Jaya Container Terminals Limited - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaya Container Terminals Limited ("Company") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 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, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 qualified opinion.

1.3 Responsibilities of the 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 Company'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 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 Responsibility 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, misrepresentations, 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 had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Comments of the Management	Recommendation
Constructions of the oil tank with a capacity of 3,200 MT for which the Jaya Container Terminals Ltd. had expended funds and of which the constructions were supervised by the Sri Lanka Ports Authority, had been completed and handed over to the Sri Lanka Ports Authority on 14 December 2021 and been utilized from 20 December 2021. The Authority had notified Jaya Container Terminals Ltd. on 05 January 2022 to pay the last instalment of Rs.19,937,601 relating to this construction. Even though the relevant event had occurred before 11 February 2022 before the approval of the Board of Directors was granted for the financial statements of the year 2021, the Company had not taken action to adjust the said value in the financial statements according to paragraph 3.9 of Sri Lanka Accounting Standard 10. As such, it was observed in Audit that the items of non-current assets of the Company and monies payable to the Sri Lanka Ports Authority had been understated by Rs. 19,937,601.	It is not agreed. Adjustments have been made as at 31.12.2021 for all invoices and purchase orders issued on accrual concept until 31 December 2021 but not paid by the Company. The Director – Technical of the Sri Lanka Ports Authority has signed and issued the relevant certificate (Certificate of Completion) on 06.01.2022 stating that this tank has been completed. As such, according to the policy of our Company, the last instalment of this tank cannot be adjusted as at 31.12.2021. Moreover, the tax invoice had been issued by the Sri Lanka Ports Authority on 21.02.2022. As such, this has been recorded as a transaction relating to the year 2022.	Constructions of the oil tank had been completed and taken for utilization as at the end of the year under review. As such, action should be taken to account the last instalment relating to constructions.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The advance of Rs. 255,000 paid to a consulting company in the year 2007 was included in the advances and pre-payments as at 31 December 2021. However, action had not been taken to recover the said sum. Moreover, the pay-in-vouchers, receipts and supporting documents relating to the said payment were not available with the Company. As such, even though recovery was uncertain, no provision for impairment therefor had been made as well.	It is not agreed. The advance of Rs. 255,000 paid in the year 2007 to a consulting company, has been decided to be written off at the meeting of the Board of Directors held on 04.03.2022 based on the recommendation of the Audit Committee.	Action should be taken to settle advances granted by holding discussions with relevant parties and to maintain supporting documents in a protected manner.
(b)	A difference of Rs.564,601 was observed between the balance receivable to the Company from the Sri Lanka Ports Authority according to the financial statements of the Company as at 31 December 2021, and the balance agreed to be paid by the Authority as per the letter of confirmation on balances issued to the Company by the Sri Lanka Ports Authority. This difference comprised of a balance of Rs. 544,684 receivable from the Ceylon Petroleum Corporation for services supplied in the year 2014. Even though this amount had not been received from a long period, provision for impairment had not been made therefor as well.	It is not agreed. Action will be taken to recover the sum of Rs. 544,684 receivable from the Ceylon Petroleum Corporation at the time of entering into agreements this year. The Ceylon Petroleum Corporation had not made any replies whatsoever in writing for the continuous reminders sent by our Company. However, it has been verbally informed that a committee has been appointed relating to payment of this invoice. As action is being taken to recover this balance definitely, it is not necessary to provide for impairment.	Action should be taken to recover the receivable balances by holding discussions with the relevant institutions.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence not made available	Comments of the Management	Recommendation
Withholding tax receivable	1,540,551	Withholding tax certificates	It is not agreed. It has been decided at the meeting of the Board of Directors held on 04.03.2022 to write off the withholding tax balance of Rs. 1,540,551 based on the recommendation made by the Audit Committee.	A final agreement should be reached by holding discussions with the Inland Revenue Department.

1.6 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Section 3 of Part I of the Shop and Office Employees Act, No. 19 of 9 August 1954	If an organization deploys the employees on a shift basis, that period of service, shall not exceed 8 hours any one day and shall not exceed 45 hours in any one week. However, 40 employees who were attached for operational activities in the year 2021 had been deployed for a 24 hour shift.	The 24 hour shift has been introduced as per the service requirements of the company to carry out efficient and uninterrupted operation of the company. The approval was granted to continue the aforesaid 24 hour shift system at the meeting of the Board of Directors held on 25/02/2021.	In case of deviating from the requirements of the Shop and Office Employees Act, No. 19 of 9 August 1954, legal approval therefor should be obtained.
(b)	Section 2 of the Management Services Circular No. 01/2014 dated 06 January 2014	As per Management Services Circular No. 30, the Company is not an institution which determines the staff and relevant salaries. Even though it is an entity which is not entitled to Cost of Living Allowance, the Company had paid Cost of Living Allowance of Rs. 7,800 to 99 employees each from the year 2018.	The Cost of Living Allowance of Rs.7,800 has been paid in the year 2018 on approval of the Board of Directors. A Cost of Living Allowance of Rs.212.80 was already being paid to the employees of the Company. This was increased to Rs.7,800.	In terms of circulars, approval of the Treasury should be obtained for the payment of the said allowances.

