

Sri Lanka Ports Authority and its Subsidiary Companies - 2022

1. Financial Statements

1.1 Qualified 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 Company (“Group”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, and the comprehensive income 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 and the Financial Act No. 38 of 1971. 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 Authority as at 31 December 2022 and, of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

In preparing the financial statements, management is responsible for assessing the 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 Section 16 (1) of the National Audit Act No. 19 of 2018, the Authority 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.

1.4 Scope of Audit (Auditor's Responsibility on the Audit of Financial Statements)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the Authority on 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 to cease to continue as a going concern.
- 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.

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 it 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 Preparation of Financial Statement

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to Relevant Standard	Comments of the Management	Recommendation
(a) In recognizing of financial assets measure at fair value through other comprehensive income although there should be an active market price to classify under the Level 01 in terms Section 76 of Sri Lanka Financial Reporting Standard No. 13 (SLFRS 13), the Colombo West International Terminal Pvt. Ltd. Which is an unlisted new company with no market price had been classified and disclosed under the Level 01.	Agree. In recognizing financial assets measured at fair value in Colombo West International Terminal Company (CWIT), the correction will be made by classifying under the Level 03 whilst preparation of financial statements in the future.	Actions should be taken to disclose under the relevant level as per standard.
(b) As per Section 51 of Sri Lanka Accounting Standard No. 16 (LKAS 16), although the useful life and scrap value of fixed assets should be reviewed annually and if there is a difference, the difference should be adjusted in the accounts as per Sri Lanka Accounting Standard 8, actions had not been taken to review 11 types of assets for which carrying value of Rs. 4,365 million belonging to Galle Port of the Authority by 31 December 2022.	A Committee consisting of the Operations Manager, a Mechanical Engineer and the Deputy Harbour Master (Galle) assess the assets of Galle Port for the evaluation of the existing assets in the mechanical, operational and navigational sectors of Galle Port and after receiving the report, the relevant information will be presented.	The Management should make arrangements to review the useful life of assets annually.

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| <p>(c) Transactions in foreign currency should be converted into local currency using the Spot Rate prevailing at the time of transaction as per the Section 21 of Sri Lanka Accounting Standard No. 21 (LKAS 21). Nevertheless, because the Selling Rate with higher value has been used instead of using Buying Rate at the price of Spot Rate in revenue recognition by the Authority, income of the Authority had been overstated.</p> | <p>Not agree. The Port Tariff of the Ports Authority is prepared according to the currency unit of American Dollar (USD) and the fees for the services provided are set and finally converted to the local currency as per the Selling Rate of the US Dollar. Calculation based on Selling Rate of the US Dollar to convert invoices for services provided by Ports Authority into local currency units is a method that has been followed for a long time and for that, local shipping agents, organizations such as CASA, SLAVO or the principals of shipping agents have not expressed any objection.</p> | <p>In recognition of income by the Authority, Buying Rate should be applied at the price of Spot Rate.</p> |
| <p>(d) When recognizing financial assets in foreign currency at the end of the accounting period, although it should be converted to local currency using the “Closing rate” as at the last day of the reporting period as per Section 23 (a) of Sri Lanka Accounting Standard No. 21 (LKAS 21), the rupee value of each debtor's outstanding bills had been stated at the exchange rate prevailing on the date of the bills by the Authority in reporting the value of debtors as at 31 December 2022. As a result, the value of debtors as at 31 December 2022 was not represented.</p> | <p>Not agree. Although the balance receivable as at 31.12.2022 for which the account balances are reported has been stated to be brought to accounts on the basis of the last exchange rate, it is practically impossible when considering the number of entities being transacted and the amount of invoices being issued. Further, changing of outstanding balance, as agreed with Shipping Agents regarding respective balances cannot be made.</p> | <p>In recognition of financial assets in foreign currency at the end of the accounting period as per the Standard, it should be converted to local currency using the Closing Rate as at the last day of the reporting period.</p> |
| <p>(e) It is not necessary to follow the Equity Method for accounting of investments in associate companies only in cases where the Parent Company is exempt from preparing Consolidated Financial Statements as per Section 17 of Sri Lanka Accounting Standard No. 28 (LKAS 28). Nevertheless, even though it had been</p> | <p>Not agree. In preparing the financial statements of the Group, the Equity Method is used for accounting of investments in associated companies as per the accounting policy of the Authority. When indicating the investment in associate companies</p> | <p>Equity Method should be used for accounting of investments in associated companies as per the Standard.</p> |

stated that the equity method is used for the accounting of investments in associate companies as per the 2.2.2 of the Accounting Policies of the Authority, though the Authority had prepared financial statements for the Group as at 31 December 2022, the investments in associate companies of the Authority were recognized Cost Method. As a result, the assets of the Authority had been understated by Rs. 765.6 million.

in the financial statements as per the Para 10 of Sri Lanka Accounting Standard No. 27 (LKAS 27) Separate Financial Statements it can be accounted for under Cost Method or Equity Method according to the Sri Lanka Financial Reporting Standard (SLFRS) No.09. Accordingly, the Equity Method is used to account for the Group of Ports Authority and the Cost Method is used to indicate the investment of the associated company's' in the accounts of the Ports Authority.

