Sri Lanka Ports Authority and its Subsidiary - 2021

1. Financial Statement

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 Position as at 31 December 2021, 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.

1.3 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 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 Scope of Audit (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.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

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

- Evaluate the 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.

- 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 Authority'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. However, future events or conditions may cause the Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

- Whether the resources of the Authority 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 Prepartion of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with reference to relevant standard	Comment of the Management	Recommendation
(a)	In terms of Paragraph 51 of Sri Lanka Accounting Standard 16, the residual value and the useful life of an asset shall be reviewed annually and , if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard 8. Nevertheless, assets with carrying amount of Rs.4,443 million and belonging to 11 categories that existed at the Galle Port of the Authority as at 31 December 2021 had not been reviewed.	Revaluation of the fixed assets register of the Engineering Division of the Galle Port has been completed. Action will be taken to promptly revalue the assets registers of the other Divisions.	The management should take action to review the useful life of the assets annually.
(b)	In terms of Paragraph 55 of Sri Lanka Public Sector Accounting Standard 16, the depreciation of property, plant and equipment begins when it is available for use for operating activities. Nevertheless, the value of two Diyathri vessels costing Rs.495 million that had been used for operating activities and received by the Sri Lanka Ports Authority on 23 December 2019 had not been capitalized and depreciated as applicable even up to 31 December 2021. These payments had been included in the account named " Foreign Purchasing Advance Account Without Budgetary Allocations" under the current assets in the statement of financial position. Accordingly, the property, plant and equipment Sri Lanka Ports Authority had been understated by the aforesaid amount as	Agreed. Documents relating to capitalizing the two Diyathri vessels have been received and those vessels have been capitalized at present. Out of the balance of Rs. 1,808.56 million as at 31.12.2021, advances relating to Rs. 304.5 million have been settled. Action will betaken to obtain necessary documents for adjusting the remaining balance and relevant adjustments will be made accordingly.	In terms of Sri Lanka Accounting Standard 16, when the control, risk and the benefit of the assets are transferred to the Authority, action should be taken to account for them under non-current assets.

	at 31 December 2021. Further, the balance of that Foreign Purchasing Advance Account as at 31 December 2021 amounting to Rs.1,808.56 million included the purchase of spare parts worth Rs.223.57 million that had been settled but not identified as expenditure in the revenue statement or not capitalized the assets on a recognized policy. As a result, the profit and non-current assets of the year had been understated/overstated by that value. Further, it was observed that the uncapitalized assets that had already been received and unidentified expenditure included in the remaining balance were maintaining in this account over a long period.		
(c)	According to Sections 18,19 and 21 of Sri Lanka Accounting Standards No.24, information related to the transactions with the related parties pertaining to the financial year should be disclosed under the related party transactions to enable the users to understand their nature, balances and impact on the financial statements. However, the related party transactions pertaining to the annual deferred rent revenue of Rs. 1,713 million credited to the revenue statement in the calculation of the net profit for the year under review out of Rs. 169,479 million received from Hambantota International Port Services (HIPS) and Hambantota International Ports Group (HIPG) in the year 2017 in respect of transferring the assets of the Hambantota Port on a long term lease basis by the Sri Lanka Ports Authority and the provision of Rs. 95.7 million to the Authority in the year 2020 by Jaya Container Terminals Ltd. for the construction of a new oil tank and the fire guard system had not been disclosed by the notes to the financial statements.	Agreed. Action will be taken to disclose this by a note in the financial statements in due course.	Action should be taken to disclose the information relating to all transactions with the related parties through the notes in the financial statements.
(d)	Magampura Port Management Company (private) Limited, a subsidiary of the Ports Authority which had ceased	Not agreed. It is not necessary to make provisions for contingent liabilities	Since the possible financial risk cannot be ruled out as

	operations from November 2017 had obtained a loan amounting to USD 24 million from a private bank in 2014 for purchasing bunkering oil. A sum of USD 22.3 million out of that amount had not been settled even by the date of this report and it was observed according to the financial statements of the Company that the Company had no sufficient assets to repay the loan. Meanwhile, the relevant bank had filed two cases in the Colombo District Court in the year 2020 against the Subsidiary and the Authority to recover the loan. In this connection, the chief legal officer of the Authority had notified the head of the Finance Division to make provisions in the financial statements, 2021 to settle this liability of Rs.4,465 million. However, no provisions for contingent liability had been made for the above liability in terms of Paragraph 10 (a) of the Sri Lanka Accounting Standard 37 and as a result, the profit of the Authority for the year under review had been overstated by Rs.4,465 million.	in accordance with the Accounting Standard.	recommended by the Legal Division, provisions for contingent liabilities should be made in terms of Sri Lanka Accounting Standard.
(**e**)	In terms of Paragraph 85 of Sri Lanka Accounting Standard 37, a brief description of the nature of the obligations, indication of the uncertanities about the amount or timing of payments should be disclosed. Nevertheless, allocation of claimbable Rs.6,706 million included in the statement of financial position of the Authority as at 31 December 2021 had not been disclosed.	Agreed. Action will be taken to correct this in the financial statements pertaining to the year ended 31 December 2022	Action should be taken to make relevant disclosures in terms of the Standard.

1.5.2 Accounting Policies

Audit Observation	Comment of the Management	Recommendation
In term of Note No.2.2.2 of the Financial Statements, it had been stated that investments in the subsidiaries would be made based on the equity method. According to the above policy, out of the loss suffered for the year 2021 by the Hambantota International Port Services	Agreed As the audited financial statements had not been received till the preparation of final accounts statements, the final accounts were prepared based on the draft financial statements, 2021 of the	It is more accurate to do relevant computations based on the audited financial statements.

	Audit Observation	Comment of the Management	Recommendation
	Company (HIPS), a subsidiary of the Authority, the profit/loss of the Authority amounting to Rs. 383.1 million had been computed based on the draft financial statements of the year 2021.	HIPS company.	

1.5.3 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	An appeal had been made to the Court of Tax Appeal Court with regard to the tax computation of the Authority for the financial years from 2007/08 to 2010/11 and as the case was still pending, tax had not been paid for the relevant year. However, allocation of Rs. 6,387.4 had been made in the financial statements for this purpose. According to the financial statements as at 31 December 2021, the balance of receivable withholding tax was Rs. 723.41 million, nominal tax credit was Rs. 403.29 million and economic services tax credit was Rs. 1,165.66 million, it was observed that the payable tax had been set off in the allocation of above tax. Therefore, this balance cannot be further stated as receivable. Nevertheless, due to not making relevant adjustments to the accounts, the withholding tax, nominal tax and economic services tax amounting to Rs. 2,292.39 million had been stated as the receivable balances in the financial statements even by the end of the year under review.	Agreed with the numerical data The tax paid as WHT, ESC, and Notional Tax have been totally set off with the submission of the income tax return for the year 2019/20. Hence, there is no uncertainty on the recurrence of offsetting these values. The original copies of the WHT have been sent to the tax consultancy firm along with the relevant tax returns and the e-mail message to confirm to that effect has been submitted.	It should be ensured that the account balances are noted accurately once the adjestments are made.
(b)	A sum of Rs.7.61 million spent by the Authority in the year 2018 for a renovation activity of the Galle Face ground had been stated in the financial statements of the Authority as an amount receivable from the Sri Lanka Ports Management and Consultancy Company which is a subsidiary of the Authority carrying out the administration of the Galle Face ground. However, that amount had not been stated as an amount payable to the Authority in the financial statements of the relevant company and the company had informed the	Constant discussions were held to recover this amount. Since this company is involved in a large number of financial transactions with the Authority annually, there is no difficulty to recover this amount. Therefore, it is not necessary to make provisions for impairment.	Receivale balance should be recovered and if the receipt is uncertain, provisions should be made for impairment.

