

1. Financial Statement

1.1.1 Disclaimer of Opinion

The audit of the financial statements of the Sri Lanka Ports Authority (“Authority”) and the Consolidated Financial Statements of the Authority and its Subsidiary (“Group”) for the year ended 31 December 2020 comprising the Statement of Financial Status as at 31 December 2020, Comprehensive Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies, 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities 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 disclaimer of opinion.

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

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 Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Sub-Section 16(1) of the National Audit Act No.19 of 2018, the Financial Statement 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 Authority.

1.3 Auditor’s responsibility for financial statements

My responsibility is to conduct an audit of the Authority’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

1.5 Audit observations regarding the preparation of financial statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to the relevant standard	Management Comment	Recommendation
<p>(a) According to paragraphs 19 (b), 22, 23, 28, and 29 of Sri Lanka Accounting Standard No. 8, when changing an accounting policy voluntarily, the change should be made in such a way as to affect the past. In evaluating the investments of the International Ports Group of Company (unlisted) by the Authority, although the investment cost in 2019 was considered to be Rs.26,460 million as a fair value, in 2020, the investment was valued at Rs. 31,789 million based on net asset value per share as a fair value instead of investment cost.</p> <p>Since the accounting policy, which includes the asset valuation basis has not changed an affecting to the past, Rs. 5,328 million had been fully included in other comprehensive income for the year as profit. However, it was observed that only Rs. 415 million would have been included in the other comprehensive income for the year if the standard had been adjusted as affected in the past, and that the Rs.4,306 million out of the remaining Rs. 4,912</p>	<p>Not agreed.</p> <p>The same accounting policy was used in 2019 and 2020 and only a change was made in 2020 in the methodology used to obtain fair value according to Sri Lanka accounting standards. Therefore, Since there is no need to adjust retrospectively, an overstated of Rs. 4,912,369,926 has not been taken place in the year 2020. The valuation of financial assets at the dollar purchase price will be done in the accounts from the year 2021.</p> <p>At the time of preparation of our accounts, the accounts of Hambantota International Ports Group of Company (HIPG) for the year 2020 had not been received.</p>	<p>Voluntary change of accounting policy in accordance with Sri Lanka Accounting Standard No. 8 should be made retrospectively in such a manner as to affect the past.</p>

million should be adjusted to the other comprehensive income of the previous year.

Furthermore, in converting the foreign exchange value of this investment made in US Dollars into Sri Lankan Rupees, as per paragraph 23 (a) of Sri Lanka Accounting Standards No. 21, instead of the US dollar purchase price or average value as at 31 December 2020, due to using the US dollar selling price prevailing that day, the value of financial assets and other comprehensive income had overstated by Rs. 605 million during the year under review. Accordingly, the total comprehensive income for the year in relation to this transaction had been overstated by Rs. 4,911 million. Furthermore, the financial statements for the year 2019 were used in calculating the value of the financial assets to evaluate the investment of the above company as at 31 December 2020.

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| (b) | Although, according to paragraph 51 of Sri Lanka Accounting Standard 16, useful lifetime and the residual value of fixed assets should be reviewed annually and a variation if any, should be adjusted in accordance with Sri Lanka Accounting Standard 8, assets of Galle Port belonging to 11 categories with a carrying value of Rs.4,515 million as at 31 December 2020 had not been reviewed. | There was some delay here due to the Covid pandemic prevailed in the country. In the future, these activities will be carried out in accordance with Accounting Standard No. 16. | Action Should be taken regarding assets in accordance with Sri Lanka Accounting Standards No. 16. |
| (c) | In terms of Section 55 of the Accounting Standard No. 16 of Sri Lanka, depreciation of property, plant and equipment shall be carried out from the time it becomes suitable for operational purposes. However, the value of the two Launch vessels | This is a foreign purchase. The purchasing process is not been yet completed and the supplier has not yet issued an invoice. | Action Should be done in accordance with Sri Lanka Accounting Standard No. 16 as the control and liability related to assets have been received to the |

of Rs.468.41 million received on 23 December 2019 and used for operational purposes by the Authority had not been capitalized and depreciated accordingly, and the above amount had been stated as an advance for foreign purchases under the current assets as at 31 December 2020 in the Financial Position Statement. Accordingly, the property, plant and equipment were understated.

Authority.

Furthermore, it was observed that in the balance of the advance purchase account for foreign purchases amounting to Rs.1,546.89 million, assets already received but not capitalized and expenses are maintained in the long run as unidentified advances.

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| <p>(d) Due to based on the selling price instead of the US Dollar purchase price on the Conversion Day, conversion of US \$ 244.5 million worth of fixed deposits held by the Authority as at 31 December 2020 into Sri Lankan Rupees for presentation in the Financial Position Statement, contrary to Section 23 (a) of Sri Lanka Accounting Standard No. 21, the fixed deposit value and Foreign Exchange profit had been overstated by Rs. 1,237.5 million.</p> | <p>Agreed.
Conversion of fixed deposit value will be made based on the purchase price in the future.</p> | <p>Regarding foreign exchange conversion, action Should be taken in accordance with Sri Lanka Accounting Standard No. 21.</p> |
| <p>(e) In accordance with Sections 18, 19 and 21 of Sri Lanka Accounting Standards No. 24, in relation to the transactions made with the related parties in respect of the financial year on their nature, balances, and impact on financial statements, the information that users can understand should be disclosed under the related party transactions. However, information related to transactions with related parties, for</p> | <p>Account Note No. 63 includes disclosures related to transactions made during the year with the related parties involved.</p> | <p>In accordance with the standard, action Should be taken to disclose the details of all transactions with the related parties involved in the financial statements.</p> |

the transfer of assets of the Hambantota Port on a long-term lease basis by the Authority, about Rs. 164,339 million of differed tax received from Hambantota International Port Services (HIPS) Company and Hambantota International Ports Group (HIPG) of Company and the annual differed tax income related to the above balances is Rs. 1,713 million which had been credited to the income statement and mobilization advance of Rs.42.14 million to build a new oil tank from Jaya Container Terminal Company in 2020 had not been disclosed in the notes of financial statements.

