Jaya Container Terminals Limited - 2020

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaya Container Terminals Limited ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Policies

Audit Issue	Management Comment	Recommendation
It had been stated that residual value, useful lifetime and depreciation method of property, plant and equipment would be annually reviewed in accordance with Accounting Policy No. 2.3.8 contained in the Financial Statements of the Company. The useful life of motor vehicles cost at Rs.65,507,108 had been increased from 5 years to 7 years without the recommendation of the Asset Review Committee and a review had not been conducted by a Review Board as stated in the Accounting Policy as at 31 December 2020 in respect of other property, plant and equipment of the Company cost at Rs. 58,432,733 .	The useful life of motor vehicles was increased from 5 years to 7 years on the recommendation of the Head of Engineering Division. Some of these vehicles are over 5 years old and because it is expected to be used in the future years as well, that decision was made. An Assets Review Board will be appointed and act on its recommendations in future.	Necessary adjustments should be made on the recommendation of an Assets Review Board.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
As a result of recognizing the warehouse charges of Rs. 6,337,204 to be received to the Company from the Ceylon Petroleum Corporation from 1 November 2014 to 31 December 2019 as revenue for the year under review without recognizing as storage charges receivable in previous years, the profit of the current year had been overstated by was Rs. 6,337,204 . Nevertheless, a disclosure in the financial statements as required had not been made transaction so that this transaction could be recognized by the	As the agreement with us and the Ceylon Petroleum Corporation since 2015 had been cancelled, our institution could not be able to issue invoices for the remaining stocks in those years. Nevertheless, actions have been taken to issue this invoice in the year 2020 as per a Decision of Board of Directors to pay according to a request made by us in the	Necessary disclosures should be made so that the financial statements publication users can be aware.

financial statements users.	year 2020 from Petroleum Corporation and in response to our request to enter into an agreement with the Company.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Even though it had been stated that the balance receivable to the Company from the Sri Lanka Ports Authority as at 31 December 2020 was Rs. 28,268,536 as per the financial statements, the amount to be paid to the Company by the Sri Lanka Ports Authority as per the balance confirmation letter given to the Company by the Authority as at the date was Rs. 26,947,624 . Accordingly, a shortage of Rs.1,320,912 was observed in the balance due from the Sri Lanka Ports Authority. This difference had consisted of a sum of Rs.756,306 receivable from Lanka Maritime Services through the Sri Lanka Ports Authority for services rendered in December 2018 and Rs. 544,684 due from the Ceylon Petroleum Corporation from 2014. The Company had not taken the necessary steps to recover this amount or made the necessary provisions.	The Head of the Finance Division has presented a report on this arrears to the Meeting of the Board of Directors held on 25 February 2021. Therein, the Decision of the Board of Directors was that the money should be recovered in anyway from the relevant companies. Further, the Head of Business Development and Operations has been instructed to take actions in this regard.	Actions should be taken to recover the receivables by having discussions with the relevant institutions.

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

	Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a)	Circular on Good Governance issued by the Department of Public Enterprises No. PED 12 dated 02 June 2003			

(i)	Section 3.1	Although the Board of Directors should bear the statutory responsibility in directing the operations and management of the organization, it was observed that the Chairman was empowered to take decisions regarding recruitment, promotion, retirement and other matters relating to employees at the meeting of the Board of Directors held on 29 August 2011 at Jaya Container Terminals and the Company had not made arrangements to correct that that decision even by the 9 April 2021 .	It has been discussed at the meeting of the Board of Directors dated 25.02.2021 that the powers vested to the Chairman as per the Decision of Board of Directors dated 29/08/2011 on recruitment, retirement, termination of service and other relevant matters . There, it was decided that the actions taken under those powers should be made subject to inform to the Board of Directors. It was further determined that the actions not so taken would be considered as null and invalid decisions.	Because the Governing Council is responsible for the affairs of the Company, the relevant work should be done on the decisions of the Board of Directors
(ii)	Section 5.1	A Corporate Plan had not been prepared showing the future direction of the Company and including realistic and achievable goals.	A plan of projects that the company expects to complete in the short and long term over the next 5 years by the institution has been included on pages 20-21 of the Corporate Plan prepared by the institution . These are the goals and targets that the organization expects to achieve in the next 5 years.	It is the responsibility of the Management to prepare a Corporate Plan with a long term vision as per the Circular.
(iii)	Section 8.2.2	If a state-owned company makes short-term deposits, Treasury Bills, Fixed Deposits or other financial investments, although	The institution has invested all the excess money in Bank Of Ceylon fixed deposits. All these deposits were the deposits made	when investing excess money in a state-owned company, the relevant concurrence should be obtained as