	Authority in writing that the above amount could not be settled. As a result, receipt of that amount was uncertain and no provision for impairment had been made in the financial statements.		
(c)	The compensation of Rs.41 .8 million paid to the persons who lost the lands due to their acquisition for the Oluvil Port Project which is not belonging to the Authority and the operations of which are not carried out by the Authority, had been included in the work-in-progress – land account.	Agreed. The Rs.41.8 million is not the only expenditure to be capitalized relating to the acquisition of lands for the Oluvil project and action is being taken to identify the total amount to be capitalized and make necessary adjustments.	Since the Authority does not have the ownership, custody or right to operating activities of the Oluvil port, these assets not owned by the Authority should be suitably dealt with and eliminated from books.
(d)	In exchange of the value of three cranes provided by the Sri Lanka Ports Authority in the establishment of South Asia Gateway Terminal Ltd-SAGT in the year 2010, it had been agreed to transfer the shares of that company worth Rs.141.63 million to the Ports Authority. However, the relevant share right had not been transferred to the Authority up to the end of the year under review and the relevant company had answered through the balance confirmations in 2020 that there was no amount to be paid by the company for shares. Due to lack of a contractual obligation with the South Asia Gateway Terminal Ltd in this connection, the receipt of shares of the relevant company to the Authority remained uncertain and the Authority had not made provisions for impairments for the above share value receivable. Similarly, although a request had been made to confirm the balance on 02 February 2022, no balance confirmations had been furnished.	It is agreed with the statement that the share right was not received. Further, your attention is drawn on the matters stated in the third paragraph of the 2nd page of the letter dated 15.11.2018 submitted by that company as replies to the letter dated 15.11.2018 forwarded to the SAGT company by the Authority in respect of the matter mentioned to the effect that there is an uncertainty regarding the receipt of the shares of the relevant company. It is quoted below. "In addition, it is important to note that SAGT has acknowledged that in the event of a further call up of capital for the phase I facilities, it is obliged to allot SLPA shares up to the value of USD 2,424,285 as "in kind" shares in terms of the Concession Agreement and pro rata to the cash contribution. Further obligation to be reflected in the books of SAGT" Since this company has expressed the matters as mentioned above, in the event of a further calling up of capital by the Company, there is no obstacle to the Authority to obtain	According to the agreement, action should be taken to obtain the share right receivable to the Authority for the value of the cranes in consultation with the relevant company.

		shares to that amount and the company has proclaimed and accepted that the shares will be so issued.	
(e)	According to the land register maintained by the Premises Division, it had been stated that 19 blocks of land worth Rs.633.94 million had been given on lease to other institutions, whereas those lands had not been included in the register of investment property maintained by the Finance Division. As a result, the investment property had been understated by Rs.633.94 million in the statement of financial position of the Port Authority and the land value had been overstated by that amount.	Agreed. The lands that have been mentioned in the land register of the Premises Division as given on lease are expected to be included under the register of investment property in the assets register of the Finance Division.	While maintaining a better coordination between the Financial Division and the other divisions of the Authority, financial statements should be prepared on the updated information.
(f)	According to the committee report of the assets review conducted by the Sri Lanka Ports Authority as at 31 December 2021, due to inability of physically identifying the operating buildings and structures with carrying amount of Rs. 403.68 million and machinery and equipment of Rs.181.9 million as at 31 December 2021, the existence of those assets was uncertain.	Not agreed. Action will be taken to make adjustments in the assets register as per the recommendations made by the assets updating committee appointed by the Additional Managing Director.	If it has been identified that the assets included in the financial statements do not physically exist, necessary adjustments should be made in the assets register.

1.5.4 Elimination form the accounts without concurrence

Audit Observation	Comment of the Management	Recommendation
The balance of loans and interest amounting to Rs. 147,746 million, out of the foreign loans obtained for the construction of the Hambantota Port, that remained in the accounts of the Authority as at 30 November 2017 had been eliminated from the financial statements of the Authority without the consent of the General Treasury or the approval of the Cabinet of Ministers and since then, the amount of loan had not been included in any government account. However, as per the approval of the Cabinet dated 04 August 2017 granted to the Cabinet Memorandum No. MPS/SEC/32 dated 20 July 2017 submitted under the	Agreed. As indicated in the audit report, the loan amount stated in the books of the Authority is Rs. 147,746,246,364.57 and Rs. 149,943,332,000.00 has been paid to the Treasury for that purpose.	The loan should be included in the accounts of the Authority or the General Treasury with the agreement of both parties.

heading of “ Hambantota Port Concession Agreement”, the General Treasury was responsible for repaying the above loans and interest. Accordingly, the External Resources Department of the General Treasury had paid the loan installments and interest since the year 2017 and according to the documents for the year 2021, the loan balance that further remained payable as at 31 December 2021 was Rs. 165,483 million. Further, the cumulative loss of foreign exchange conversion amounting to Rs. 31,545 million calculated up to 30 November 2017 in respect of the above loan amount had been eliminated from the accounts of the Authority with the elimination of the loan. The cumulative loss of foreign exchange conversion amounting to Rs. 65,618million as at 31 December 2020, including the cumulative loss of foreign exchange conversion amounting to Rs. 34,072 million from 30 November 2017 to 31 December 2020 and the foreign exchange conversion loss for the year 2021 had not been included in the accounts of the General Treasury or the Authority. However, the information regarding the foreign exchange conversation profit/loss calculated relating to the loan balance for the year ended 31 December 2021 was not furnished to the audit by the Department of External Resources.

The Secretary to the Ministry of Finance had informed the Chairman of the Authority on several occasion to include this loan in the books of the Authority. However, neither the Sri Lanka Port Authority nor the General Treasury had taken steps to account for the above loan balance and the profit/loss of the foreign exchange conversation even by the end of the year 2021.

1.5.5 Preperation of Consolidatd Financial Statements

	Audit Observation	Comment of the Management	Recommendation
(a)	The stocks worth Rs. 12.43, fixed assets with the carrying amount of Rs.0.26 and cash in hand of Rs.0.17 included in the assets of the Magampura Port Management Company shown under the assets in the consolidated statement of financial position were not physically found. Provisions had not been made in the financial statements for these losses amounting to Rs.12.86 million. Further, source documents, balance confirmation letters, age analysis reports and subsidiary documents were not furnished to the audit in respect of Rs. 17.78 million receivable to the company from the government, Rs. 28.04 million receivable for the insurance of bunkering oil, the balances of Rs. 3.58 million receivable from the trade debtors and the balance of Rs. 7.3 million relating to the other payables of the company.	Not agreed. The MPMC should be inquired about the physical non-existence of the relevant assets and non-submission of other documents for audit.	Being the parent company that has 100 per cent share rights of the subsidiaries and as assets and liabilities of the subsidiaries are shown in the consolidated financial statements, the Authority should pay attention in this regard.
(b)	According to the financial statements of the two subsidiaries as at 31 December 2021, the balance of the receivable withholding tax was Rs. 6.57 million and relevant tax certificates for Rs.3.66 million of withholding tax were not submitted to the Audit. Due to lack of tax certificates, there was an uncertainty to deduct the above balance of the withholding tax in the payment of income tax.	Not agreed. Since we have no details in this connection, relevant details should be obtained from the relevant companies (JCT Ltd., MPMC).	Being the parent company that has 100 per cent share rights of the subsidiaries and as assets and liabilities of the subsidiaries are shown in the consolidated financial statements, the Authority should pay attention in this regard.

