

Jaya Container Terminals Limited - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss, 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 report 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its 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 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 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 Audit Scope

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 skepticism 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 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 Audit Observations on the preparation of Financial Statements

1.5.1. Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>The Department of Labour had ordered the Company to pay a sum of Rs. 19,164,600 to the employees as per the complaint made regarding the arrears of cost of living allowance receivable to the employees of the Company and it had been informed to pay the relevant amount to the Department of Labour on or before 17 May 2021. The Company had made an appeal to the Department of Labour on 11 July 2022 regarding the relevant order. However, the required disclosures had not been made in the financial statements 2022 as per Sri Lanka Accounting Standards 37 in respect of the relevant order.</p>	<p>The factors submitted that the living expenses allowance should be paid in arrears as per the Public Administration Circular 37/2013, by the Company with effective from 01.01.2014 are refused due to the non-relevance of Public Administration Circulars to the Company, increase in various allowances based on Decisions of Board of Directors of the Company, using circular 37/2013 only to arrive at a certain value when deciding to increase salaries and allowances by the Board of Directors, applying all other government circulars retrospectively may cause the Company to become insolvent. If the Labour Commissioner decides that arrears should be paid, the Management will take actions to get an Appellate Court Writ against that decision. In the opinion of the institution, the above amount is not required to make in the financial statements as a provision in terms of Sri Lanka Accounting Standards 37 and it has been decided to make only a disclosure in the financial statements of the next year as a contingent liability by a note according to that accounting Standard.</p>	<p>Necessary disclosures should be made in terms of Sri Lanka Accounting Standards 37 .</p>

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) If the Average Space Utilization by a marine oil licensee during a quarter is less than the agreed Minimum Space Utilization, a fine should be levied and the amount of Rs. 1,007,158 the Company should be entitled from the amount of fine to be charged for the year 2022 as per the calculation of the Company, had not been brought to accounts.</p>	<p>Ceylon Petroleum Corporation has signed the agreement on 01.01.2022 and 4000MT of MGO was imported and stored in our oil tank in February. Accordingly, the invoice for the fine levied was issued on 02 January 2023 due to non-utilization of minimum space only from March to December 2022. As soon as the invoice was issued, the Corporation sent a letter to our Company, requesting that the invoice to be waived off, informing that it is necessary to renew the agreement with our Company. We have informed that the invoice cannot be written off. A meeting was held at the Ministry on 04.04.2023 in which involving all the officers of the Company, Corporation and Secretary, Ministry of Ports, Shipping and Aviation and the Secretary has informed that to do a write off of 50% should be made. Accordingly, a Memorandum of Board of Directors is to be presented.</p>	<p>Actions should be taken to levy fines according to the conditions mentioned in the contracts entered into by the Company with the customers.</p>
<p>(b) The criteria to be used for calculating the fine amount in the tariff list is not stated simply and clearly in clause 6.1 of the agreement signed by the company with the ship oil licensee and the fee system has changed in 2021 and 2022. That is, if the Average Space Utilization in a quarter in 2021 is less than the Mining Utilization, USD10+VAT+NBT has been charged per month and, USD 10 per month has been charged for 1 meter per part of 12 of the Space Utilization mentioned in Annexure 04 of the agreement in the year 2022. Therefore, it was not possible to accurately calculate the income in the year 2022 due to the uncertainty of charging fees.</p>	<p>Calculate an average value as per the agreement to calculate penalty for non-performance, USD 10 per metric ton was charged in the year 2022. Nevertheless, at the time of renewal of the agreement in 2023, that clause 6.1 was changed. The space allocated to the licensees has been allocated for one month only as per the new clause 6.1. Accordingly, if the licensees do not utilize the space mentioned under Annexure 4 of the agreement in a month, a fine of USD 10 per metric ton will be levied. In this, if one-third of the amount of oil imported, oil issued or re-bonded has happened, it is considered a utility to calculate the number of metric tons to be considered.</p>	<p>The terms included in contracts entered into with customers should be specific and clear.</p>