(f) Magampura Port Management Company (Pvt) Ltd [MPMC], which is a subsidiary company of the Authority and ceased operations since November 2017 had obtained a loan of US Dollar 24 million from a private bank in the year 2014. Out of which US Dollar 18.82 million (Rs. 6,836 million) had not been settled even as at the date of this report and it was also observed that the company does not have sufficient assets to settle the debt. Although the bank has filed two cases against the subsidiary company and the Authority in Colombo District Court in the year 2020 to recover this debt, a provision for contingent liabilities had not been made for that according to Section 1 (a) of Sri Lanka Accounting Standards No. 37.

Not agree. A provision has not been made for this purpose since all the conditions necessary to make a provision of contingent liabilities are not fulfilled as per Para 10 (a) of Sri Lanka Accounting Standards No. 37 and a disclosure has been made in this regard under Notes No. 41 and 43 of the financial statements of the year 2022 .

Because financial risk cannot be ruled out, provision for contingent liabilities should be made as per Sri Lanka Accounting Standards.

(g) Although a brief description of the nature of the commitment for each provision, as well as the timing and contingencies of payment should be disclosed as per Section 85 of Sri Lanka Accounting Standard No. 37 (LKAS 37), actions had not been taken in respect of claimable provisions of Rs.6,399 million

Not agree. A summary of the value indicated by the audit query is presented and by Note No. 55 in the financial statements for the year 2022 and in addition to that, detailed information of the relevant value has been presented to the audit in the form of

Actions should be taken to make relevant disclosures as per the Standard.

included in the statement of financial position of the Authority as at 31 December 2022 in terms of the Standard.

schedules. Since the volume of transactions allocated is large presenting it in the accounts itself is not practical.

- (h) In accounting the surcharge tax by the Authority, it had been brought to accounts as a tax to be paid in the year 2021 without being mentioned in the statement of changes in equity of this financial year as per the Statement of Alternative Treatment (SOAT) regarding Surcharge Tax Act No. 14 of 2022 issued by the Institute of Chartered Accountants of Sri Lanka in April 2022 and the indicted disclosure thereon had not been made in the relevant Statement of Alternative Treatment.

Agree. As per Addendum SOAT reissued on 10th August 2022, it has been stated that to make that adjustment to the opening retained earnings in the statement of changes in equity in the 2022 financial statement and to show in the statement of changes in equity as an expense in the year 2022 . Accordingly, actions will be taken to make necessary disclosures.

Actions should be taken in terms of the Statement of Alternative Treatments (SOAT) on Accounting for Surcharge Tax Act No. 14 of 2022 .

1.5.2 Accounting Policies

Audit Observations

Comments of the Management

Recommendation

- (a) Although the information presented in the financial statements should be relevant for the users of the financial statements to make decisions as per the 2.6. of Conceptual Framework for Accounting, the Authority had not acted accordingly at the following cases.

- (i) Due to the fact that the Notes do not indicate the US dollar value in addition to the rupee value in recognizing the income of the Authority, the growth/decrease in revenue relative to the decline in the operational activities of the Authority could not be clearly identified and the revenue increase occurred on foreign exchange adjustment in 2022 as compared to 2021 could not be more clearly identified by the users.

Not agree. In the submission of accounts by the Sri Lanka Ports Authority in accordance with Sri Lanka Accounting Standard No. 21, Para (9) it has been revealed by Accounting Policy Disclosure Notes No. 2.3 of the Financial Statements 2022 that the Sri Lankan Rupee is used as the presentation currency. Accordingly, there is no need to submit accounts in two currencies.

Arrangements should be made to indicate the Notes to revenue of the Authority in US Dollars.