		the concurrence of the Minister of Finance should be obtained, the concurrence of the Minister of Finance for investments amounting to Rs. 185,420,331 as at 31 December 2020 had not been obtained.	before 2019. Actions will be taken to obtain the approval of the Minister of Finance for future deposits.	the circular.
(iv)	Section 9.2	Although every government enterprise should register the Organizational Chart and the Cadre with the Department of Public Enterprises in Treasury, the Company had not met the above requirement.	Activities have been commenced to appoint an Advisor through the Procurement Committee appointed to choose an Advisor and to register the Organizational Chart and the Cadre in the Department of Public Enterprises.	The Management should take actions to meet these human resource requirements as per the Circular.
(v)	Section 9.3.1	A formal Scheme of Recruitment for the Company had not been formulated with the approval of the Board of Directors and the Line Ministry and the concurrence of the Department of Public Enterprises.	Activities have been commenced to appoint an Advisor through the Procurement Committee appointed to choose an Advisor and to prepare a formal recruitment procedure and to obtain the approval of the Board of Directors, the approval of the Line Ministry and the approval of the Department of Public Enterprises.	It is needed to prepare a Scheme of Recruitment and obtain the approval as stated in Paragraph in order to manage the human resources in a formal and transparent manner.
(vi)	Section 9.9	Although all the details related to the overtime payments for each month should be submitted to the Board of Directors to obtain the Covering Sanction, the detailed information of overtime payments	Actions will be taken in this regard in future.	All the detailed information related to overtime payments should be submitted to the Board of Directors.

		made by the Company in the year 2020 amounting to Rs. 26,915,745 had not been submitted to the Board of Directors monthly to obtain the approval.		
(vii)	Section 9.12	Although the approval of the Department of Public Enterprises should be obtained for any welfare scheme implemented by the Company, a sum of Rs. 2,690,880 had been paid by the Company during the year under review to the employee, spouse and one dependent as Rs. 200,000 per each up to Rs. 600,000 per annum under the hospital medical bills payment scheme implemented without obtaining the relevant approval .	The concurrence given by the letter dated 30/5/2017 by the Director General of the Department of Public Enterprises to implement a medical aid scheme for the employees of Jaya Container Terminals Limited is submitted.	Actions should be taken to obtain the approval of the Department of Public Enterprises for the welfare scheme introduced.
(b)	Sections 3 and 7 of Part I of the Shop and Office Employees Act No. 19 of 1954 dated 9 August 1954	If an organization deploys the employees on a shift basis, although it should be limited to a maximum of 8 hours per day and 45 hours per week, 46 employees who were attached for operational activities in the year 2020 had been deployed for a 24 hour shift.	The 24 hour shift has been introduced as per the service requirements of the company to carry out efficient and uninterrupted operation of the company. The approval was given to continue the aforesaid 24 hour shift system at the Meeting of the Board of Directors held on 25/02/2021.	The requirement to comply with the terms of the Shop and Office Employees Act should be found out.
(c)	Section 2 of the Management Services Circular No. 01/2014	Although the Company is not eligible for a cost of living allowance as it	The approval has been received at the Meeting of the Board	Actions should be taken in accordance with the Circulars.

	dated 06 January 2014	is an institution which does not determine the staff and relevant salaries as per Management Services Circular No. 30, Cost of Living Allowance of Rs. 7,800 had been paid from 2018 to 95 employees each.	of Directors held on 3 May 2018 for granting Cost of Living Allowance . To obtain approval for this, in response to the letter sent to the Secretary to the Line Ministry on 16.02.2018, the relevant Line Minister has sent a letter to the Director General, Department of Management Services on 23.02.2018 requesting approval for this.	
(d)	Sections 4 (i) and (ii) of the Articles of Association	As per the Articles 4 (i) and (ii) of the Articles of Association, 06 officers working in the Sri Lanka Ports Authority should hold one share of the share capital issued by the Company. Similarly, when an officer holding a share in the company resigns from the service of the Authority, the shares should be transferred to the officers nominated by the Authority, actions had not been taken to transfer the issued shares of five officers who had retired on 31 December 2020 to transfer to five officers nominated by the Authority. As a result, the risk of arising of legal issues regarding updates and validity of the transferring of shares could not be ruled out. Further, a copy of the	It is expected to make a request to the Ports Authority to create a mechanism to quickly aware the Jaya Container Terminals Limited when an officer who hold the shares of Jaya Container Terminals Limited resigns from the Ports Authority . The Receipt on issuing of share certificate for 99,993 shares issued to the Sri Lanka Ports Authority is submitted herewith.	Actions should be taken to transfer the shares of the officers who had left the Authority to the designated officers.