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| (f) | Although a brief description of the nature of the liabilities applicable to each provision in accordance with paragraph 85 of Sri Lanka Accounting Standards No. 37 should be disclosed for the periods and uncertainties to be paid, the Authority had not acted as above in respect of the provision of Rs. 7,822 million as at 31 December 2020. | Agreed.
Action will be taken to correct as at 31.12.2021. | According to the standard, a brief description of the nature of the liabilities applicable to each provision, and the periods to be paid and the uncertainties should be disclosed. |
| (g) | Magampura Port Management Services (Pvt) Ltd, a subsidiary of the Authority, which had ceased operations since November 2017, had obtained a loan of USD 24 million. From a private bank in 2014 out of it, USD 22.3 million had not been settled as at the date of the report and it was observed that the company did not have sufficient assets to settle the debt. However, the bank had filed two cases in the Colombo District Court in 2020 against the subsidiary and the Authority to recover the loan. However, the Sri Lanka Port Authority, as the guarantor of the loan and the parent company, had | In connection with the case filed by the Hatton National Bank in this regard, the filing on behalf of the Authority's case was done by the Attorney General's Department and according to the facts, no contingent liability was made for this since the case is in favour to the Ports Authority. | Since the potential financial risk cannot be ruled out, Provision should be made in accordance with Sri Lanka Accounting Standards. |

not made any contingent liability for this and had not disclosed the case even on a Note in the financial statements.

1.5.2 Accounting Policies

Audit Observation

In accordance with Notes No. 2.2.2 for Financial Statements, it was stated that the investments of the associate companies are valued based on equity method. According to the above policy, Hambantota International Port Services Company (HIPS), an associate of the Authority, out of the losses for the year 2020 loss amounted to Rs.433.97 million related to the share of the Authority had been calculated based on the company's 2020 draft financial statements.

Management Comment

Agreed.
At the time of preparation of final accounts, we have not received the audited accounts of Hambantota International Port Services Company (HIPS).

Recommendation

The relevant calculation should be done based on the audited financial statements.

1.5.3 Accounting Deficiencies

Audit Observation

- (a) According to the findings of the Asset Review Committee as at 31 December 2020, the carrying value of Rs. 171.12 million as at 31 December 2020 and an uncertainty was observed due to the inability to physically identify the operating buildings and constructions.
- (b) Although, for the renovation work at Galle Face ground, the Authority had spent Rs. 7.61 million in 2018 and it was stated in the financial statements of the Authority as receivables from the associate company named Sri Lanka Ports Management and Consulting Company, and it was not

Management Comment

Agreed.
Action will be taken to update the fixed asset register based on the decisions received from the Asset Review Committee.

Not agreed.
Discussions were held continuously to obtain this amount. The Company deals with many financial transactions with the Authority during a year and there is no need to make a provision for

Recommendation

Determining physically unidentifiable assets, action should be taken to remove the carrying value of those assets from the accounts.

Action should be taken to recover receivable balances or provisions should be made for impairment.

specify the amount to be paid to the Authority in the financial statements of the company concerned and also the company had informed the Authority in writing that the above amount could not be paid. Due to this, the receipt of the above amount was uncertain but no provision for impairment was made for it in the financial statements.

impairment since this amount can be recovered.

- (c) Although Rs. 41.8 million had been given to the Addalachchenai Divisional Secretary in 2019, for the payment of compensation to those who lost their lands due to land acquisition for the Oluvil Port project, a report for the relevant expenditure had not been submitted to the Authority even up to 30 April 2021. However, it was not decided until the date of this report that the operations at the Oluvil Port would be carried out under the Authority. As a result, it was that the capitalization of the above amount, which was being carried forward in the balance of the land clearance account observed in the financial statements was uncertain.
- Addalachchenai Divisional Secretary has been paid to pay for the lands acquired for the Oluvil Port project. Since a report on the compensation has not yet been submitted to the Ports Authority, it was informed to the relevant Divisional Secretariat has been instructed to submit the relevant report.
- Action will be taken to capitalize the relevant assets after receiving the required information to capitalize the amount of Rs.41,852,082 which is existing in the land clearance account.
- A report for the payment of compensation should be obtained and the value included in the land clearance account should be properly accounted.
- (d) Out of the amount of advance charged at the end of the relevant journey by the Authority in respect of renting out buses on a welfare basis to the staff as on 31 December 2020, the unrecognized amount of settled income was Rs. 25.83 million. As a result, the net profit of the Authority was understated by that amount.
- Action will be taken to transfer the relevant money to the income account.
- Action should be taken to identify the advances received as income of the Authority since the relevant service has been completed.