1.5.6 Unsettled Receivables

	Audit Observation	Comment of the Management	Recommendation
(a)	The sum of Rs. 4,778 million including Rs. 4,406 million in instalments and the stamp duty of Rs. 372 million paid in the year 2017 by the Authority for loans	Not agreed. That is an amount receivable to the Ports Authority. Letters have been sent on 04 occasions to the Secretary to the	Action should be taken to recover the receivables in consultation with the General Treasury.

	obtained for the Hambantota Port Construction Project had not been received by the Authority even by 30 April 2022. Furthermore, the Authority had called for balance confirmations in this connection, but the General Treasury had not confirmed the balance and this balance had not been included in the balance payable in the Financial Statements of the Republic for the year 2021. Due to this, there was an uncertainty in the receipt of this amount.	Treasury requesting that the relevant amount be provided to the Ports Authority and this has been informed to the Board of Directors meeting held on 12.02.2019 by a Board Paper.	.
(b)	Since the General Treasury had not settled in time the instalments for the Dollar loan obtained by the General Treasury from the Bank of Ceylon for the oil tank construction project under the Hambantota Port Development Project, the Bank of Ceylon had recovered US $ 0.64 million or Rs.377.84 million in the year 2018 from the US $ Dollar Account maintained in favour of the Authority in the Bank of Ceylon. Although the above amount had been stated as a receivable balance from the General Treasury as at 31 December 2021 in the financial statements of the Authority, money had not been received even up to 30 April 2022 and there observed an uncertainty in the receipt of this amount.	Agreed. Letters have been sent to the head office Bank of Ceylon in the previous years as well as in the year 2021 on 31.03.2021, 15.06.2021 and 02.12.2021 requesting to correct this matter and return the relevant amount so recovered. The Sri Lanka Ports Authority is making every possible effort to recover the relevant money	Action should be taken to recover the receivables in consultation with the General Treasury and the relevant bank.

1.6 Accounts Payable and Receivable

1.6.1 Receivables

	Audit Observation	Comment of the Management	Recommendation
(a)	The total shipping agency debtors balance that had exceeded the loan period of the Authority as at 31 December 2021 was Rs. 1,667.57 million. It represented 55 per cent of the total shipping agency debtors	It is agreed with the debtors balance pointed out in the Audit Report as at 31.12.2021. **Colombo Port** The total shipping agents balance that had exceeded the approved loan period as at 31.12.2021 was Rs. 1,597,668,439 and it	The Management should take measures to introduce necessary internal control systems to recover the relevant loan balances within the approved loan

	balance.	had declined up to Rs. 1,466,503,343.48 by 23.05.2022. **Galle Port** The total shipping agents balance that had exceeded the approved loan period as at 31.12.2021 was Rs. 45,988,309.83 and it had declined up to Rs. 45,143,833.15 by 23.05.2022. This is a balance payable in connection with the vessels for which legal action had been taken. **Trincomalee Port** The total shipping agents balance that had exceeded the approved loan period as at 31.12.2021 was Rs. 23,920,622.92 and it had declined up to Rs. 19,986,564.32 by 23.05.2022.	period.
(b)	The dispute debtors and the re-dispute debtors as at 31 December 2021 were Rs.59.78 million and Rs.59.78 million respectively.	Agreed **Colombo Port** **Dispute Debtors** The Dispute Debtors balance as at 31.12.2021 was Rs. 58,625,900.04 and it had declined up to Rs. 8,554,348.45 by 23.05.2022. **Re-Dispute Debtors** The Re-Dispute Debtors balance was Rs.4,636,104.29 and it had decreased up to Rs. 1,226,992.90 by 23.05.2022. **Galle Port** The Dispute Debtors balance related to the Galle Port was Rs.1,156,420 and it belongs to the Shanika Marine Company (pvt) Ltd) . Action is being taken to settle the balance in due course.	Action should be taken to recover the receivables as soon as possible by resolving the current issues.

1.6.2 Advances

Audit Observation	Comment of the Management	Recommendation
The balance that remained in the financial statements as the received advances without refunding as at 31 December 2021 was Rs.619.39 million after setting the actual expenditure from the pre-paid advances of the shipping agents in	It is agreed with the balances in the Shipping Agents Advance Account as at 31.12.2021 relating to the Colombo Port. Out of the balances exceeding 06 months that remained in the Shipping Agents Advance Account as at	Taking into consideration the detailed schedules and age analysis on the balance of advances that remained after providing the relevant

	obtaining service facilities of the port, of which Rs.150.43 million out of Rs.619.39 million related to the Colombo Port had not been settled although 06 months to 5 years had elapsed from obtaining the relevant service. Further, the amounts paid by the shipping agents in excess of the invoice value to obtain port services had been indicated in the financial statements as shipping agent credit balances. That balance as at 31 December 2021 was Rs.508.68 million, of which Rs. 111.55 million out of Rs. 503.38 million related to the Colombo Port had not been settled although 06 months to more than 5 years had elapsed from obtaining the relevant service.	31.12.2021, the balances that had exceeded 06 months to 05 years as at 23.05.2022 have been settled up to Rs. 137.91 million. The credit balance exceeding 06 months to 05 years has been settled up to Rs.75.70 million. Out of the shipping agent credit balance of Rs, 111.55 million that remained over 06 months to 05 years as at 31.12.2021 relating to the Colombo Port, Rs.5.69 million represented the MCC Shipping Agent credit balance and that balance is for future services. Most of the other credit balances are the balances annually confirmed by the shipping agencies and those monies are used to settle bills from time to time according to their requirements. Similarly, most shipping agencies maintain a credit balance in their accounts in order to prevent from imposing surcharge bills by the Ports Authority. However, the Ports Authority informs in writing that the credit balances in their accounts annually be utilized to pay bills.	service from the money paid to the Authority to obtain services, and regarding the overpayments, action should be taken to settle the lapsed and immovable balances.

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

	Reference to Laws, Rules, Regulations	**Non-compliance**	**Comment of the Management**	**Recommendation**
(a)	Section 11 of the Finance Act No.38 of 1971.	Even though concurrence of the Minister of Finance was sought for the investment of Rs. 52,344 million made by the Authority in the fixed deposits and short-term deposits as at 31 December 2021, it had not been responded.	Not agreed. In order to obtain approval of the Secretary to the Treasury for the amount deposited in the year 2021, letters have been forwarded under the sign of the Minister of Ports and Shipping.	Action should be taken to obtain relevant approval for the deposit investments in terms of the Finance Act.