1.6 Non-compliance with Laws, Rules, Regulations, and 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 employs workers on a shift basis, the working hours should be limited to a maximum of 8 hours per day and 45 hours per week, the Company has employed 40 operational staff for 24-hour shifts in the year 2022 as inconsistent therewith and the service was gained only 02 days a week.	Twenty four hours shift has been introduced as per the service requirement of the Company to carry out operations efficiently and without interruption. The approval of the Board of Directors dated 25/02/2021 has been received for the continuation of the said 24 hour shift system.	Arrangements should be made to implement the working hours of employees as specified in the Act.
(b) Section 9.8 (d) of the Government Procurement Guidelines 2006	Although submission of bids through electronic media is not permitted, in contrary therewith, bid invitations were prepared and submitted for 03 purchase opportunities valued at Rs.12,763,559 stating that the email (jctfinance@gmail.com) can be used for submission of bids .	Opportunity to submit bids using email has been given due to the Corona pandemic situation and fuel crisis in the country in 2021 and 2022. This was a step taken to maintain the operational activities of the institution without any hindrance with the approval of the Procurement Committee. Nevertheless, even then, a single bid was not received through email. Submission of bids took place on the basis of the system recommended by the audit.	The bid invitation process should be done as per the instructions shown in the Government Procurement Guidelines.

1.7 Non-compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
Although the taxes related to the fees charged for the services provided by the institution from 01 October 2022 should be collected and remitted to the Inland Revenue Department, in terms of Section 3(1) of the Social Security Contribution Tax Act No. 25/2022 dated 20 September 2022, a tax amount of Rs. 2,960,567 to be received for oil supplied to ships which is one of the services of the Company had not been collected.	Our Company has appointed a main agency to consult on taxes from the year 2009. Invoices were issued as the Pumping Charges were exempted from social security taxes as per the instructions given by the said institution. Accordingly, "Transportation of goods & services" has been exempted from that tax under Part II (exempt list) Item no. 4 of the Social Security Tax Act. As loading and discharging of oil to ships by pumps falls under this category the tax consulting firm has said that it was not subject to social security tax.	The relevant taxes should be collected and remitted to the Department of Inland Revenue.

2. Financial Review

2.1 Financial Results

The operational result for the year under review was a surplus of Rs. 245.6 million and the correspondence surplus for the preceding year was a surplus of Rs. 65.4 million. Accordingly, a growth of 275 per cent was observed in the financial result. The increase in the exchange rate as well as the improvement in operational activities on oil had mainly attributed for this growth.

2.2 Trend Analysis of Major Revenue and Expenditure Objects

The following observations are made.

- (i) The income of the year under review had increased by Rs. 310.2 million equal to 104 per cent. The operating income of Rs.247 million in 2017 had increased to Rs.287 million in 2018 and gradually decreased in 2019 and 2020 .
- (ii) Employee bonus expenditure which was Rs.8.4 million in the year 2018 had decreased gradually by the year 2019 and, it had been Rs.5.2 million with a growth of 420 per cent in the year under review as compared to the year 2021. Increase in profits due to appreciation of the Dollar had mainly attributed to this.
- (iii) The legal fees and sanitary service expenses in the year 2018 were Rs.1.8 million and Rs.2.5 million respectively and those expenses had been increased gradually up to Rs. 2.4 million and Rs.14 million respectively by the year under review. The legal fees had increased by 44 per cent and sanitary service expenses had increased by 34 per cent in the year under review as compared to the year 2021.

- (iv) The employee bonuses, fuel and lubricants, maintenance of office vehicles, other expenses etc. were observed as expenses that increased by a percentage of more than 100 per cent in the year under review as compared to the preceding year.
- (v) In comparing the maintenance of mechanical equipment, fuel and fuel lubricants for vehicles with the preceding year, those were 12.6 million, Rs. 4.7 million and Rs. 31.9 million in the year under review with a growth of 96 per cent, 76 per cent and 673 per cent respectively.

2.3 Ratio Analysis

	2022	2021	2020	2019	2018	2017
i. Current Assets Ratio	4.08:1	9.25:1	12.73:1	21.23:1	19.04:1	23.19:1
ii. Quick Assets Ratio	4.05:1	9.20:1	12.66:1	21.12:1	18.93:1	23.19:1

Current Ratio and Quick Assets Ratio in the year 2017 were 23.19:1 and 23.19:1 respectively and it had gradually reduced to 9.25:1 and 9.20:1 respectively by the end of the year under review. A deterioration in current ratio and current asset ratio was observed during the year under review in considering the period of time ranging from 2017 to 2021 .