share certificate for 99,993 shares issued by the Company to the Sri Lanka Ports Authority was not submitted for audit.		

1.8 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) The withholding tax balance receivable as at 31 December 2020 was Rs. 1,540,551 as per the financial statements and the relevant withholding tax certificates were not submitted to audit. As a result, it was observed that there is an uncertainty regarding the deduction of the above withholding tax from the income tax.	When accounting for the interest on fixed deposits, the institution account for the interest income and withholding tax on an accrual basis until 31 December of each year (before 2020) . However, the bank issues a certificate of withholding tax only until the relevant maturity date. Since the amount appear in the certificates are deducted at the time of paying income tax, a certain amount of money had left in the withholding tax account in every year from 2014 to 2019 .	It is the responsibility of the Management to maintain the relevant certificates for withholding tax expected to be claimed.
(b) The Company had paid 20% of the agreed contract value amounting to Rs. 45,517,357 to the Sri Lanka Ports Authority during the year under review to pay to the Contractor to construct a new oil tank with a storage capacity of 3200 MT and to install a fire extinguisher system covering 10 oil tanks. Actions had been taken by the Company to obtain the Value Added Tax (VAT) of Rs. 3,371,656 consisted in the above amount as tax credit from the Inland Revenue Department in October 2020 as input tax based on a tax invoice issued under the letterheads	An amount of Rs.45,517,357.58 was paid to the Sri Lanka Ports Authority on 6 October 2020 with regard to the advance of 20% on the construction of an oil tank with a storage capacity of 3200 MT and installation of a fire extinguisher system for fuel tanks. After the payment was made to the Port, the Chairman, Jaya Container Terminals Ltd. has sent a letter on 20 October 2020, to the Ports Authority requesting to refund the VAT consisted of that money amounting Rs. 3,371,656.11 to the JCT and it has been requested to incur the VAT by the Sri Lanka Ports Authority itself, for the payments make on these capital expenditures in future and to claim as an input tax . However, Sri Lanka Ports Authority issued a tax invoice to us on 05.11.2020 for this expenditure. According to the tax invoice, we claimed this as an input tax. If it is failure to do so, there will	Actions should be taken to claim the input tax based on the tax invoice submitted by the contractor.

of the Sri Lanka Ports Authority without obtaining a tax invoice issued by the Contractor. Similarly, the above tax amount had been claimed by the Sri Lanka Ports Authority also as an input tax in the calculation of VAT payable in October and November 2020 based on the VAT invoice issued by the contractor. Accordingly, it was observed that the above mentioned VAT amounted to Rs. 3,371,656 had been claimed twice as an input tax by both the institutions.	be an over computation of cost in our institution due to this tax.

2. Financial Review

2.1 Financial Result

As per the financial statements presented ,the financial result for the year under review was a profit of Rs. **12.6 Million** and the corresponding profit of the preceding year was Rs. **92.9 Million.** Accordingly, a deterioration of Rs. **80.3 Million that is 86 per cent** was observed in financial results as compared to the preceding year. The decrease of sales income and increase of administrative cost had mainly attributed to this deterioration.

2.2 Trend analysis of Major Revenue and Expenditure Items

	2020 (Rs.)	2019 (Rs.)	Increase (Rs.)	(Decrease) %
Revenue	**210,560,557**	**283,793,238**	**(73,232,681)**	**25.8**
Cost of sales	**(123,039,082)**	**(145,548,202)**	**(22,509,120)**	**15.5**
Gross Profit	**87,521,475**	**138,245,036**	**(50,723,561)**	**36.7**
Administrative Expenses	**(89,217,343)**	**(83,699,866)**	**5,517,477**	**6.6**
Operating Ptofit / (Loss)	**(1,695,868)**	**54,545,170**	**(52,849,302)**	**96.9**
Financial Income	**23,809,889**	**43,232,258**	**(19,422,369)**	**44.9**
Financial Expenses	**(3,022,544)**	**(1,846,297)**	**1,176,247**	**63.7**
Non-operating income	681,501	**2,535,504**	**(1,854,003)**	**73.1**

