Jaya Container Terminals Limited – 2017

The audit of financial statements of the Jaya Container Terminals Limited for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 and the statement of profit and loss for the year then ended, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. . My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Jaya Container Terminals Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by section 163(2) of the companies Act No.07 of 2007, I state the following:

(a) The basis of opinion and scope and limitations of the audit as stated above.

(b) I have obtained all the informations and explanations that were required for the audit and as far as appeared from my examination, proper accounting records have been kept by the Company.

(c) The financial statements of the Company comply with the requirements of section 151 of the Companies Act, No.07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Eventhough according to the accounting policy 2.3.7 in the financial statements of the company mentioned that the relevant adjustments being made annually after reviewing the disposal value of the assets, useful lifetime and the method of depreciation such adjustments had not been made for companys' assets valued for Rs.42,731,605 during the year under review.

2.2.2 Un-reconziled Accounts

As per the financial statements of the company, Management Services Fee receivables from the Port Authority as on 31 December 2017 was Rs.25,458,072, but as per the financial statement of the Port Authority as at 31 December 2017 the payable was only Rs. 24,913,388. As such a difference of Rs.544,684 of the balances of that accounts was observed.

2.3 Accounts Receivables and Payables

The following observations are made.

(a) Action had not been taken to clear a sum of Rs.5,779,760 receivable from the Port Authority on design a building plan till 31 December 2017. Further, that value had not been shown as payable in the financial statements of the Port Authority. How ever, it was observed that recovery of this amount was in uncertinity.

(b) Out of the income tax payable as on 31 December 2016 amounted Rs.3,502,963, a sum of Rs.2,092,290 had been paid in 2017 but the balance amount of Rs.1,410,673 had not been settled even upto 30 March 2018.

2.4 Transactions not Supported by Adoquate Authority

The Board of Directors had taken a decision on 12 January 2016 that a annual allowances of Rs.200,000 was entitled to each member of the Director Board of the Company and out of that a sum of Rs.15,000 will be paid upon participation to a meeting and the unclaimed balance will be settled to each member at the end of the year. This payment was contrary with the public enterprices circular No.PED/3/2015 dated 17 June 2015 and a letter No.MPS/AD/6/68/2017 dated 18 April 2017 had been forwarded to the secretory of the Ministry of Finance to get the approval of the Treasury for this Rs.200,000 allowance but the approval had not been received till 31 March 2018.

Further, a sum of Rs.520,000 had been paid as transport allowance for the participation to the board meetings at Rs.10,000 each to the members of the board. Only the approval of the board had been received in this regard but the approval of the Treasury had not been received.

2.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, and Regulations		Non-compliances
(a)	Public Enterprises Circular No. PED/12 of 02 June 2003	
(i)	Section 4.2.2	In terms of circular a performance review had not been done in each divisions of the Company.
(ii)	Section 5.1.1	A corporate plan had not been prepared.
(iii)	Section 7.2	As a main element of the institutes' control environment, a Procedure Manual, covering all major operations of the Company, should be prepared. But the Company had not taken taction to prepare such a procedure Mannual.
(iv)	Section 7.4.5	A physical verification had not been done for the fixed assets valued for Rs.42,731,605 had as on 31 December 2017.
(v)	Section 9.3.1	Even though all institutions should prepare a Schemes of Recruitment for all posts and the approval of the Line Ministry and the concurance of the Department of Public Enterprices should be taken, the company had

		not prepared a Scheme of Recruitment and get the approval of relevant parties for the existing posts according to the circulars. The company had engaged 94 staff as at 31 December 2017 to cover its' duties.
(b)	Letters of the Department of Public Enterprices. - LetterNo.PE/PS/JCTL/2017 Dated 21 March 2017.	Eventhough instructions had been given to pay dividends of 10 per cent equalent to Rs.33,003,890 from accumulated profit of Rs.330,038,900 as at 31 December 2015 and 30 per cent equilent to Rs.23,295,457 from the net profit of Rs.77,651,525 of the year 2016 to the Consolidated Fund through the mother company Sri Lanka Ports Authority as at 31 July 2017 the relevant amount had not been paid to the Treasury even upto the date of this report. As such, this amount had not identified as a payable dividends in the financial statement of 2017. Thus payables had been understated by Rs.56,299,347 as at 31 December 2017.
	- Letter No.PE/PS/JCTL/GEN/2018 Dated 24 April 2018.	Instructions had been given to pay dividends to the Sri Lanka Ports Authority by the Company and the Sri Lanka Ports Authority should pay that income to the General Treasury as a part of their income.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a profit of Rs.104.7 million as compared with the corresponding profit of Rs.77.6 million for the preceding year, thus observing an improvement of Rs.27.1 million or 35 per cent in the financial result as compared with the preceding year. Increase in gross profit by Rs.26 million had been the main reason for the above improvement. The increase in the oil operation activities and the increase the Rupee value against the Dollar (devaluation of exchange) had been the main reasons for the said profit improvement.

The analysis of the financial result of the year under review and 04 preceding years revealed that the profit of the year 2013 amounting to Rs. 45 million had fluctuated in the following years and had Rs. 104 million by the end of the year 2017. In re-adjusting the employees remuneration, tax paid to the government, and deprecation on the non-current assets, the contribution of the Company amounting to Rs. 159 million in the year 2013 had fluctuated and it had reached to Rs. 237 million by the end of the year 2017.