3. Operating Review

3.1 Operating Results

- (i) The total oil loading in the year 2021 and the year under review was 392,350 and 442,305 MTs. respectively and it had increased by 49,955 MTs. as compared to preceding year that is 13 per cent.
- (ii) Discharging of LSFO 380 type of oil had decreased by 0.2 per cent as compared to the year 2021 and the Marine Gas Oil discharging had increased by 24 per cent.
- (iii) The loading of LSFO (LSFO 380) type of oil had increased by 7.2 per cent in 2022 as compared to the year 2021 and the loading of Marine Gas Oil ,Gas Oil cargoes had increased by 43 per cent.

3.2 Uneconomic Transactions

Audit Observation

New budgets and expenditure programmes had to be prepared to provide efficient service to the people by the Company so as to get maximum return on cost as per Section 3 (d) of Circular No.

Management Comment

This event was organized with the aim of making a comprehensive analysis and publicity about our institution for customers and businessmen who wish to engage in the same business when engaging in Bunkering Business in line with the primary objective of

Recommendation

Actions should be taken to control expenditure as per government circular provisions introduced.

PED 01/2020 dated 27 January 2020 issued by the Secretary, Ministry of Finance, Economic and Policy Development. Similarly, although the publication of advertisements has been mentioned as a special matter to be controlled, a sum of Rs.3,506,624 had been spent on 19 January 2022 for a festival including Rs.562,864 for publishing of a newspaper advertisements regarding opening of oil tanks.

the Company or vision of becoming the Bunkering Hub in the Asian Region. The oil storage capacity of our company has increased with the opening of this new oil tank. The income earned by the institution is very large since the date of inception of this tank up to date and in comparison with the amount spent for the event, it is not an uneconomical expense at all. Further, after this extensive campaign, the contracts have been entered into with 2 huge business firms in countries like China and Singapore to commence oil storage. In addition to that, another 4 new business companies have obtained storage facilities in our company since the beginning of this year. Accordingly, the income and business promotion of our company has increased rapidly due to the wide publicity caused by the event.

3.3 Operational Inefficiencies

Audit Observation

The value of the quantities of fuel (Lanka Auto Diesel and Lanka Gas Oil) used for operations in the years 2021 and 2022 were Rs.4,204,680 (39,600 liters) and Rs.31,985,930 (105,600 liters) respectively. Accordingly, compared to the year 2021, the use of fuel for operations in the year 2022 had increased by 66,000 liters of fuel. The expected fuel consumption for the year 2022 was 44,628 liters as compared to the year 2021. Accordingly, the amount of fuel used to operate the machines has increased by 60,972 liters in the year 2022 and it was observed that Lanka Auto Diesel was 40,648 liters out of that. It was stated that the use

Management Comment

It has been mentioned in the manual of the manufacturer that this power generator with a capacity of 400 KVA consumes 94 liters of Diesel for 1 hour at maximum capacity and 60.2 liters for 50% capacity. We have calculated based on the data in the relevant manual. Nevertheless, the data recorded in the main control panel of the generator shows a difference when compared with the data in the relevant manual. As per the explanation of the official of the machine manufacturing/installation establishment in respect of this difference, it has been shown that the amount of fuel consume shown on the control card is a value calculated by using the data of the internal sensors and it is essential to install a Flow Meter to accurately calculate the amount of fuel consume. Further, it has been stated that it is difficult

Recommendation

Actions should be taken to review and improve the existing system of fuel usage.

of Lanka Auto Diesel oil in the automatic generator was the reason for that. Since the equivalent fuel consumption per hour of running according to the data noted in the generator is 15.2 liters, the expected fuel consumption in the year 2022 is about 7,996 liters and the fuel consumption in the year 2022 has been 35,242 liters as per the explanations given. Accordingly, fuel consumption has increased by 27,246 liters (35,242-7,996) that is, by 341 per cent and it was observed that the increase is Rs. 11,888,400 .

to match the fuel consumption of any machine with the data mentioned in the relevant manual or with the data mentioned in the main control panel and the nature of the working environment of the machine, the function of Air Filters and other equipment will affect this. Therefore, it is very difficult to accurately aware of the fuel consumption of the generator from the manuals of the relevant machine or from the Control Panel notes of the machine. Installation of separate Flow Meter for all 03 fuel supply tanks from main fuel storage tank or Calibration of 03 tanks should be done in order to avoid it. A sum of Rs. 3.6 million or Rs. 350,000 have to be spent respectively for that. Because of the Calibration method is currently being used to calculate fuel quantities in oil storage tanks, the procurement activities required to accurately record the quantities of fuel used for the respective machines separately by that system has been commenced.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation

An amount of 275 MT. of 380 (HSFO) had been stored as at 31 December 2022 in oil tank number 105 which is having capacity of 1100 MT.s. There were 72 metric tons belonging to the Sri Lanka Ports Authority, 40 metric tons belonging to private licensed institutions, and 162 metric tons detained by the Sri Lanka Customs. As the oil tank was sealed by the Sri Lanka Customs, it had been in idle and unusable for operational purposes.