(b)	Section 10 (5) of the Finance Act No.38 of 1971 and Section 30 of the Ports Authority Act No.51 of 1979	In case there is a surplus in a state corporation for a given year, the balance after making deductions stipulated in the Act should be credited to the Consolidated Fund in pursuant to Section of the Finance Act No.38 of 1971. Similarly, as required by Section 30 of the Ports Authority Act No.51 of 1979, a dividend not exceeding 8 percent (minimum of Rs.607 million) per annum should be paid to the Consolidated Fund on the value of the assets vested in the Sri Lanka Ports Authority and the financial contribution made to the Authority. However, only an amount of Rs.600 million, out of the net profit totaling Rs.69,687 , million received by Sri Lanka Ports Authority during the years from 2016 to 2021 had been credited to the Consolidated Fund. Further, the rent totaling Rs. 13,021million, levied by the Authority for the period of 2016 to 2021 from the two companies operating at the South Asian Gateway Terminal (SAGT) and the Colombo International Container Terminal (CICT), which were leased to the private sector on long-term basis, and the amount totaling Rs. 19,582 million, charged as royalty for the period, had been included in the aforementioned profit. It was further observed that these income were not the direct operating income of the port.	Not agreed According to the Sri Lanka Ports Authority Act, it has been mentioned that dividends should be paid subject to maximum of 8 percent of the Equity Capital borne by the Government in the establishment of the Sri Lanka Ports Authority. However, the Department of Public Enterprises has informed by the letter dated 24.04.2018 that the Sri Lanka Ports Authority has been exempted from paying dividends. Since the Sri Lanka Ports Authority itself is settling the loan obtained for the port projects of national importance, the relevant exemption has been effected.	The management is responsible for adhering to the provisions of the Finance Act and Sri Lanka Ports Authority Act in dealing with the surplus and dividends.

(c)	Sri Lanka Ports Authority Act, No.51 of 1979			
(i)	Section 37 (i)	The charges that may be levied by the Ports Authority shall be fixed, by the Authority with the approval of the Minister who shall, before giving his approval, consult the Minister in charge of the subject of Finance. As per the Item 24 of the Tariff-2019 revised in the year 2019 obtaining such approval, although the grace period for warehouse charges given for the containers is 21 days, a grace period up to 45 days had been given for that purpose in the Terminal service agreement entered into with the shipping agencies. The Rebates on storage given during the year under review was Rs. 2,286.44 million and the terminal service agreements had been signed with the conditions different to the conditions stipulated in the Tariff-2019. The approval obtained for that purpose from the Minister in charge of the subject of Finance was not furnished to audit.	After the establishment of Sri Lanka Ports Authority in the year 1979 by the Sri Lanka Ports Authority Act No.51 of 1979, all the “port services” included in the Act were provided by the Authority alone and subsequently, as per the policy decisions taken by the Government, the port services are provided by the companies established under the public-private partnership. Since the Port Authority is an institution established to achieve commercial purposes, it is essential to compete with other private terminals. Accordingly, terminal services agreements have been reached with the shipping agencies in accordance with the Board of Directors. Therefore, it is not necessary to obtain approval of the Minister in charge of the subject of Finance for the terminal services agreements.	Since the Ports Authority Act has been established in terms of Sri Lanka Ports Authority Act, action should be taken in accordance with the provisions stipulated therein and it shall not be an impediment to the operating activities.
(ii)	Section 39 (1)	The Ports Authority may, where any goods which have been placed in any transit sheds of the Authority, at the expiration of the relevant period, sell by public auction without prejudice to the	It is agreed with the unsettled balances. Although it is agreed with the unsettled balance as at 31.12.2021 shown in the report, that balance contained only the	It is the responsibility of the management to prepare an internal control system so as to provide the funds received from the auctions to the

		provisions of section 40. Similarly, any saving after payment of relevant custom duty from the proceeds of the sale and deduction of warehouse charges and administration expenses of the Authority, should be remitted to the General Treasury. It was observed in the perusal of the financial statements of the Authority for the year ended 31 December 2021 that the unsettle balance of the proceeds of such auction sale as at 31 December 2021 was Rs. 385.14 million and it included a balance of Rs. 336.38 million unsettled to the relevant parties from the income received from the auctions from 2015 to 2020. Similarly, action had been taken to identify a sum of Rs. 63.31 million as the Authority’s share in the unsettle files relating to the auctions conducted from the year 2010 to 2014 to the previous year income. Nevertheless, action had not been taken to identify the custom duty payable to the Sri Lanka Customs and contribution to be made to the General Treasury and make those payments out of 52.57 million of the said auction sale income.	balances existed from the year 2015 to 2021. Further, in accordance with the accounting principles, action has been taken to adjust the amount of Rs. 63,305,383.00 as the Authority’s share related to the unsettled files to the previous year income.	relevant parties without delay in accordance with provisions of the Act.
(d)	Public Enterprises Circular No.PED/01/2021 dated 16 November 2021			
(i)	Paragraph 7 (3)	Even though Key Performance Indicators	Performance indicators have been prepared for the	Key Performance Indicators related to

		relating to the activities of each section of the Authority should be introduced and performance should be evaluated accordingly, Authorities had not fulfilled that requirement during the year under review.	sectors for which performance indicators have not been set and they are being reviewed at present.	performance of each sector should be identified and accordingly, performance of each sector should be evaluated.
(ii)	Section 3.1 (i) and the Letter No. DMS/F1-3/3/1 dated 23 January 2013 issued by the Department of Management Services.	The institute should prepare a scheme of recruitment and obtain approval of the Department of Management Services. Although the Sri Lanka Ports Authority had prepared draft schemes of recruitment and promotions, approval of the Department of Management Services had not been obtained therefor.	Once the scheme of recruitment prepared in accordance with the guidelines of the Public Enterprises Department was approved by the Board of Directors on 31.03.2022, it has been forwarded to the Department of Management Services for approval.	Action should be taken to prepare a scheme of recruitment in accordance with the provisions of the circular instructions and to obtain approval properly. As it was proposed at the Committee on Public Enterprises held on 22 July 2022, a scheme of recruitment should be prepared by taking into consideration the number of employees in the competitive terminals.
(e)	Letter No. MPS/AD/-83/06 2017 dated 12 February 2019 issued by the Secretary to the Ministry of Ports and Shipping and Southern Development	Although it had been informed that all recruitments and promotions of the Authority should not be made until the scheme of recruitment and promotion of the Sri Lanka Ports Authority is approved, the Authority had granted promotions for 227 posts of the primary service category without obtaining approval of the Department of Management Service in the year 2021 alone.	Due to difficulties found in the performance of essential duties without filling vacancies, these promotions have been made in the year 2021 in accordance with the scheme of recruitment approved by the Board of Directors. By the Letter No. DMS/1710-P-11(T) dated 21.06. 2021 of the Director General of Management Services, approval has been granted to fill vacancies as per the scheme of recruitment approved by the Board of Directors 2009/2010.	Recruitments and promotions should not be made without the approval of the Department of Management Services.