1.5.4 Writing off from Accounts without obtaining concurrence.

Audit Observation	Management Comment	Recommendation
<p>Out of the foreign loans obtained for the construction of the Port of Hambantota the loan and interest balance of Rs. 147,746 million remained in the accounts of the Authority as at 30 November 2017 had been written off by the Authority from Financial Statements without obtaining the concurrence from the General Treasury or the approval of the Cabinet of Ministers and therefore that loan had not been included in any account of the Government since that day. However, according to the Cabinet approval given on 04 August 2017 to the cabinet memorandum titled “Hambantota Port Concession Agreement” No. MPS / SEC / 2017/32 of 20 July 2017, it was stated that the General Treasury will take the responsibility of repaying the above loans and interest. Accordingly, the External Resources Department of the General Treasury had paid the loan installments and interest from the year 2017 and according to the documents, the outstanding balance of the loan as at 31 December 2020 had been Rs.169,566 million, Further, the accumulated foreign exchange conversion loss of Rs. 31,545 million calculated up to the period 30 November 2017, in relation to the aforesaid loan had also been written off with the removal of debt from the accounts of the Authority. The accumulated foreign exchange conversion loss of Rs. 65,618 million as at 31 December 2020 including the accumulated foreign exchange loss</p>	<p>Agreed. Agreed with the given financial values. The loan removed from the books of the Authority after the loan amount has been paid to the General Treasury. The loan amount recorded in the books of the Authority was Rs. 147,746,246,365.57 and Rs. 149,943,332,000.00 has been paid to the Treasury.</p>	<p>Relevant matters should be discussed with the General Treasury and a final agreement should be reached.</p>

of Rs. 34,072 million for the period from 30 November 2017 to 31 December 2020 had not been entered in the accounts of the General Treasury or Authority.

1.5.5 Un-reconciled control accounts or records

Audit Observation	Management Comment	Recommendation
According to the financial statements, the stock account balance was Rs. 2,703.55 million but according to the corresponding reports, the value was Rs. 2,772.55 million, and a difference of Rs.69.00 million was observed.	The difference between the balance in the stock account and the balance in the ledger card is due to a fault in the computer system and it is a difference between the finance division and the supply division documents. It is being corrected by the DMS.	Reconciliation statement should be prepared to identify the difference between the values of the same stock between the two sections.

1.5.6 Preparation of consolidated financial statements

Audit Observation	Management Comment	Recommendation
Rs.12.43 million worth of stocks, carrying value of Rs. 0.62 million fixed of assets and Rs. 0.17 million of cash in hand which were shown under assets in the Consolidated Financial Position Statement and included in the assets of Magampura Port Management Company were not physically available. Provisions for these losses of Rs. 13.22 million had not been made in the financial statements. Furthermore, according to the financial position statement as at 31 December 2019, source documents, balance confirmation letters, age analysis reports and supporting documents were not submitted for the audit in relation to the company's receivable balance of Rs. 17.78 million due from the government, Rs. 28.04 million balance	Not agreed. Provisions are not required since the Company has not made a written notice of liquidation. Since it is not in the possession of the Sri Lanka Ports Authority the source documents of the Magampura Port Management (Pvt) Ltd (MPMC) balance confirmation letters, age analysis, supporting documents for audit and should inquire from the management of the company.	As the parent company in which the subsidiary owns 100 percent of the shares and the assets and liabilities of the subsidiary companies in the consolidated financial statements, this should be taken into consideration.

receivables for shipping oil insurance, Rs. 3.58 million balance from trade debtors and other payable by the Company amounted to Rs. 15.59 million as at that day.

1.5.7 Unsettled Receivables

Audit observation	Management Comment	Recommendation
<p>The loan received from the General Treasury for the Hambantota Port Construction Project in the year 2017 was Rs. 4,777 million and stamp duty Rs. 372 million included Rs. 5,156 million was stated in the financial statements to be received from the General Treasury as at 31 December 2020, it was not received by the Authority up to 31 July 2021. Furthermore, it was observed that although the balance confirmation had been sent by the Authority in this regard, the General Treasury had not confirmed the confirmations and this balance had not been included in the payable balance of the Republican Financial Statements for the year 2020. Due to this, there was an uncertainty about the receipt of this amount.</p>	<p>Agreed. Letters dated 30.08.2017, 28.12.2017, 19.11.2018, 12.02.2019, 10.04.2019; 03.07.2019 and 15.11.2019 have been sent to the Secretary of Treasury informing him to pay this amount by the Secretary of Ministry and Letters dated 07.01.2020, 14.05.2020 and 24.03.2021 have also been sent to the Director General of the Department of Public Enterprises.</p>	<p>Receivables should be settled.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit observation	Management Comment	Recommendation
<p>(a) As at 31 December 2020, the total shipping agent debt balance exceeding the loan period of the Authority was Rs. 1,405.21 million. It was 50 percent of the total shipping agent debt balance.</p>	<p>Agreed.</p>	<p>Action should be taken to recover the debtor balances within the approved loan period.</p>
<p>(b) As at 31 December 2020, the Rs. 122.85 million of disputed debtors and Rs. 29.42 million of re-disputed</p>	<p>Agreed.</p>	<p>Existing problems should be resolved and action should be taken</p>

debtors were existed. Out of the above balances, the unresolved balances during the periods of six months, one year and 1 to 3 years were Rs. 84.04 million and Rs. 21.44 million and Rs. 17.29 million respectively.

	Dispute account balance	Re Dispute Account Balance
Balance as at 31.12.2020	122,856,461	29,418,229
Balance as at 18.05.2021	61,023,341	5,189,531

to recover receivables as soon as possible.

Action will be taken to settle the disputed bills related to the unresolved balances in the Dispute Account and Re Dispute Account up to now.

1.6.2 Advance

Audit observation

After settling the actual expenses out of the advances paid by the shipping agents to obtain port service facilities the remaining balance as at 31 December 2020 was Rs. 786.97 million. Although Rs. 111.75 million remained for more than six months after obtaining the service and action had not been taken to settle the matter. Furthermore, amounts paid by agents more than the invoice value for obtaining port services shown in the financial statements as the shipping agent credit balance and the balance as at 31 December 2020 was Rs. 496.78 million, of which Rs. 110.75 million had not been settled even after more than six months after obtaining the service.