Profit Before Tax	**19,772,978**	**98,466,635**	**(78,693,657)**	**79.9**
Income Tax	**(7,177,099)**	**(5,580,987)**	**1,596,112**	**28,6**
Profit of the Year	**12,595,879**	**92,885,648**	**80,289,769**	**86.4**
Earnings per share	**125.96**	**928.85**	**(802.89)**	**86.4**

i. The revenue had decreased by Rs.73,232,681 or 25.8 per cent over the previous year and non-operating income had decreased by Rs. 1,854,003, or 73 per cent.

ii. Administrative expenses had increased by Rs. 5,517,477 or 6.5 per cent as compared to the previous year.

iii. Financial income had decreased by Rs. 19,422,369 as compared to 2019 and the financial expenses had increased by Rs. 1,176,247. That is, financial income had decreased by 45 per cent and financial expenses had increased by 63 per cent.

iv. Earnings per share had declined by Rs. 802.89 or 86 per cent as compared to the previous year.

2.3 Ratio Analysis

		2020	2019	2018	2017	2016
i.	**Current Assets Ratio**	12.72:1	21.23:1	1:0.05	1:0.04	1:0.04
ii.	**Quick Assets Ratio**	1:0.07	1:0.04	1:0.05	1:0.04	1:0.04
iii.	**Gross Profit Ratio**	41.56%	48.71%	50%	55%	55%
iv.	**Operating Profit Margin to Revenue**	-0.80%	19.22%	22%	31%	29%
v.	**Net Profit Ratio**	5.98%	31.73%	32%	42%	38%

The following observations are made.

i. In reweaving operating profit as a percentage of revenue , it has been declining regularly since 2016 and it had dropped to 0.80 per cent in the year under review.

ii. The gross profit in 2016 was 55 per cent as compared to total revenue and it had gradually declined and dropped to to 41.56 per cent in 2020. Further, the net profit margin of 38 per cent in 2016 had fallen to 5.98 per cent by the end of the year 2020 .

iii. The current assets ratio and the quick assets ratio of the year were 2019 was 21: 1 and 1: 0.04 and the ratio had fallen to 12: 1 and 1: 0.07, respectively by the end of the year under review.

3. Operating Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Even though the Management Service Agreement entered into between Sri Lanka Ports Authority and Jaya Container Terminals Company for a period of 02 years with effect from 01 February 2017 had expired on 31 January 2019, this Agreement had not been updated until 22 March 2021.	Our Company had appointed a Committee to study the rules and regulations contained in the renewal of the Management Service Agreement at the Meeting of the Board of Directors held on 20.11.2020. The report of the Committee was approved at the Meeting of the Board of Directors held on 23.12.2020 and a letter dated 18.12.2020 including the proposals to the Minister of Ports and Shipping was sent to update the Management Services Agreement . Copies of this letter have also been sent to the Secretary, Ministry of Ports and Shipping and the Chairman/Vice Chairman, Sri Lanka Ports Authority. A meeting in this regard was also held on 02.03.2021 at the Ministry of Ports and Shipping under the patronage of the Hon. Minister with the participation of the management of the Sri Lanka Ports Authority and our institution. Accordingly, the Sri Lanka Ports Authority will hold a Meeting of the Board of Directors in this regard and take actions to sign this agreement. The Sri Lanka Ports Authority has that responsibility.	The risk of arising legal issues can be reduced by maintaining agreements up-to-date

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Three types of oil owned by 07 agents in 13 oil tanks owned by the Company are stored and there, tanks are commonly used by agents. As a result of deficiencies in the equipment used to estimate the amount of oil pumped into the tanks and the amount of oil removed, due to not estimating the oil stock correctly, an excess of 557 metric tons of oil was observed in between the book balance and the physical balance of the oil stock as at 31 December 2020.	The every measurement method used in the world for the oil industry is not 100% accurate. There is a probability of changing by about 0.05%. The amount of 557 MT oil had collected as a result of converting HSFO tanks and oil pipelines to LSFO.	Using technologically advanced methods for oil sizing so that to minimize the differences between book balance and physical stock.