3.2 Analytical Financial Review

The following observations are made.

(a) The company supplies storage facilities for 03 types of major oil, heating, and supplies of freight facilities. The company charges 03 types of service charges on its services such as oil freight charges, storage charges, and heating charges for MFO 380 oil. As such, during the during a sum of Rs.255 million, Rs.183 million and Rs.100 million had been collected respectively during the year and accordingly, a sum of Rs.538 million had been collected as income. Further, a sum of Rs.10 million had been collected as overtime charges income and other charges and then a sum of Rs.548 million had been received as total income. Out of that Rs.301 million or 55 per cent had been the share of the Port Authority and Rs.247 million or 45 per cent had been retained as the income of the company.

(b) The current year income of the company had improved by Rs.43 million or 21.13 per cent as compared to the preceding year income of Rs.203 million and increase of oil operation activities by 20.68 per cent and increase of exchange rate had mainly attributed for this improvement.

4. Operating Review

4.1 Performance

4.1.1 Performance and Review

The key function of the Company is to loading and unloading of 03 types of bunkering oil and the details thereon relating to the year under review and three preceding years were as follows.

Units Metric Tons

Type of Oil	2017		2016		2015		2014	
	Loading	Unloading	Loading	Unloading	Loading	Unloading	Loading	Unloading
MFO 180	25,591	23,627	26,610	26,513	38,172	36,377	46,083	48,131
MFO 380	481,239	506,773	378,300	386,345	347,143	338,750	226,153	243,460
M.GAS oil	52,007	45,802	56,522	57,523	50,714	50,274	61,402	61,997
Total	**558,837**	**576,202**	**461,432**	**470,381**	**436,029**	**425,401**	**333,638**	**353,588**
Increase Units	95,441	82,194	25,403	44,980	102,391	71,813	-	-
Percentage of annual increase	21	17	6	11	31	20	-	-

The following observations are made.

(a) As compared with the year 2016, loading of MFO 380 oil had increased by 27 per cent while the Marine Gas Oil (MGO) and MFO 180 oil had decreased by 8 per cent and 4 per cent respectively. Entire loading had increased by 20 per cent due to the increase of loading of MFO 380 which was representing 87 per cent in total oil loading.

(b) As compared with the year 2016, discharging of MFO 380 oil had increased by 31 per cent while the discharging of Marine Gas Oil (MGO) and MFO 180 oil had decreased by 20 per cent and 11 per cent respectively in 2017. Entire discharging had increased by 18 per cent due to the increase of discharging of MFO 380 oil which was representing 86 per cent in total oil discharging.

(c) Out of the 13 tanks belonging to the Company having total capacity of 35,988 metric tons, 06 oil tanks having 58.51 percentage capacity were storing MFO 380 oil, 06 oil tanks having 26.4 per cent capacity were staring MGO oil and other tank having 15 per cent capacity were storing MFO 180 oil.

(d) While considering the oil storage charges in each years, the total utilization of tanks for 03 categories of oil in the year under review and 04 preceding years are as follows.

Year	**2017**	**2016**	**2015**	**2014**	**2013**
Utilization Ratio (percentage)	61.03	57.77	47.59	51.53	34.22

According to the above data, 34 per cent capacity utilization in 2013 had gradually increased to 61 per cent in the year 2017.

4.2 Management Activities

The following observations are made.

(a) 03 types of oil are storing by 11 agents in 13 tanks belongs to the Company and those tanks are commonly used by the agents. Oil quantity pumping in to the tanks and oil quanting removing from the tanks are not measuring accurately and, therefore, 2,576 metric tons oil stock had been confiscated by the Sri Lanka Custom in 04 instances due the difference had in between the book balances and physical balances in the year 2014, 2015, 2016 and 2017. Those oil sold by the custom had been purchased by above agents and had been issued to the vessels. Until selling those oil after being confiscated by the Custom no storage charges had been levied. How ever, it was observed that by introducing most efficient stock control methods the Company can earn more income from storage charges.

(b) It was observed that in some occations no proper share transfers had been done while retireing or resigning relevant designations holding officers due to Company had used personnel names instead of officers designations at the issuing of company shares transfer certificates; Therefore, the risk could not be avoided in the legal complication of validity and updating of activities in the transferring of shares.

(c) Upon receiving meterials to the stores, Goods Reciving Notes should be issued and details of the meterials should be recorded in the BIN cards. But the Company had procured materials valued for Rs.1,632,445 in 2017 but had not used Goods Receiving Notes and BIN Cards to record the materials received. Also, verification on balance stock at the end of the year had not been done and the relevant values had not been taken to the financial statements.

4.3 Staff Administration

Even though a proper delegation of works should be done for the staff in the company, the company had not issued duty lists for 61 officers out of 94 officers.

4.4 Internal Audit

An internal audit division had not been established and an internal audit had not been carried out during the year under review. The chairman had informed to the audit that an Internal Audit Officer had been recruited on 15 December 2017 and action had been taken to established an internal audit unit.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	**Observations**
a) Staff Management	Failure to get the approval for the Scheme of Recruitment.
b) Usage of Vehicles	Separate log books had not been used for each vehicles.