Management Comment

Not agreed.
The balances are correct. In cases where there is an excess of the amount paid by the shipping agents, those are not been refunded in cash. But only when the accounts are closed, a refund is made in cash. In addition, even discounts offered to shipping agents are credited to the relevant account. Therefore, there is no need to settle the advance and it can be used for a future payment.

Recommendation

Action should be taken to settle past balances taking into consideration the detailed schedules and age analysis of the advances and overpayments remaining after the providing the relevant service from the advances paid to the Authority for obtaining the services.

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

References to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 11 of the Finance Act No. 38 of 1971 and Section 8.2.2 of the Public Enterprise Circular No. PED / 12 of	The consent of the Minister of Finance had not been obtained by the Authority for the Rs.48,456 million	Not agreed. The consent of the Minister of Finance has been sought for investments made in	Relevant approval should be obtained for deposit investments in accordance with the

02 June 2003

invested in Fixed and Short Term Deposits made before 31 December 2019. short term deposits as per Enterprises Circular PED / 12. The consent of the Minister of Finance has been obtained for the amount of deposit made in the year 2020. provisions of the Finance Act and Circulars.

- (b) Section 10 (5) of the Finance Act No. 38 of 1971
- If there is a surplus in a public corporation for a certain year, the balance should be credited to the Consolidated Fund after deducting the provisions mentioned in the Act. However, out of the total net profit of Rs. 48,991 million received by the Authority from 2016 to 2020, only Rs. 600 million had been credited to the Consolidated Fund. Furthermore, in the above profits included Rs. 10,615 million, the total lease levied by the Authority from 2016 to 2020 and Rs.15,164 million, the total levied as State fraction for that period from the two companies engaged in operations, the South Asia Gateway Terminal (SAGT) and Colombo International Container Terminal (CICT) given on a long term basis to private sector. It was
- Not agreed. According to the Sri Lanka Ports Authority Act, dividends should be paid up to a maximum of 8 percent of the equity capital spent by the government at the establishment of the Sri Lanka Ports Authority. However, the Department of Public Enterprises has informed the Sri Lanka Ports Authority in a letter dated 24.04.2018 that it has been exempted from paying dividends. The relevant release has been made since the loans obtained by the Sri Lanka Ports Authority for port projects of national importance are being settled by the Sri Lanka Ports Authority itself. It was shown the annual lease and State fraction received from South
- Excess should be dealt with in accordance with the provisions of the Finance Act.

further observed that these revenue were not directly part authority operating revenue. Asia Entrance Terminal and Colombo International Container Terminal are not under direct operating income but other operating income.

(c) Government Business Circular No. PED / 12 dated 02 June 2003.

(i) (ii)Section 4.2.2 and 5.1.2 Although key performance indicators are to be introduced to assess the performance of each division of the Authority and the performance of each division was to be evaluated, the Authority did not meet that requirement during the year under review. Action will be taken in the future to prepare performance indicators for all divisions that can be prepared. Action should be taken to identify key performance indicators and evaluate performance.

(ii) Section 9.3.1 and Letter Issued by the Department of Management Services No. DMS / F1 / 3 / 3-1 dated 23 January 2013. Although the recruitment procedure had to be prepared and the approval of the Department of Public Enterprises should be obtained, the Authority had prepared the draft recruitment and promotion procedures but had not obtained the approval of the Department of Management Services. After identifying the problems that may arise in preparing the recruitment procedure in accordance with the guidelines introduced by the Department of Management Services, discussions were held with the officers of the Department of Management Services and the officers of the Ministry of Ports and Shipping. It was pointed out that the Action should be taken to prepare a recruitment procedure in accordance with the circular provisions and obtain formal approvals.

Ports Authority does not fall under the purview of the institutions that are required to apply the salary scheme of Management Services Circular 2/2016.

Also, the Department of Management Services stated that the Department of Public Enterprises is preparing guidelines regarding institutions that make pay increases every three years under collective agreements.

However, an officer from the Management Services Department will be allowed to further study the possibility of formulating recruitment procedures, and it is further advised to try to formulate recruitment procedures in consultation with them. Action will be taken accordingly in the future.

- (iii) Letter issued by the Ministry of Ports and Shipping and Southern Development No. MPS/AD/06/83-2017 dated 12 February 2019. Although the Ports Authority had been advised not to make all recruitments and promotions until the scheme of These promotions have been granted in the year 2020 in accordance with the recruitment procedure approved Recruitment and promotion should not be done without the approval of the Department of Management

- recruitment and promotion was approved, the Authority had granted 22 promotions in the year 2020 alone without obtaining the approval of the Department of Management Services. by the Board of Directors on the difficulty of performing essential duties without filling the vacancies.
- (d) Sections I and II of Paragraph 6 of the Internal Circular No. 2017/26 of the Sri Lanka Ports Authority dated 20 September 2017. The period of stay allowed in the official quarters provided to the officers of the Authority is limited to a maximum of 5 years from the date of the first provision of housing and upon completion of that period, it is possible to stay for another year with the approval of the Housing Committee, charging 12.5 percent of the monthly basic salary of the officer. However, at the sample inspection of the official quarters provided to the officers as at 31 December 2020, revealed that the number of officers who had not leave the relevant official quarters during the period from 6 to 27 years was 456. Provisions of Circular No. 2017/26 and 20.09.2017 regarding official quarters could not be implemented. However, according to the new circulars regarding official quarters No. 02/2021 and dated 30.01.2021, the rental of houses has been increased and a condition has been included that those who are residing for more than 05 years should be vacate. Arrangements have been made to double the rental of houses for all employees (excluding divisional heads and above) who have been residing for more than 5 years. A formal and fair procedure should be followed with regard to the provision of official quarters to employees.
- (e) Section 2-12 of Internal Circular of the Sri Lanka Ports Authority 2020 Advances received by all Heads of Divisional and Agreed with the advance accounts balance. The advance payment should be settled within a short