(f)	Paragraphs 01 and 07 (I, II) of Sri Lanka Ports Authority Internal Circular No. 02/2021 dated 01 January 2021.	The period allowed to reside in the official quarters provided to the officers of the Authority is limited to a maximum of 5 years from the date of first providing the quarters, and the officers who reside for another year after the completion of that period have the opportunity to thus reside by charging 12.5 per cent of the monthly basic salary of the respective officers with the approval of the housing committee. However, according to the audit test check carried out on the official quarters provided to the officers as at 31 December 2021 as per the information presented by the Authority, it was observed that the number of officers who remained those quarters for a period ranging from 6 years to 28 years without leaving was 413.	It is agreed with the fact that the employees were residing in the official quarters exceeding 05 years. The Circular No.26/27 dated 20.09.2017 states the maximum possible duration for residing in an official quarters is 05 years. Even though this clause had been included in the circulars issued on previous occasions regarding the reservation of quarters, it had not been possible to implement the same. The above matter had been discussed at the housing committee and as the trade unions had pointed out that the implementation of that clause may lead to disrupt the industrial harmony and to create industrial disputes, the relevant clause was not implemented.	That a formal and fair system should be identified and implemented in relation to the provision of official quarters so as to ensure the justice to all employees and that it is necessary to confirm the fact that the port employees themselves stay in the official quarters.
(g)	Section 2-12 of Sri Lanka Ports Authority Internal Circular No. FD/FA/D/41/2021 dated 14 October 2021	Although the advances obtained by all the heads of divisions and sections should be settled before the end of the respective year, advances amounting to Rs.80.89 million obtained by various divisions of the Sri Lanka Ports Authority on 106 occasions as at 31 December 2021 and Rs. 22.27 million paid to the suppliers for purchasing had not so been settled. Out of that a sum of Rs.2.15 million remained unsettled during 6-12 months, Rs.50.18 million during 1-2 years, Rs.2.97 million for 2-5	Agreed. According to the Note No.62 of the financial statements,2021, the value of unsettled advances as at 15.02.2022 was Rs.25.332 million. However, it has decreased up to Rs.10.60 million by 01.03.2022 and action will be taken to send a report on unsettles advances to all the divisions quarterly and informed the divisions to settle advances.	The internal control system should be introduced so as to assure that advances will be settled immediately after the completion of the relevant work.

		years and Rs.1.5 million exceeding 05 years. The reasons attributed to the long term non-payment of advances were not revealed to Audit.		
(h)	Section 2.2.5 of Guidelines on Corporate for State Owned Enterprises issued together with the Public Enterprises Circular No.01/2021 dated 16 November 2021,	Although a Board of Directors approved subsidiary policy for the subsidiaries of the parent company should be prepared and action should be taken accordingly, a subsidiary policy prepared for the subsidiaries of the Authority had not so far been furnished to the Audit.	Action is being taken to refer this matter to the Executive Committee meetings to be held in the future and take relevant measures.	Since there are subsidiaries belonging to the Authority, the Board of Directors approved subsidiary policy should be prepared for the subsidiaries and action should be taken accordingly in respect of the subsidiaries.
(i)	New Advance Personal Income Tax Tables of Inland Revenue Department	All the employees with monthly substantive profit over Rs.250,000 are liable to Advance Personal Income Tax and in the payment of tax, it can be deducted from the salary of the employee or directly paid to the Inland Revenue Department according to the desire of the employee. For the calculation of the Advance Personal Income Tax, all the financial and non-financial allowances received by the employees should be taken into account according to the tax tables issued by the Inland Revenue Departments. However, it was observed that in the calculation of Advance Personal Income Tax of 33 employees of the Ports Authority who expressed their consent for tax deduction, housing allowances, transport allowances and any other non-financial allowances had not been considered.	Not agreed. According to the guidelines on the Advance Personal Income Tax issued by the Inland Revenue Department, deduction of the monthly tax on the profit of the Sri Lankan citizen employment can be done only up on the consent of the employee. This monthly tax deduction is a payment of Advance Personal Tax. Accordingly, action has been taken to deduct tax from the date of expressing the consent of the relevant employee on all profits of taxable employment for which payments are paid through the salary preparation system.	Action should be taken to calculate taxes by taking into account all the allowances in terms of Inland Revenue Department Act.

1.8 General Control Systems on Information Technology

Audit Observation	Comment of the Management	Recommendation
Plans had been drawn to install a CCTV camera system for all gates and bonded warehouses to ensure the security of the port premises, which has been designated as a High Security Zone by spending Rs.60 million and Rs.150 million respectively from the capital budget of the years 2017 and 2018. A sum of Rs.150 million and Rs.600 million had been allocated from the annual budget during the years 2019 and 2020 and the letter of the Managing Director of the Authority bearing No. PA/MD/46 dated 09 March 2021 had also stated that a CCTV camera system would be installed. Further, according to the Cabinet Memorandum No. PFD/DFD//103CM/03 dated 30 January 2020 presented by the Minister of Finance and Economic Development, approval had been granted by the Cabinet Decision No. අමප/20/0174/222/003 dated 13 February 2020 to appoint a Cabinet Appointed Procurement Committee (CAPC) and a Technical Evaluation Committee for this purpose. However, without cancellation of that approval, the budget provisions made for the installation of the CCTV camera system in the year 2021 had been transferred to the consultation activities of the Planning and Development Division according to a decision of the Board of Management. Accordingly, installation of the CCTV camera system in the Colombo Ports Authority, which is a high security zone, had not been carried out and due to this, the risk of not being able to obtain the required information could not be ruled out in the event of a security issue and it was further observed that the conduct of confirmation inspections regarding the transparency and the efficiency of the operating activities would not be possible.	Procurement activities were carried out on two occasions to install CCTV camera system for the access gate of the Port and the relevant purchase was cancelled on that each occasion due to various reasons. Although the procurement activities for the purchase of a CCTV camera system was carried out last in the year 2020, the funds of that project were transferred to another development project in the first quarter of 2021 and relevant CCTV camera project was cancelled. Nevertheless, according to the requirement for the installation of a CCTV camera system, the management had decided to install cameras step-by-step to cover the main access gates of the Port and the installation of CCTV cameras to cover 02 out of 08 main access gates have been completed by now. Camera systems are due to be installed gradually for the remaining six gates in due course.	It is the responsibility of the management to implement as planned the tasks that were scheduled to be implemented by the Action Plan and are very important for the safety of the authority.

2. Financial Review

2.1 Financial Result

According to the consolidated financial statements presented, the profit of the group for the year under review ended 31 December was Rs. 19,843 million and the profit of the Authority was Rs. 20,695 million. The profit of the group and Authority were Rs. 18,030 million and Rs. 18,738 million respectively, thus increasing the financial results of the group and the Authority by Rs. 1,813 million and Rs. 1,957 million respectively. The increase in the revenue and container operations of the Authority which was Rs. 38,931 million in the preceding year and increase in the revenue in the year under review up to Rs.45,455 million due to depreciating the Rupee in relation to the US Dollar and increase in the interest income in comparison to the preceding year had mainly attributed to the above increase in the financial result.

2.2 Trend Analysis of the Main Income and Expenditure Items

	2021	2020	Difference	Percentage of the Difference
	(Rs.Millions)	(Rs. Millions)		%
Income	45,455	38,931	6,524	16.75
Direct Cost	(23,861)	(21,946)	(1,915)	(8.72)
Gross Profit	21,594	16,985	4,609	27.14
Other Operating Income	12,310	11,314	996	8.8
Administrative Cost	(9,039)	(7,770,)	(1,269)	(16.33)
Operating Porfit	24,865	20,529	4,336	21.12
Net Financial Cost	2,005	849	1,156	136.16
Foreign Excvhange Profit/(**Loss**)	(1,269)	(1,052)	(217)	(20.63)
Pre-tax Net Profit	25,601	20,328	5,724	25.95
Credit to the Consolidated Fund	-	-	-	-
Income Tax	(2,676)	(2,603)	(73)	(2.8)
Deferred Tax	(2,229)	1,014	(3,243)	(319.82)
After Tax Net Profit	20,695	18,738	1,957	10.44

The following observations are made.

i. As compared with the preceding year, income had increased by Rs.6,523 million or 16.75 per cent and other income had increased by Rs.996 million or 8.8 per cent.

ii. As compared with the year 2020, the direct cost and administrative cost had increased by 8.72 per cent and 16.32 per cent respectively during the year under review.