(c)	The paragraph on Primary Objectives of the Memorandum of Association of the Company	The primary objective of the Company was performing the functions relating to management and operation of the Jaya Container Terminal. However, according to Note 1.2 of the financial statements of the Company for the year 2021, the management of the Colombo Oil Bank owned by the Sri Lanka Ports Authority, had been indicated as the key functions and operating nature of the Company.	The Jaya Container Terminals Ltd has been assigned with the management and operations of the bonded warehouse for storing shipping oil owned by the Sri Lanka Ports Authority located in Bloemendhal, by the Sri Lanka Ports Authority under the Management Services agreement considering the primary objectives of the Memorandum of Association of the Company.	Enquiries should be made as to whether the primary objectives indicated in the Memorandum of Association should be revised.
(d)	Incorporated Guidelines on Good Governance issued by the Department of Public Enterprises No. 01/2021 of 16 November 2021 Section 2.2.5	Action should be taken according to subsidiary policy approved by the Board of Directors of the Parent Company relating to subsidiaries. Nevertheless, the Authority had not formulated a subsidiary policy for subsidiaries including the company under the purview of the Authority.	Not agreed. According to Public Enterprises Circular No.2021/01, it is a function of the Sri Lanka Ports Authority which is the Parent Company.	A policy for subsidiaries should be formulated together with the Parent Company.

2. Financial Review

2.1 Financial Results

According to the financial statements presented by the Company, the profit of the Company for the year under review was Rs.65,452,487 as compared with the corresponding profit of Rs.12,595,879 of the preceding year, thus observing an improvement of Rs.52,856,608 representing 420 per cent in the financial result. The increase of the operational revenue ratio from 40 per cent to 55 per cent received from the Sri Lanka Ports Authority and the improvement of oil operating activities as well as the increase in exchange rates had attributed to the improvement of the financial results of the year 2021.

2.2 Trend Analysis of Major Revenue and Expenditure Items

	2021 (Rs.)	2020 (Rs.)	2019 (Rs.)	2018 (Rs.)	2017 (Rs.)
Income	297,763,569	210,560,557	283,793,238	287,571,286	247,033,670
Non-operating Income	3,704,695	681,501	2,535,504	211,748	220,351
Sales Cost	(133,785,314)	(123,039,082)	(145,548,202)	(143,328,431)	(109,631,277)
Gross Profit	163,978,255	87,521,475	138,245,036	144,242,855	137,402,393
Administration Expenditure	(100,120,227)	(89,217,343)	(83,699,866)	(80,938,692)	(61,508,414)
Financial Income	17,230,071	23,809,889	43,232,258	49,651,749	41,601,847
Financial Expenditure	(4,825,720)	(3,022,544)	(1,846,297)	(551,000)	(651,369)
Profit before Tax	79,967,074	19,772,978	98,466,635	112,616,660	117,064,808

The following observations are made.

i. As compared with the preceding year, the income of the year under review had increased by Rs.87.2 million representing 41 per cent.

ii. Maintenance expenditure which was Rs.3.1 million in the year 2017 had gradually increased up to the year 2019 as compared with the year 2020 and it had been Rs.12.4 million in the year 2021 with an increase of 157 per cent.

iii. Expenditure on matters such as training of employees, medical scheme for employees, legal activities, maintenance of office vehicles and vehicle rentals had increased by a percentage exceeding 100 per cent in the year under review as compared with the preceding year.

iv. As compared with the preceding year, expenditure on security and fuel expenses for vehicles had increased by Rs.14.57 million and Rs.2.7 million representing 27 per cent and 57 per cent respectively.