<p>No. FD/FC / Co / 41/2020 dated 27 November 2020.</p>	<p>Sections should be settled before 31 December, but Rs.143.44 million had not been settled in 143 instances as at 31 December 2020. Of those, Rs.50.41 million for a period of 6-12 months, Rs. 71.44 million for 1-2 years and Rs. 0.48 million for a period of 2-5 years remained unsettled. The reasons for not settling the advances for a long period not revealed in audit.</p>	<p>However, the time after receiving advance account the goods and number 00-000-142341 is maintained by the Finance Division but the division which submits the relevant voucher has to settle the relevant vouchers. Therefore, the Divisions and Sections that have not settled the advance to be informed and action will be taken to settle these accounts expeditiously.</p>
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1.8 Non-compliance with Tax Requirements

Audit Observation

Rs.45.51 million, which was 20% of the agreed contract value had been received to the Sri Lanka Port Authority from the Jaya Container Terminal Ltd to pay for Contractor for the construction of a new fuel tank with a storage capacity of 3200 MT and for the installation of a fire extinguisher covering 10 tanks during the year under review and the Authority had paid that amount to the Contractor. Rs.3.37million Value Added Tax (VAT), the amount included in the above amount and the company taken action to obtain the input tax from the Inland Revenue Department in October 2020 as input tax on the basis of a tax invoice issued under the letterheads of the Sri Lanka Ports Authority without obtaining a tax invoice issued by the Contractor. Similarly, the Sri Lanka Ports Authority had deducted the above amount as input tax in the calculation of VAT payable in October and November 2020 based on the VAT invoice issued by the contractor. Accordingly, it was observed during the

Management Comment

Agreed.
Corrected during the year 2021.

Recommendation

Only one institution should obtain Value Added Tax value as an input tax.

audit that the above mentioned VAT of Rs. 3.37 million has been deducted twice as an input tax by both the institutions.

1.9 Information Technology (IT) General Control Systems

Audit Observation	Management Comment	Recommendation
<p>In order to ensure the security of the port premises designated as a High Security Zone by the capital budgets for 2017 and 2018, it was planned to install a CCTV camera system at a cost of Rs. 60 million and Rs. 150 million for all gates and bonded warehouses respectively. Rs. 150 million had been allocated in the year 2019 too and a letter from the Managing Director of the Authority No. PA / MD / 46 dated on 09 March 2021 stated that a CCTV camera system would be installed but this work had not commenced as expected even as at 17 June 2021. Due to this, the risk of not being able to obtain the required information in the event of a security issue of the Ports Authority, which is a high security zone, cannot be ruled out.</p>	<p>After the cancellation of the procurement process for the purchase of CCTV camera system by the letter No. MPS / ADM/07/02/07 dated 01.03.2019 from the Secretary to the Ministry of Ports and Shipping the procurement process was newly commenced in the middle of the year 2019 to carry out the relevant procurement activities with expert knowledge as per the recommendations given by the Procurement Committee of the Ministry. Accordingly, the following steps have been taken with regard to the new procurement process and it is planned to install a CCTV camera system in the port premises by the end of the year 2021, completing the relevant procurement process.</p> <ul style="list-style-type: none"> ○ A Procurement Committee and a Technical Evaluation Committee appointed by the Cabinet of Ministers have been appointed for this purpose on 19.06.2020. The Technical Evaluation Committee has already commenced the relevant preliminary work. ○ As these purchases could not be completed in 2020, it was decided to allocate Rs. 20 million for the year 2020 and Rs. 580 million for the year 2021. It is planned the purchase of the camera system is scheduled to be completed in the last quarter of 2021. ○ Arrangements were made to 	<p>It is the responsibility of management to ensure that the tasks that are to be executed are executed as planned by the action plan.</p>

refer to the Central Engineering Consultancy Bureau to conduct the necessary studies / technical regulation for this project.

- However, at a meeting held on 05.03.2021, it was decided to withdraw Rs. 580 million allocated for this project from the 2021 Annual Budget under the Security Division. However, action have been taken to allocate Rs. 0.38 million for the installation of several small-scale “CCTV Camera” systems to cover only the main port entrances by the 2021 revised budget. Instead of entrances, warehouses, yards, highways and other priority areas, to cover the most essential locations in the entire port area planned by the project.

2. Financial Review

2.1 Financial Result

According to the consolidated financial statements submitted, the profit of the group for the year ended 31 December of the year under review was Rs. 18,043 million and the profit of the Authority was Rs. 18,738 million. Since the profit of the group and the Authority were Rs.10,847 million and Rs. 11,646 million respectively, in comparison with the previous year, the financial results of the group and the Authority had increased by Rs.7,196 million and Rs. 7,092 million respectively. The provision for the contingent liabilities under the administrative expenses of Rs.6,809 has been made by the Authority in the previous year, this has decreased by Rs. 7,527 to Rs. (718) million during the year under review, Differed tax income of Rs. 1,015 million and transforming the previous year Foreign exchange gain of Rs. 1,358.6 million have been decreased by Rs.2,410.3 Mn to Rs.(1,051.7) Mn during the year under review, had mainly attributed to the increase in the financial result mentioned above.