2.3 Ratio Analysis

		2021	2020
i.	Operating net profit ratio to the main operating income.	27.62%	23.67%
ii.	Current ratio	3.89:1	3.22:1
iii.	Quick ratio	3.77:1	3.11:1
iv.	Net profit ratio	34.62%	36.67%
v.	Gross profit ratio	36.12%	33.24%
vi.	Staff cost per employee	2,537,593	2,186,384
vii.	Long-term loans for equity capital	6.14:1	5.39:1
viii.	Staff cost as a percentage of the total cost	67.68%	64.96%

The following observations are made.

- Compared to the main operating income, the operating profit of 23.67 per cent in the year 2020 had increased up to 27.62 per cent in the year 2021 and the gross profit ration of 36.67 per cent of the year 2020 had decreased up to 34.62 per cent in the year 2021.

- The current ration and the quick assets ratio were 3.22:1 and 3.11:1 respectively in the year 2020 and they had increased up to 3.89:1 and 3.77:1 respectively by the end of the year under review.

- When comparing the staff cost of the Authority as a percentage of the total cost, it was 64.68 per cent in the year 2020 and it had increased up to 67.68 per cent by the end of the year under review.

- The long-term loan ration to the equity capital remained at 5.39:1 in the year 2020 and it had increased as 6.14:1 during the year under review.

3. Operating Review

(a) Container operations of the terminals of Port Authority and other terminals within Colombo Port

There were 05 terminals in Colombo port where operational activities including container handling were carried out by the end of the year 2021, out of which the Jaya Container Terminal, the Samagi Container Terminal and the Eastern Container Terminal were fully owned by the Port Authority. The other two terminals, the Colombo International Container Terminal (C.I.C.T) and the South Asian Gateway Terminal (S.A.G.T) had been leased under Built, Operation & Transfer basis for 35 years on 85 per cent ownership.

The details on the operations carried out as domestic and re-exports at all terminals of Colombo Port from the year 2017 to the year under review are as follows.

	2021 Units	%	2020 Units	%	2019 Units	%	2018 Units	%	2017 Units	%
<u>S.L.P.A</u>										
Domestic	321,121		231,053		274,734		328,813		388,282	
Re-exports	1,846,264		1,855,713		1,999,598		1,965,987		1,609,114	
Other	30,949		11,038		8,286		9,734		13,306	
Total	2,198,334	30	2,097,804	31	2,282,618	32	2,304,534	33	2,010,702	32
S.A.G.T										
Domestic	265,285		265,189		401,181		379,939		375,944	
Re-exports	1,521,373		1,568,769		1,593,234		1,644,336		1,406,265	
Other	52,035		38,094		57,738		42,483		27,626	
Total	1,838,693	25	1,872,052	27	2,052,153	28	2,066,758	29	1,809,835	29
C.I.C.T										
Domestic	612,649		593,427		597,417		634,497		619,325	
Re-exports	2,482,410		2,188,979		2,209,228		1,992,035		1,726,203	
Other	117,272		102,500		86,921		49,662		43,003	
Total	3,212,331	45	2,884,906	42	2,893,566	42	2,676,194	38	2,388,531	39
Grand Total	7,249,358	100	6,854,762	100	7,228,337	100	7,047,486	100	6,209,068	100

The following matters were observed in this connection.

(i) There observed an increase (growth) in the total container operations and reshipments at Colombo Port during the year under review as compared with the previous years. Similarly, the number of container operations of the Port Authority had increased from 2,097,804 to 2,198,334 units, or by 4.7 percent at the end of the reviewed year compared to the previous year.

(ii) In the total container handlings of the year under review, the Authority had gained 30 per cent market share while South Asian Gateway Terminal (S.A.G.T) and the Colombo International Container Terminal (C.I.C.T) had acquired 25 per cent and 45 per cent market share respectively. The Colombo International Container Terminal Company (C.I.C.T) had secured the highest market share.

(iii) When the Terminal Occupancy Ratio of the container operations of the Authority is taken in to consideration, it was 60 per cent, 64 per cent and 70 per cent and 72 per cent and 70 per cent respectively from the year 2017 to 2021. Accordingly, the terminal occupancy ratio of the Authority had gradually increased from the year 2017 and it had decreased again during the year under review.

(b) Details on the arrival of ships at all the ports

Year	2021	2020	2019	2018	2017
Colombo	3,675	3,806	4,198	4,331	4,329
Trincomalee	117	135	142	189	233
Galle	14	22	43	84	87
Kankasanthurai	-	-	11	59	63
Hambantota	374	374	314	270	230
Total	4,180	4,337	4,708	4,933	4,942

When taking into consideration the arrival of naval vessels, there was a decrease in the number of vessels arriving at the ports of Colombo, Galle and Trincomalee from the year 2017 to the year 2021. This was due to the arrival of large vessels instead of medium and small vessels. Further, when considering the year 2021 in relation to the year 2020, it was observed that not a single naval vessel had arrived at Kankasanturai port.

(c) Details on the cpntainer vessels arrived at the Colombo Port

Compared to the year 2019, the arrival of container vessels at the Colombo port in the year 2020 had

Year / Institute	2021 No.of Vessels	2020 No.of Vessels	2019 No.of Vessels	2018 No.of Vessels	2017 No.of Vessels
Ports Authority	1,286	1,252	1,355	1,342	1352
S.A.G.T	867	926	1,016	1,152	1073
C.I.C.T	1,027	1,103	1,233	1,245	1258
Total	3,180	3,281	3,604	3,739	3683

deteriorated by 9 per cent and it had decreased by 3 per cent in the year 2021 in relation to the year 2020. Further, the container operating vessels arrived at the terminals of the Authority had increased by 2.7 per cent during the year under review. Similarly, 6.8 per cent decrease in the arrival of vessels at the CICT and 6.4 per cent decrease in the vessels arrival at the SAGT was observed. Overall, a decrease in the number of container vessels arrival at the port of Colombo was observed and the reason for this was observed as the arrival of larger vessels.

1. **Market Share**

According to the Alpha Liner Report issued by the Alpha Liner Organization on container operations of the Ports in the World for the year 2021, the Port of Colombo operated 7,249,358 Twenty Equivalent Units (TEU) and was able to secure the ranking of 22nd in the world. Accordingly, 5.8 per cent increase had been obtained as compared with the year 2020. Further, the container handling of the Sri Lanka Ports Authority had increased by 5 per cent in the year 2021 compared to the year 2020.

The market share of the Authority in container handling in the port of Colombo had dropped from 81 per cent to 30 per cent between period 2001 and 2021. Howver, the SAGT, a private company that competitively operates in the port of Colombo, had gradually increased from 19 per cent to 51 per cent during that period and then gradually decreased to 25 per cent. The CICT had secured a sharp increase from 01 per cent to 44 per cent. Details appear below.