2.3 Analysis of Ratios

		2021	2020	2019	2018	2017
i.	Current Assets Ratio	9.25:1	12.73:1	21.23:1	19.04:1	23.19:1
ii.	Quick Assets Ratio	9.20:1	12.66:1	21.12:1	18.93:1	23.19:1
iii.	Gross Profit Ratio	55%	42%	49%	50%	56%
iv.	Operating Profit Ratio on Income	21%	-1%	19%	22%	31%
v.	Net Profit Ratio	22%	6%	33%	32%	42%

The following observations are made.

i. The operating profit which was 31 per cent as compared with the total income in the year 2017 had gradually decreased and had become negative one per cent in the year 2020 and an improvement of 21 per cent had been achieved in the year 2021.

ii. In consideration of the duration of the years 2017 and 2020, the net profit ratio had gradually decreased from 42 per cent to 6 per cent. However, the Company had acquired a net profit ratio of 22 per cent in the year 2021.

iii. The current ratio and the quick assets ratio were 23.19:1 each in the year 2017 and it had gradually decreased to 9.25:1 and 9.20:1 respectively by the end of the year under review.

3. Operating Review

3.1 Performance

i. Discharging of LSFO 380 oil had increased by 12 per cent as compared with the year 2020 while Marine Gas Oil had decreased by 18 per cent.

ii. Loading of LSFO 380 oil had increased by 12 per cent in the year 2021 as compared with the year 2020 while unloading of Marine Gas Oil had decreased by 25 per cent.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The oil type of 380 (HSFO) had been stored in No.105 oil tank with the capacity of 1,100 Metric Tons. The physical balance remained in the tank as at 31 December 2021 was 275 Metric Tons. Of the above mentioned 380 (HSFO) oil, 72 Metric Tons were owned by the Sri Lanka Ports Authority while 162 Metric Tons were retained by Sri Lanka Customs. Even though the above oil stocks had been stored for a long period, tank storage charges had not been recovered from the relevant institutions.	Not agreed. Tank storage charges are recovered for the 40 Metric Tons owned by private licence holders. There is no possibility of recovering tank storage charges for the 72 Metric Tons owned by the Sri Lanka Ports Authority and the 162 Metric Tons confiscated by Sri Lanka Customs.	Action should be taken to manage oil tank space by discussing with relevant parties.
(b)	According to paragraph 6.1 of the tariff schedule included in the agreement entered into by the Company with marine oil licence holders, if the average space utilization by a certain marine oil licence holder during a quarter is less than the minimum utilization agreed, Value Added	In issuing invoices presently for underutilization by the Finance Division of the Company, US$ 10 is charged from licence holders with less than the minimum utilization after computing quarterly by obtaining details on	Action should be taken in terms of agreements.

Tax and Nation Building Tax of USD 10 per month should be charged per Metric Ton. However, according to computations practically followed by the Company, USD 10 had been charged per month once in a quarter without considering the quantity of Metric Tons relating to instances in which the total of the oil stock imported, issued and re-bond by the licence holder for each month is less than the minimum utilization.	oil stock imported, issued and re-bond by the licence holder for each month. Action will be taken to charge according to the quantity of Metric Tons.	

3.3 Transactions of Contentious Nature

	Audit Observation	Comments of the Management	Recommendation
(a)	Recommendations had been made to appoint a Technical Committee consisting of officers of the Company and the Sri Lanka Ports Authority for carrying out soil inspections in selected places for identifying suitable places for construction of oil tanks and measuring the maximum capacity of the said oil tanks before obtaining approval from the Colombo Municipal Council and other Government institutions, indicating by the Memorandum of the Board of Directors No. JTC/55/2020 of 18 September 2020 that the marine oil capacity of 35,000 Metric Tons supplied by the Colombo Harbour is inadequate and that the demand for marine oil of the Colombo Harbour is approximately 55,000 – 60,000 Metric Tons. However, the approval of the Board of Directors had not been obtained for the preliminary project stating the manner in which the initial cost of the project is financed. Moreover, constructions of 02 tanks each with a capacity of 12,000 Metric Tons had been included in the Corporate Plan 2020-2024 and the Action Plan for the year 2022 for carrying out the basic activities relating to constructions. Accordingly, approval of the Board of Directors had been granted on that day itself for this Paper and the Managing Director of the Company had been appointed as the Chairman of the Technical Evaluation Committee. The Company had not maintained an information	The officers of licence holding institutions were requested on several occasions to our institution and during the rounds of discussions held with them, they stated that there is an urgent need of constructing new tanks. After those summons, they have made written requests too in several instances for increasing our capacity. Moreover, as stated by them, they will have to pay a large amount of shipping charges in the importation of oil on several occasions when the capacity of tanks is less. As such, they have stated that more oil could be imported by reduction in expenditure on imports as a result of increasing tank capacity. We are maintaining a daily Tank Measurement Report. Moreover, our clients do not import oil up to full capacity utilization of our tanks as our capacity is limited as well as	Decisions on constructing new oil tanks should be taken by evaluating the oil tank capacity utilization ratio, requests made by oil licence holding institutions, age analyses on stocks in oil stores, financial situation and proper investment evaluation.