2.2 Trend analysis of the main income and expenditure objects of Authority

	2020 (Rs. Million)	2019 (Rs. Million)	Difference of Percentage
Revenue	38,930.9	40,769.6	-4.5%
Direct cost	(21,945.9)	(22,385.5)	-1.9%

Gross profit	16,985	18,384.1	-7.6%
Other Operating income	11,314.4	11,149.8	1.4%
Administrative expenses	(7,770.2)	(15,024.6)	-48.2%
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Operational profit	20,529.1	14,509	41.4%
Net financial expenses	849.6	287.4	195.6%
Foreign exchange Gain/(Loss)	(1,051.7)	1,358.6	-177.4%
	-----	-----	
Net profit before tax	20,327	16,155.2	25.8%
Credits to the Consolidated Fund	-	(600)	100%
Income Tax	(2,603.4)	(3,485.7)	-25.3%
Differed taxes	1,014.6	(423.2)	339.7%
	-----	-----	
Net profit after tax	18,738.3	11,646.3	60.8%
	=====	=====	

The following observations are made.

- i. Compared to the previous year, the revenue had decreased by Rs.1, 838.7 million, or 4.5 percent, and revenue from other operations had increased by Rs.164.6 million or 1.48 percent.
- ii. Compared to 2019, direct and administrative expenses for the year under review had decreased 1.96 percent and 48 percent, respectively.

2.3 Ratio Analysis

	2020	2019
i. Operational profit ratio to total revenue	50.03%	38.92%
ii. Current ratio	3.22:1	2.66:1
iii. Quick ratio	3.11:1	2.57:1
iv. Net profit margin	48.13%	28.57%
v. Gross profit margin	43.63%	45.09%
vi. Staff costs per employee (Rs.Million)	2.2	2
vii. The long-term debt to equity ratio	5.39:1	4.59:1
viii. Staff costs as a percentage of total costs	64.96%	50.19%
ix. Direct operating net profit as a percentage of revenue	22.29%	4.40%

The following observations are made.

- Compared to the total income, operational profit of 38.92 percent in the year 2019 had increased in the year 2020 up to 50.03 percent and the net profit ratio of 28.57 percent in the year 2019, had increased up to 48.13 percent in the year 2020.

- The current ratio and the quick asset ratio of the year 2019 was 2.66:1 and 2.57:1 respectively and by the end of the year under review it had gradually increased up to 3.22:1 and 3.11:1 respectively.
- Direct operating net profit as a percentage of total revenue was at 4.40 percent in the year 2019 and it had grown up to 22.29 percent in the year under review.
- When considering the staff costs of the Authority as a percentage of the total cost, it had been 50.19 percent in the year 2019 and had grown up to 64.96 percent by the end of the year under review.
- The long-term debt to equity ratio stood at 4.59: 1 in the year 2019 and it had grown up to 5.39: 1 in the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Although 1001 employees had been deployed in excess to the approved cadre of the Authority as at 31 December 2020 there had been vacancies for 563 employees in operation section where there was a direct relationship to the operational activities of the Authority. Similarly, there was a surplus of 515 employees in 14 sections where there was no direct relationship to the operational activities of the Authority. However, Rs. 4,941 million had been paid as overall overtime, including overtime payment of Rs. 1,046 million paid for employees of sections with excess staff in 2020. Further, as per Section 2 (I) of Chapter viii of the Establishments Code a responsible officer should be satisfied that overtime work has been done properly and fairly as adequate to obtain overtime</p>	<p>Agreed with overtime payment. 9990 employees have been approved by the letter No. DMS / F1 / 3-1 and 23.01.2013 of the Department of Management Services as at 20.07.2018. The new Human Resource Plan for the year 2012 has been prepared taking into consideration the development plans for the next five years. Considering the centralization of administration and the introduction of new computer systems, action had been taken the approved number of employees for the post of Management Assistant (Clerk) to reduce from 966 to 538. However, the number of employees in the post of Management Assistant (Clerk, Typist, and Logger) is 645 as at 09.08.2010. Due to the non-functioning of</p>	<p>Action should be taken to reduce overtime costs. Arrangements should be made to submit work reports in obtaining overtime, by employing staff effectively</p>

allowance. For that purpose a proper inspection and record system should be set up to ensure that the assigned workload is carried out and overtime allowances are not paid during inactive hours. However, the reports on work done regarding the above overtime payment were not submitted for audit.

the new computer systems and administration centralization activities, there is a need for the services of Management Assistants for the work of each divisional office and there are duties to be performed regularly by the Management Assistants who appear to be in excess as mentioned above. As no recruitment has been made for the post of Management Assistant, the duties performed by the retired employees are being carried out in accordance with the internal arrangements at present. However, as the divisional heads have stated that the number of employees in this post is not sufficient, it will be necessary to consider revising the approved number of employees in this post in the future. Number of employees prepared in the year 2012 and approved by the Department of Management Services on 23.01.2013 does not include the posts of various assistants, health workers, photocopier operator, and kitchen assistant. Those positions and several other positions were replaced by the new job assistant position. However, the employees in the above posts at that time will also show that they are in excess as they are in the same post names. However, I would like to mention that no recruitments have been made for these posts. The approved number of employees for the

post of Work Assistant is 2550 and the number of vacancies in this post including the number of employees currently in the posts of Work Assistant, Labor, Equipment, Various Assistants, Health Worker, Kitchen Assistant and Photocopy Machine Operator Recruitment has been made deciding the number of vacancies. However, 415 persons have been recruited to the post of Work Assistant on 02.08.2019 and it is confirmed that considering the number of employees present at that time, only the number which was under the title of Work Assistant has been considered.

