12 of 02 June 2003 on Good Governance issued by the Department of Public Enterprises. | | | |
| | (i) Guideline 5.1.1 | Even though every public enterprise should prepare a Corporate Plan, the Company had not prepared such a plan even by 31 December 2018. | The proposals received already as per the Letter of Invitation published in the newspaper will be considered by the Committee to be appointed in due course. Accordingly, the Corporate Plan will be prepared in future. | The Management should take action in terms of the circular provisions. |
| | (ii) Guideline 8.2.2 | Any temporary surplus funds of a public corporation invested on | Action will be taken to obtain relevant approval for new | The Management should take action in terms of the circular |

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| | | short term deposits, Treasury Bills, fixed deposits or any other investments should have the concurrence of the Minister of Finance. Nevertheless, the said concurrence had not been obtained for the investments amounting to Rs.464,447,786 existed as at 31 December 2018. | investments made in future. | provisions. |
| | (ii) Guideline 9.3.1 | A proper scheme of recruitment for the Company had not been prepared and approval of the Board of Directors and Line Ministry and the concurrence of the Department of Public Enterprises had not been obtained. | Agreed. | The Management should take action in terms of the circular provisions. |
| (e) | Letter No.PE/PS/JCTL/2017 of 21 March 2017 issued to the Chairman of the Company by the Director General of Department of Public Enterprises and the Letter No.PE/PS/JCTL/2018 issued to the Secretary of the Line Ministry 24 April 2018. | Even though instructions had been given to credit 10 per cent of the accumulated profit of Rs.330,038,900 as at 31 December 2015 and 30 per cent equivalent to Rs.23,295,457 from the net profit of Rs.77,651,525 of the year 2016 to the Consolidated Fund before 31 July 2017, the relevant amount had not been paid to the General Treasury even as at 31 December 2018. Furthermore, even though the Ministry had been informed to notify the Company to remit relevant dividends to the Department of Public Enterprises through the Sri Lanka Ports Authority, | In response to the letter of the Department of Public Enterprises dated 21 March 2017, the then Acting Chairman has informed on 30 March 2017 that the said amount should be paid by the Ports Authority. Further, 50 per cent of the monthly income of the Jaya Container Terminals Limited is remitted to the Ports Authority and in addition, the dividends are also paid annually to the Parent Company. Even though this matter was discussed | The responsibility of the management is to look into the legality of the letter and take action accordingly. |

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| | it had not been so remitted even by 31 March 2019. | in several meetings of the Board of Directors during the preceding year as well, the opinion of the Board of Directors is that the said amount should be paid by the Sri Lanka Ports Authority. | |

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 91,294,628 as compared with the corresponding profit of Rs.104,736,091 for the preceding year, thus a deterioration of Rs.13,441,463 was observed in the financial result. Increase in the administration expenditure had been the main reason for the said deterioration.

### 2.2 Trend Analysis of Major Income and Expenditure items

| | 2018<br>Rs. | 2017<br>Rs. |
|---|---|---|
| Income | 287,571,286 | 247,033,670 |
| Sales Cost | (143,328,431) | (109,631,277) |
| Gross Profit | 144,242,855 | 137,402,393 |
| Administration Expenditure | (80,938,692) | (61,508,414) |
| Operating Profit | 63,304,163 | 75,893,979 |
| Financial Income | 49,651,749 | 41,601,847 |
| Financial Expenditure | (551,000) | (651,369) |
| Other Operating Income | 211,748 | 220,351 |
| Net Profit Before Tax | 112,616,660 | 117,064,808 |
| Income Tax | (21,322,032) | (12,328,717) |
| Net Profit After Tax | 91,294,628 | 104,736,091 |

The following observations are made.

(i) Income of the year under review had increased by Rs.40,537,616 or 16 per cent as compared with the preceding year.

(ii) The sales cost and administration expenditure had increased by 31 per cent while financial expenditure had decreased by 15 per cent in the year under review as compared with the year 2017.

## 2.3 Ratio Analysis

| | | 2018 | 2017 |
|---|---|---|---|
| (i) | Current Assets Ratio | 19:1 | 23:1 |
| (ii) | Quick Assets Ratio | 18.9:1 | 23:1 |
| (iii) | Gross Profit Ratio | 50% | 56% |

The following observations are made.

- The current assets ratio and quick assets ratio of the year 2017 had been 23:1 and 23:1 respectively while it had dropped to 19:1 and 18.9:1 respectively by the end of the year under review.

- The gross profit ratio of the year 2017 stood at 56 per cent while it had dropped to 50 per cent by the year under review. The main reason therefor had been the increase in sales cost.

## 3. Operating Review

### 3.1 Management Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
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| A sum of Rs.5,779,760 receivable over 04 years to the Company from the Sri Lanka Ports Authority for designing a building plan, had not been settled even by 31 December 2018. Further, the said amount had not been shown as a balance payable in the financial statements of the Sri Lanka Ports Authority for the year 2018 while it was observed in audit that the recovery of that amount was doubtful. However, provision for impairment had not been made by the Company. | The Managing Director of the Sri Lanka Ports Authority had informed on 19 November 2018 that the said amount will not be paid. As such, this expenditure will be written off as bad debts in due course with the approval of the Board of Directors and the Ministry of Finance. | The Management should take action to discuss with the Ports Authority and take a final decision in this connection. |

### 3.2 Operating Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
| --- | --- | --- |
| As modern technical equipment were not used to quantify oil in 13 fuel tanks, 3323 metric tons of oil had been confiscated by the Sri Lanka Customs in 5 instances from the year 2014 to 2018. It was observed that storing charges are not been recovered for the said stocks of oil until those stocks are confiscated by the Sri Lanka Customs once a year and resale. | At present, our institution distributes oil by the Dip Measurement (Manual) Method. However, stocks are not accurately computed by the said method. As such, steps are being taken to install the Mass Flow Meters to take accurate measurements.<br>The stocks of oil collected are being computed and confiscated by the Sri Lanka Customs and as such, our institution does not intervene in this matter. | The management is responsible for using modern technology to measure oil. |