	system to report the oil stocks remaining daily in each tank. As such, utilization of tanks could not be analysed based on accurate data. However, according to the tank capacity utilization ratio computed according to the quantity of marine oil stocks remained in the 14 tanks owned by the Company on the last date of each month as at 31 December 2021, utilization of a capacity from 37 per cent to 69 per cent relating to 11 tanks was observed and there were only 02 tanks with average capacity utilization of over 70 per cent. Moreover, the average daily utilization ratio from January to March 2022 of the tank with a capacity of 3,200 Metric Tons, newly completed in December 2021 was 41 per cent. Even though the utilization ratio of tanks was not at a maximum level as above, basic activities of constructing 02 new tanks with a capacity of 12,000 Metric Tons was observed as a contentious matter.	according to the capacity we provide them. Accordingly, the highest capacity provided is 2730 MT for LSFO and 1050 MT for MGO. As mentioned above, a decision was taken by the Board of Directors to commence the preliminary activities of constructing two more tanks of 12000 MT, taking into consideration, the continuous request made by them to increase our capacity.	
(b)	The approval of the Board of Directors had been granted for increasing salaries and allowances by Rs.10,000 comprising increase of the basic salary by Rs.5,000 and a payment of a Rs.5,000 allowance to all officers of the Company from 01 January 2018 subject to General Treasury approval through the Decision No. JCT/15/2018 dated 03 May 2018 of the Board of Directors. Even though salaries and allowances had been increased by Rs.5000 each from 01 January 2018 by Jaya Container Terminals Ltd, written approval of the Treasury had not been obtained therefor even up to 31 March 2022 as per the Decision of the Board of Directors. Moreover, in terms of the Decision No. JCT/79/2020 dated 23 December 2020 of the Board of Directors, action had been taken to increase the basic salary by 10 per cent for the 3 ensuing years. Furthermore, it had been decided by Decision No.JCT/04/2022 of the Board of Directors dated 07 January 2022 on an increase of 15 per cent of the basic salary with effect from January 2022 and to refrain from any salary increase again until the year 2024. In taking this decision of the Board of Directors, a 15 per cent salary increase had been given again in the year 2022 without considering the decision given for 3 years from the year 2022 relating to salary increases. Action had not been taken as well to obtain the approval of the line Ministry, concurrence of the	According to a decision of the Board of Directors, a meeting was held by the Director General at the Department of Management Services on these increases of salary and the said increase has been given on the verbal agreement made there. Moreover, according to the decision of the Board of Directors taken on 07.10.2022, the Department of Public Enterprises has been informed of the salary increase by the letter dated 24.01.2022. The Department of Public Enterprises has replied by letter dated 14.03.2022 that the approval of the Parent Company, which is the Sri Lanka Ports Authority should be obtained from relating to policy decisions such as salary increases. Thus, action has been taken to obtain approval by sending a letter to the Chairman of the Sri Lanka Ports Authority on 23.03.2022. According to the letter sent to	Action should be taken to obtain approval of the General Treasury in terms of the decision of the Board of Directors relating to the salary increase made in the year 2018. The approval of the Parent Company should be obtained for the salary increase made in the year 2022.

General Treasury and the approval of the Sri Lanka Ports Authority, which is the Parent Company, for the Decision No. JCT/79/2020 dated 23 December 2020 of the Board of Directors.	the Sri Lanka Ports Authority on 09.02.2022, the Board of Directors of our Company has decided that in case a reply is not made within 14 days, the said decision will be implemented considering that the Sri Lanka Ports Authority has no objections to the decision.	

3.4 Human Resource Management

	Audit Observation	Comments of the Management	Recommendation
(a)	Approval of the Sri Lanka Ports Authority, which is the Parent Company had not been obtained by preparing a proper organization structure and a Scheme of Recruitment for the Company.	An over the phone discussion was held with the Management in this regard and it was informed that a Scheme of Recruitment was not prepared so far.	A proper organization structure and a Scheme of Recruitment should be prepared.
(b)	Disciplinary Procedural Rules relating to the employees was not available with the Company.	A consultant has been appointed for preparation of financial and administrative manuals of Jaya Container Terminals Ltd and the Disciplinary Procedural Rules is prepared under that.	Disciplinary Procedural Rules should be prepared and necessary approval taken therefor.