- (b) Although an appeal can be made to the Minister of Finance on the decision of a customs investigation in terms of Section 165 of the Customs Ordinance to mitigate the Customs penalty of Rs. 1,580 million imposed by the Customs on 27 cranes imported without informing the Sri Lanka Customs in the year 2011, the Authority had not made such appeal to the Minister. However, a provision for contingent liabilities of Rs.957.9 million had been made in the accounts in relation to this. The Court of Appeal had dismissed the case filed in this regard by the Authority and the Authority had filed a motion in the Supreme Court in the year 2018 against the order of the Court of Appeal.
- It was decided to settle the case filed by the Authority after holding discussions at the level of the Ministry in charge and the Ministry of Finance regarding the settlement of the appeal seeking permission to file an appeal in the Supreme Court. A "joint motion " is to be submitted to the court in the future for that.
- All necessary steps Should take to resolve the dispute on a fair basis as soon as possible.

- (c) When the South Asia Gateway Terminal Ltd (SAGT) was established in 2001, it was agreed that the shares of the company will be issued to the Authority for a value of Rs. 141.63 million for the value of exchange of three cranes provided by the Sri Lanka Ports Authority. However, the ownership of the shares had not been transferred to the Authority until the end of the year under review and balance confirmations replies have been given by the relevant company and that said no payment due for the shares. As a result of the failure to enter into an agreement with the South Asian Access Terminals Company in this regard, the receipt of the shares of the company to the Authority was uncertain and the Authority had not made any provision for impairment for above receivable share value.
- Agreed with that the claim has not been received. As a dispute has arisen due to the unilateral action of the Company, steps can be taken to resolve the dispute in accordance with the provisions of the Main Agreement between the Company and the Ports Authority.
- Should negotiate with the relevant company and come to a final agreement to obtain the claim.
- (d) According to the information provided by the Authority, the periods of lease agreements of 15 plots of land with an extent of 3 acres 2 Roods and 14.24 Perches and around 56.99 square meters owned by the Sri Lanka Ports Authority had expired by 31 December 2020. However, in audit the risk of legal issues arising regarding this cannot be ruled out as the Authority has not taken the necessary steps to renew the agreements.
- Lease agreements signed by the Sri Lanka Ports Authority are short term as 01 year, 02 year, 05 year and long term as 30 years, 35 years etc. Necessary actions have been taken to renew the agreements at least 03 months before the expiry of each of these agreements. I would also like to emphasize that it will take considerable time for the lessee to agree to our conditions.
- It is the responsibility of the Authority to keep the lease agreements up to date.

Attempts have been made to renew the agreement on time, except in cases where

approval is delayed due to some administrative reasons.

As a further step to expedite this process, work on the new agreements will begin 06 months or so before the end of the agreements. However, so far there is no risk of legal issues due to this.

- (e) Although the right of use of the land which holds Plan No. CO / COL / 2012/1047 with an extent of 2 acres 3 roods and 9.61 perches at D. R. Wijewardena Mawatha Colombo had been handed over to the Urban Development Authority for the construction of the Lotus Tower, the value had not been removed from the books and the land had not been transferred by a title deed according to the formal procedure,
- Although the Urban Development Authority has taken over the right of use of the land at D. R. Wijewardena Mawatha Colombo 10 where the Lotus Tower was built in terms of Section 38 (b) of the Land Acquisition Act , the decision of the compensation inquiry has not been given. The Divisional Secretary has informed us on 19.08.2020 to decide on the compensation of the land. Therefore, the land has not been transferred by a title deed as the land acquisition process has not been completed. Until then the legal ownership of this land remains with the Ports Authority.
- Action should take to Carry out the transfer of lands in a proper manner and remove the relevant assets from the books.
- After the completion of all legal proceedings and after receiving the relevant compensation, the transfer should be made through a title deed.
- (f) Although the 02 acre land which holds Plan No. L / S / MIS / 344 bordering to Colombo 01, Main Street and Olcott Mawatha had been given to the Customs Department for the construction of a building, However, no action had been taken until 30
- A dispute arose between the two parties regarding the amount to be recovered for the transfer of 2 acres of land belonging to the Sri Lanka Ports Authority for the construction of the Head Office of the Customs
- Action should take to Transfer of lands according to proper procedures and removal of relevant assets from the books.

April 2021 to assess the land and legally transfer it and remove the value from the books.

Department and other lands previously used. It has been decided that it is more appropriate to resolve issues between government agencies through negotiations. Accordingly, it is proposed to discuss this in the future and reach a decision.

- (g) Although the Government of Sri Lanka and the Bank of Japan for International Cooperation (JBIC) have agreed to implement the construction of a Multipurpose Terminal at the Port of Galle on 28 March 2006 with the purpose of development of the Southern Province, UNESCO approval had to be obtained for the construction in the vicinity of Galle Fort which have been declared as a World Heritage. Since it took more than 3 years for that it was decided to suspend the project as the lender did not extend the loan period. Accordingly, the consultancy fee of Rs. 418 million incurred for this had been an uneconomic expense. The amount paid as consultancy fees was stated as the work-in-progress in the Authority's financial statements for the year 2020.

It was agreed to provide 14,495 million yen to the Government of Sri Lanka under the SLP-85 loan agreement for the construction of a breakwater and multipurpose terminal at the Galle Harbor. In March 2016, on the request of the Government of Sri Lanka, the loan agreement was extended by the Bank of Japan for International Cooperation (JBIC) until July 2017.

Uneconomic costs can be minimized as expected by building as quickly as possible.

The Sri Lanka Ports Authority, in collaboration with the Ministry of National Heritage, requested UNESCO approval for this project and obtained the conditional approval for it in 2016.

The government decided to suspend the project in 2017 as only the breakwater could be constructed under this loan, although the project is currently being implemented and the country is not getting the expected benefits.