Year	S.L.P.A No.of Container Units --------	Percentage ----------	S.A.G.T No.of Container Units --------	Percentage ---------	C.I.C.T No.of Container Units ---------	Percentage ---------	Total No.of Container Units --------
2001	1,396,946	81	229,670	19			1,726,616
2002	1,206,694	68	558,025	32			1,764,717
2003	1,334,900	68	624,439	32			1,959,339
2004	1,320,845	59	899,720	41			2,220,565
2005	1,523,794	62	931,526	38			2,455,300
2006	1,743,669	57	1,335,411	43			3,079,078
2007	1,834,734	54	1,546,497	46			3,381,231
2008	1,747,670	53	1,739,668	47			3,687,338
2009	1,714,488	49	1,749,809	51			3,464,297
2010	2,167,173	52	1,970,268	48			4,137,441
2011	2,299,446	54	1,963,441	46			4,262,887
2012	2,316,849	55	1,870,271	45			4,187,120
2013	2,501,863	58	1,746,802	41	57,541	1	4,306,206
2014	2,559,339	52	1,661,940	34	686,636	14	4,907,915
2015	2,252,323	44	1,371,245	26	1,561,899	30	5,185,467
2016	2,100,117	37	1,632,207	28	2,002,599	35	5,734,923
2017	2,010,702	32,	1,809,835	29	2,388,531	39	6,209,068
2018	2,304,534	33	2,066,758	29	2,676,194	38	7,047,486
2019	2,282,618	32	2,052,153	28	2,893,566	40	7,228,337
2020	2,097,804	31	1,872,052	27	2,884,906	42	6,854,762
2021	2,198,334	30	1,838,693	25	3,212,331	44	7,249,358

Accordingly, it was observed that the main function of the port, that is, the handling of containers, is gradually being deprived from the Port Authority and is being taken over by the private sector.

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	REcommendation
(a)	According to the cadre information submitted by 24 divisions of the Authority as at 31 December 2021, although 513 employees had been deployed in excess to the approved cadre of the Authority for 77 posts as at 31 December 2021, there had been vacancies for 633 employees in operation section where there was a direct relationship to the operations the Authority. Similarly, there was an excess of 427 employees in 12 divisions where there was no direct relationship to the operational activities of the Authority. However, Rs. 5,850 million had been paid as overall overtime, including overtime payment of Rs. 1,173 million paid for employees of divisions with excess staff in 2021. 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 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 to the Audit.	Due to the non-functioning of 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. The posts of Work Assistant, Health Employee, Photocopy Machine Operator, and Kitchen Assistant are not included in the cadre which was prepared in 2012 and approved by the Department of Management Services on 23.01.2013. The post of Work Assistant was newly created for those posts and several other posts. Nevertheless, the employees who were in the above posts are working under the same designations, thus showing an excess.	The management should take action to employ the staff effectively and thereby reduce overtime costs and arrangements should be made to approve overtime in advance and maintain the work done reports.
(b)	An appeal could have been made to the Minister of Finance against the decision made after the Customs investigation in terms of Section 165 of the Customs Ordinance to ease 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. Nevertheless, the Sri Lanka Ports Authority had not made such an appeal to the Minister. However, contingent liabilities amounting to Rs. 957.9 million	Even though the report states that the Authority had filed a "motion" in the Supreme Court on 02.02.2020 against the order of the Court of Appeal in the year 2018, it should be correct as an "appeal petition".	As the involved institutions are public institutions, all necessary steps should be taken to resolve the dispute on a fair basis as expeditiously as possible.

	had been allocated in the accounts for this purpose. The case filed by the Authority in the Court of Appeal in this connection had been dismissed and the Authority had filed a motion in the Supreme Court in the year 2020 against the order of the Court of Appeal. However, according to the letter dated 09 March 2022 of the Director General of the Department of Trade and Investment Policies of the Ministry of Finance, approval had been granted to ease the custom penalty to Rs.50 million on a Cabinet decision.		
(c)	According to the information provided by the Authority, the periods of lease agreements of 14 plots of land with an extent of 3acres 6.46 Perches and around 145.1230 square meters owned by the Sri Lanka Ports Authority had expired by 31 December 2021. However, the risk of legal issues arising regarding this cannot be ruled out in audit 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 03 years, 05 years 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. However, there are instances where there is a significant delay on the part of the valuation department in providing government valuation reports during re-leasing. Similarly, the agreements have been renewed within the stipulated time, except in some cases where the required approval was delayed due to certain administrative reasons.	It is the responsibility of the Authority to keep the lease agreements up to date.
(d)	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 eliminated 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 the matter has been referred to the Attorney General to file a case to decide on the compensation of the land.	Action should take to Carry out the transfer of lands in a proper manner and remove the relevant assets from the books.

(e)	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, no action had been taken until 30 April 2021 to assess the land and legally transfer it and remove the value from the books.	As a land of 94 perches situated near the Dageba and owned by the Customs Department had been given in exchange of the 02 acres of land provided by the Port Authority for the construction of the head office of the Customs Department during the construction of Gate No. 01 in the year 1981, it had been agreed in the preliminary discussions to evaluate each other and settle the difference, if any. Thereafter, while these activities were in progress, facts were presented that the land of the above mentioned 94 perches also belongs to the Sri Lanka Port Authority. As a result, it has not been possible to reach a final decision regarding this land exchange.	Action should be taken to transfer of lands according to proper procedures and remove the relevant assets from the books.
(f)	It had been agreed to implement the construction of a Multipurpose Terminal at the Port of Galle with the objective of developing the Southern territory under the loan agreement entered into on 28 March 2006 with the Government of Sri Lank and the Japan Bank for International Cooperation (JBIC). The approval of the UNESCO had to be obtained for carrying out this construction in the vicinity of the Galle Fort, which has been declared as World Heritage Site. It was decided to suspend this project due to non-extension of the loan period by the lender due to the delay occurred for more than 3 years for obtaining the approval. The consultation fee amounting to Rs.418 million incurred in this regard had been stated under the work-in-progress in the financial statements of the Authority as at 31 December 2021. According to a decision taken by the Audit Committee of the Sri Lanka Ports Authority in this connection, the Authority had, on 04 April 2021, made inquiries from the Sri Lanka	The amount paid as the consultation fee has been stated under the work-in-progress in the financial statements of the Authority for the year 2021 and a letter has been sent to the SLAASMB seeking instructions as to how the accounts should be maintained in this regard.	Action should be taken to account for the expenditure rationally in accordance with the Sri Lanka Accounting Standards by taking into consideration the nature of the expenditure and the future expectation.

	Accounting and Auditing Standards Monitoring Board regarding the manner in which this amount to be accounted. Nevertheless, instructions thereon had not so far been received and that expenditure had not been recognized as a capital expenditure or revenue expenditure up to 31 December 2021.		
(g)	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 due to acquisition of lands for the Hambantota Port Project and Rs. 4.39 million had been spent in 2014 for field duties and land clearing. Although the report relevant to the payment of compensation had been received by the Sri Lanka Ports Authority as at 30 April 2021, the ownership of the lands had not been taken over by the Authority.	The survey plan and other relevant documents have already been sent by the Hambantota District Secretary to the Ministry of Lands through the Commissioner General of Lands. Accordingly, the Hambantota District Secretary is taking necessary action to vest the ownership of the lands to the Sri Lanka Ports Authority.	With the lawful acquisition of lands, the value of the acquired land should be transferred from the land clearance account to the investment property account.
(h)	On 04 December 2019, a ship had collided with the Jaya Container Terminal at the Port of Colombo, damaging the Caisson, Fenders and Quay Wall etc. at the Container Terminal. The damage had been 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 other than the renovation of Caisson.	The Fenders damaged by this accident has been renovated. Since the Ports Authority lacked the necessary machinery and equipment facilities to carry out other repairs, it has to be done through an external contractor.	Action should be taken to carry out the relevant repair work without delay by suitably planning the work using the compensation received for the damages.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
The Colombo International Container Terminal (C.I.C.T) and the Eastern Container Terminal (ECT) are only two terminals currently in operation for container handling at the Port of Colombo with a capability to the arrival of vessels with the Draft of more than 14.25 m. The capacity of the Colombo International Container Terminal is 2.4	Only a part of the advance to be paid for Eastern Terminal Container accessories has been paid and the remaining part of the advance has not been paid by the banks due to shortage of foreign exchange. As a result, a delay has occurred for the future activities.	The large size container capable of operating from the vessels to the mainland should be procured in order to maximize the usage of operating capacity of the terminal and operating activities should be

million Twenty-Foot Equivalent Units (TEUs) per annum. By 2021, 270 vessels had arrived at the terminal and handled a total of more than 3.2 million container units. It had also exceeded its maximum capacity.