Management Comment

There were 275 MT. of HSFO 380 oil in 105 tanks as at 31.12.2022 and it consists of 2.342 LMSL, 37.918 IOE and 72.706 SLPA and 162.257 MT.s confiscated by Sri Lanka Customs. From that, storage fees have been charged for oil owned by private companies and LMSL and IOE. As there is a litigation for the oil that has been confiscated by the Sri Lankan Customs, the release of the oil cannot be done until receiving the approval of the Sri Lanka Customs and storage fees cannot be charged for that. There is no storage fee for oil owned by the Sri Lanka Port Authority.

Recommendation

The arrangements should be made to manage the oil tank space in consultation with the relevant parties.

3.5 Procurement Management

Audit Observation

The shopping method had been used for the procurement of the Loading Arm equipment used for the fuel supply works, which was purchased by the Company amounting to Rs.6,420,000. Despite it had been clearly specified that the nature of goods to be procured using that method in the 3.4.1 (a) of the Procurement Guidelines, the use of the shopping method without using the national competitive bidding procedure was a non-compliance with the provisions of 1.2.1 (c) of the Procurement Guidelines.

Management Comment

Although Section 3.4.1 (a) of the Procurement Guidelines 2006 stated that, It has been mentioned that the shopping method can be used in the procurement of goods and services for up to Rs.10 million as per Supplementary 35 dated 25.03.2020 relating to Procurement Manual. Along with the fuel crisis, the Treasury approved the supply of fuel to BOI companies, tourist hotels and other institutions through our Company. Due to the increasing of loading of bowser day by day, the two existing Bowser Loading Arms in our Company were not enough and the existing ones were old, so necessity of purchasing a new Loading Arm arose very soon. If the Advertising Method was followed on this condition, the shopping method was used because of time consuming, and cost increases. The Company has invited bids from 6 suppliers who import such equipment.

Recommendation

That bids should be called in accordance with the provisions and limitations of the Procurement Guidelines .

3.6 Human Resources Management

Audit Observation

A formal Scheme of Recruitment for the Company had not been prepared and the relevant approvals had not been obtained as per the Section 3.2(ii) of the Operational Manual for Public Enterprises issued with Public Enterprises Circular No. 01/2021 dated 16 November 2021 and although every Public Enterprise should have prepared the approved cadre with the organizational chart as per Section 3.3(ii) therein, the Company had not met that requirement.

Management Comment

A Consulting Firm has been appointed from 06/04/2022 on the recommendations of the Procurement Committee appointed by the Secretary of the Ministry of Ports, Shipping and Aviation to prepare the Organization Plan, Recruitment Procedure, Financial Code and Administrative Code of the Company. The financial manual has been submitted for the approval of the Audit Committee at present and the formal Scheme of Recruitment, approved number of employees and organizational structure are stipulated to be submitted to the Board of Directors in the near future.

Recommendation

Arrangements should be made to prepare the Scheme of Recruitment as per the circular provisions introduced and approve the same along with the organization chart.

4. Accountability and Good Governance

4.1 Sustainable Development Objectives

Audit Observation

Every government institution should act in accordance with the United Nations Year of Sustainable Development “2030 Agenda” as per the letter issued by the Secretary, Ministry of National Policy and Economic Affairs No. NP/SP/SDG/17 dated 14 August 2017 and accordingly, necessary activities had not been carried out identifying sustainable development objectives, goals and how to achieve those goals, indicators to measure the goals.

Management Comment

Our organization has identified the Sustainable Development Objectives and Goals applicable to the organization in the year 2022. The discussions have been carried out on those identified objectives at length at the Audit Committee Meetings 2022. Further, the indicators for measuring those goals have also been identified.

Recommendation

Measures should be taken as per the respective letter in such a way that the Sustainable Development Goals are met.