If the project is restarted, the project's design plans can be used so that the Japanese Yen 418 million spent as consultancy fees on the design

of the project will not be an uneconomic expense.

- (h) An amount of Rs. 108.77 million had been given to the Hambantota Divisional Secretariat in 2015 and 2016 to pay compensation to those who lost their lands as a request of land acquisition for the Hambantota Port Project and Rs. 4.39 million had been spent in 2014 for field duties and land clearing., a report relevant to the payment of compensation had not been submitted to the Sri Lanka Ports Authority even as at 30 April 2021 and the money spent had been included in the land clearance account under the property, plant and equipment.
- Agreed.
The transfer of ownership of the lands for which compensation has been paid under Phase II of the Hambantota Land Acquisition to the Sri Lanka Ports Authority has not yet been completed and the relevant arrangements for the transfer are being carried out by the Hambantota Divisional Secretariat. The relevant report is to be submitted to the Authority after the completion of the transfer of those lands.
- Action should be taken to obtain the report of compensation and capitalize the relevant expenditure from the land clearance account to the investment property account.
- (i) On 04 December 2019, a ship collided with the Jaya Container Terminal at the Port of Colombo, damaging the Caisson, Fenders and Quay Wall at the Container Terminal etc. The damage was estimated at Rs. 315.90 million. Although the Authority had received Rs.384.42 million on 30 December 2019 for the above damage, no repair work had been carried out so far. Further, although the port losses received account balance of Rs. 486.85 million existing more than 5 years as at 31 December 2020 for damages caused to assets information relating to this has not been submitted for audit.
- Agreed.
We do not have the necessary machinery and equipment facilities to repair the damage. So it has to be done through an external contractor. In addition, operations in the relevant section of the Jaya Container Terminal will have to be suspended temporally. Due to the prevailing 'Covid-19' pandemic in the country, the process of repair not been started yet. Accordingly, adjustments will be made in the future.
- Action should be taken do the necessary repairs.

3.4 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation																																	
<p>Out of the container handling terminals currently operated in the Port of Colombo, the only terminal where ships over 14.25 meters depth can call on, is the Colombo International Container Terminal (C.I.C.T) and annual capacity of it is over 2.4 million TEUs. In the year 2020, 401 ships of over 14.25 meters depth had called on to this terminal and the volume of containers handled was over 2.8 million units. It was observed that, it was a situation which exceeded the maximum capacity. According to a study carried by Scott & Wilson Company in the year 2011 it was pointed out that the existing terminal capacity of the Port of Colombo will reach its maximum by the year 2015 and the Eastern Terminal should be activated to meet the demand at that time. Meanwhile, in connection with the Colombo Port Expansion Project and funding by Bank of Ceylon, the construction work of the stage 1 of the East Container Terminal which is 18 meter depth and 440 meter long with an annual volume of 800,000 container units</p>	<p>Not agreed.</p> <p>Operations can be done from ship to land for Jaya container terminal, The three Gantry Cranes (117, 118, 119) mounted at the Eastern Container Terminal (ECT) and operations has started from October 2020. That is clear from the statistics below.</p> <p>Container Ship Arrival and Container Operation Size - Eastern Container Terminal – 2020</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Month</th> <th style="text-align: left;">No of Container vessels</th> <th style="text-align: left;">Size of container operations(twenty equal units)</th> </tr> </thead> <tbody> <tr> <td>October</td> <td>03</td> <td>2,744</td> </tr> <tr> <td>November</td> <td>11</td> <td>15,743</td> </tr> <tr> <td>December</td> <td>12</td> <td>23,254</td> </tr> <tr> <td>Total</td> <td>26</td> <td>41,741</td> </tr> </tbody> </table> <p>Container Ship Arrival and Container Operation Size - Eastern Container Terminal – 2021</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Month</th> <th style="text-align: left;">No of container vessels</th> <th style="text-align: left;">Size of container operations(twenty equal units)</th> </tr> </thead> <tbody> <tr> <td>January</td> <td>17</td> <td>34,874</td> </tr> <tr> <td>February</td> <td>09</td> <td>32,181</td> </tr> <tr> <td>March</td> <td>15</td> <td>33,174</td> </tr> <tr> <td>April</td> <td>16</td> <td>41,264</td> </tr> <tr> <td>Total</td> <td>57</td> <td>141,493</td> </tr> </tbody> </table>	Month	No of Container vessels	Size of container operations(twenty equal units)	October	03	2,744	November	11	15,743	December	12	23,254	Total	26	41,741	Month	No of container vessels	Size of container operations(twenty equal units)	January	17	34,874	February	09	32,181	March	15	33,174	April	16	41,264	Total	57	141,493	<p>In order to maximize the operational capacity of the terminal, it is essential to procure large scale cranes that can operate from the ship to the land and increase the efficiency of the operation.</p>
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and with a construction cost of Rs. 11,168 million had been completed in April 2016. Three Cranes capable of operating from the vessel purchased for the Jaya Container Terminal as per a Cabinet Decision and as per Board Decision No. PA / HD / 25 dated on 07 February 2020 were installed and commenced operations at the Eastern Container Terminal (ECT) Later, Cabinet approval was obtained for that. Thereafter, by the Cabinet Decision No. CP/21/0198/328/005 / TBR dated on 09 February 2021 approval had been given for the development of the Eastern Container Terminal, the purchase of operating equipment and the operation of the Container Terminal as a wholly owned container terminal of the Sri Lanka Ports Authority. According to the information submitted to the audit, between September and December 2020, 26 container vessels arrived at the terminal and handled 41,741 containers. However, it was observed that in order to maximize the operational capacity of the terminal, large scale cranes capable of operating from ship to land should be procured.