The construction activities of phase 1 of the Eastern Container Terminal with an annual capacity of 0.8 million container units of 18 m deep and 440 m long at construction cost of Rs. 11,168 million related to the Colombo Port Expansion Project and funded by the Bank of Ceylon had been completed in April 2016. Three cranes capable of operating from the vessel purchased for the Jaya Container Terminal to the mainland were installed and they had commenced operations at the Eastern Container Terminal (ECT) as per the decision of the Board of Directors bearing No. PA/HD/ dated 07 February 2020. Subsequently, cabinet approval had been obtained for that purpose. Thereafter, the approval had been granted by the Cabinet Decision No. අමප/005/328/0198/21/ TBR dated 09 February 2021 for the development of the Eastern Container Terminal, the purchase of operating equipment and the carry out operations of the Container Terminal as a fully owned container terminal of the Sri Lanka Ports Authority. According to the information submitted to the audit, 30 container vessels (not in large size) had arrived at the terminal during the year 2021 and had handled 106,454 containers. Accordingly, the terminal usage was about 13.3 per cent. In order to maximize the utilization of the operating capacity of the terminal, the Sri Lanka Port Authority had entered into an agreement with a contractor in May 2021 to purchase cranes capable of operating from the vessel to the mainland at an

carried out competitively and efficiently. Accordingly. action should be taken to increase the market share of the Authority.

estimated cost of Rs.282.56 million and the supply contract had been awarded on 18 December 2021. According to the agreement, the mobilization advance was US $56.51 million, but the amount paid up to 20 June 2022 was US $ 18 million and the remaining amount had not been paid as agreed. Although the Authority had instructed the bank to release that money form the dollar deposits of the Authority, the bank had not released that payment to the contractor due to the liquidation issues. Since the payment of mobilization advance had not been completed, planning review meetings had not been conducted up to 20 June 2022 and accordingly, productions had also not been initiated.		

3.3 Transactions of Contentious Nature

Audit Observation	Comment of the Management	Recommendation
In granting Volume rebates by the Sri Lanka Ports Authority to the shipping agencies, the Minimum TEU's to qualify for the rebates scheme is taken into account in respect of the shipping agencies that had entered into Terminal service agreements with the Sri Lanka Ports Authority and Volume rebates of Rs.26.95 million had been granted under the approval of the Board of Directors to a shipping agency that had TEU's level less than the Minimum TEU's to qualify for the rebates scheme in the year 2020.	The volume rebates granted under the Board of Directors is Rs. 26,959,019. All other volume rebates given in the year had been issued after fulfilling the conditions stipulated in the terminal service agreement.	Action should be taken in accordance with the terminal services agreement.

3.4 Delay in the Capital Work

	Audit Observation	Comment of the Management	Recommendation
(a)	Since the length of the Jaya Container Terminal which performs the main operations of the Sri Lanka Ports Authority is 600 meters, it was found difficult to handle 02 large vessels with 330 meters at the same time and it causes	Not agreed. The decision taken by the Cabinet on 28.09.2020 related to the policy decision on the resumption of the contract and the related cabinet memorandum have been	A period of two years had been spent on reconsidering the project for which the contract was awarded. Although there was no increase in

	deprivation of business opportunities to the Authority. Given the aforesaid facts, Cabinet approval had been granted in July 2017 to extend the length of the terminal by 120 meters and prepare the dock with 15 meters in depth. As per the agreement entered into between the Ports Authority and the China Harbour Engineering Company Ltd (CHEC) on 29 November 2018, the cost of the contract was Rs. 5,035.30 million (excluding VAT). Although the notice for commencement of the contract should be issued to the contractor within a date not less than 07 days from signing the agreements in terms of Clause 8.1 of the agreement, the notice for commencement of work with Addendum 1 had been issued on 23 November 2020, that is, after a period of 02 years. This delay had caused due to obtaining approval again under the Cabinet Decision No. /001/328/1403/20TBR dated 29 September 2020 for the improvement proposed after discussing the matters once again on the relevant contract. After the amendment, it was expected to complete the above contract by 23 July 2022. Nevertheless, the physical progress of this project as at 31 December 2021 was only 30 per cent.	submitted to the Audit. The reasons for the delays are included therein. It is agreed with the fact that the physical progress as at 31 December 2021 was 30 percent.	the cost at that time, at present the contractor may request price escalations, and accordingly, the Authority has to bear additional costs. As it may cause a delay in the project, capital projects should not be delayed unnecessarily.
(b)	With the objective of achieving the North Eat Gateway Zone Concept, the Sri Lanka Government had signed a dollar credit line agreement with the Export Import Bank of India (EXIM Bank) on 10 January 2018 to obtained US $ 45.27 million to reconstruct the Kankasanthurai Port. Although it had been 04 years since the signing of agreement by 31 December 2021, constructions of the port had not been commenced. According to the information furnished to audit, issues on ownership of the relevant land had not been settled up to May 2020 and the clearance certificate on the security of the port could not be obtained up to that	The dollar loan agreement between the Government of Sri Lanka and Exim Bank of India was signed in January 2018. The agreement was signed in October 2018 to provide the loan amount to the Sri Lanka Ports Authority. • The project consists of two components namely consultancy work (including design work) and construction work. • For the purpose of selecting a suitable contractor for the consultancy works, Exim Bank of India invited	Due to failure in the preparation of realistic plans and non-implementation of projects as planned, uneconomic expenses such as commitment charges and price variations have to be incurred.

month. After the receipt of that certificate, the contract for the management and consultancy services had been awarded to an Indian company in October 2020. Although, renovation activities of the above contract were scheduled to be started in September 2021, renovations had not been initiated until May 2022. It was expected to spend Rs.1,001 million for this project as per the Appropriation Act, 2021, whereas only Rs.142.3 million was spent during the respective year. It had been 14.2 per cent of the expected capital expenditure. Similarly, out of the loan amount of US $ 45.27 million, only US $ 0.745 million had been spent as at 31 December 2021 and due to failure to utilize the funds, the Authority had to pay US $ 9,537.34 (Rs.1.94 million) as Commitment charges on the unclaimed mount of the allocated loan to the EXIM Bank of India as per the Clause 7.1 of the loan agreement. It was observed as an uneconomical expenditure.

applications from pre-qualified bidders and selected only one bidder and there were several conditions to be discussed with the bidder before awarding the consultancy contract. Therefore, several rounds of discussions were conducted between the Technical Evaluation Committee and the prospective bidder. Before the consultancy agreement was signed, its decision was referred to the Cabinet Appointed Standing Procurement Committee, the Board of Directors of the Sri Lanka Ports Authority and the Cabinet. After the completion of this process, the consultancy contract was awarded on 12 October 2020.

- Due to the Covid epidemic situation, adverse weather condition during the initial consultancy period (cyclones), the site inspections/ assessment activities were disrupted and the project progress was delayed.
- The constructions were scheduled to be started in July 2021 according to the original plan and works were delayed by 05 months up to 31 December 2021.