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| <p>(ii) The appreciation in fair value of investment in unlisted shares as at 31 December 2022 was Rs. 29,974 million and the fair value of the shares invested in Hambantota International Port Group (HIPG) within that value had depreciated by Rs.143 million (USD 396,908.82) from 2021 to 2022. However, as a result of appreciation in foreign exchange rate, the fair value of shares of other investee companies including HIPG Company had appreciated significantly. As a Note on US Dollar value was not submitted in addition to the rupee value in recognizing the fair value of equity investments in companies by the Authority, the appreciation in fair value due to the adjustment of foreign exchange to the value of investments had not reflected in the financial statements.</p> | <p>Not agree. In submitting the statements of accounts by the Sri Lanka Ports Authority, it has been revealed by Accounting Policy Disclosure Notes No. 2.3 of the Financial Statements 2022 that the Sri Lankan Rupee is used as the presentation currency in accordance with Para (9) of Sri Lanka Accounting Standards No. 21 . Accordingly, the effect on foreign exchange transactions is accounted for as foreign exchange gains/losses in accordance with Accounting Standards. Accordingly, there is no need to submit accounts in two currencies.</p> | <p>Arrangements should be made to indicate the US dollar value in those investments by Notes as applicable.</p> |
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1.5.3 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
<p>(a) According to the land register of the Premises Division, it was stated that 14 plots of land valued at Rs. 250.8 million have been given to other institutions on lease basis and those lands had not been included in the register of investment properties maintained by the Finance Division. As a result, the value of the investment properties in the statement of financial position of the Authority had been understated and the value of the land had been overstated by the same amount.</p>	<p>Agree. After updating the fixed asset register, the problem of understating of investment property or overstating of land mentioned in the query may not arise.</p>	<p>The financial statements should be prepared on updated information by maintaining good coordination between other internal divisions of the Authority and the Finance Division.</p>
<p>(b) The fair value of shares of Hambantota International Port Group (HIPG) (unlisted) appearing in the financial statements of the Authority amounted to Rs. 59,577 million as at 31 December 2022 had been calculated based on the audited financial statements of the Company in the year 2021 and due to</p>	<p>Not agree. The audited accounts of HIPG Company have been received by the Sri Lanka Ports Authority on 11 May 2023. Accordingly, the necessary adjustments will be made in the accounts in the year 2023 .</p>	<p>As it is more accurate to determine the fair value of shares based on audited financial statements that figure should be disclosed in the financial statements.</p>

non-calculation based on financial statements for the year ended 31 December 2022, the investment value of HIPG had been overstated by Rs. 212 million .

- (c) Although the goods had been received and the full payment had been made in the balance of Rs.1,531 million as at 31 December 2022 in the foreign purchase advance account, there were additional stock and asset purchases valued at Rs.1,071 million which was not recognized in the income statement as expenses or capitalization of assets on a recognized policy. As a result , the profit/ non-current assets of the year had been overstated / understated by that value.
- Agree. Out of the balance of Rs.1071 million remaining in foreign purchase advance account, a sum of Rs. 59 million have been settled in the year 2023 and, arrangements are being made to settle the remaining balance.
- Actions should be taken to settle the outstanding balance of foreign purchase advance account.

(d) Ground Rent Revenue Receivable

- (i) A number of 244 uncleared import containers remained at the port yard for a period of 22 to 3583 days and the ground rent valued at Rs. 3,952 million remained receivable for those containers up to 31 December 2022 had not been recognized as revenue in the financial statements.
- Agree. A part of this has been released by the consignees and the related fees have been collected by the Authority. The remaining containers are those that have not been cleared by consignees and are goods held for inspection by customs. As the Import and Export Controller does not grant permission to release or list for tender the goods which were restricted for import, showing its ground rent as a revenue is impractical.
- Actions should be taken to recognize the relevant ground rent as revenue.
- (ii) Fifty imported vehicles which were not cleared remained at the port yard for a period of 810 days to 5203 days and ground rent of Rs.1,949 million to be received up to 31 December 2022 for those containers had not been recognized as revenue in the financial statements.
- Forty two out of the 50 vehicles mentioned here have been detained by the customs for inspection and as the ground rent has not been paid to the port if custom takes into custody, it is impractical to show the vehicles as income until they are cleared
- Actions should be taken to recognize the relevant ground rent as revenue.

by customs. Since the remaining 08 vehicles have been brought into the country within the period of import restrictions, it cannot be released to the port until the approval of the Import and Export Controller is received.

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| <p>(e) As a result of non-consideration of a sum of Rs. 9,787 million which is the value of the assets in further being used for which the Authority has received tax concessions in the calculation of deferred tax liability and accounting of the value of Rs. 1516 million intangible asset clearing account in twice, the deferred tax liability of the Authority had been understated by Rs. 996 million and the profit had been overstated by the same amount.</p> | <p>Not agree. Although the value of the assets which are further being used for the tax relief amounted to Rs. 9,787 million should be adjusted to the accounting book value, the value has been adjusted to the accounting book value as Rs.11,963 by a mistake and the deferred tax value has been understated only by Rs. 996 Mn. after correcting it.</p> | <p>Appropriate adjustments should be made by accurately calculating the relevant deferred tax.</p> |
| <p>(f) Because of using Rs. 58,025.7 million as profit before tax incorrectly instead of profit before tax according to the financial statements amounted to Rs. 57,025.7 million in the income tax calculation of the Authority, the tax liability had been overstated by Rs.123 million.</p> | <p>Not agree. It is not accurate to take Rs.58,025,790,184 as profit before tax in the income tax calculation and after make correct adjustment of Rs.57,025,790,184 as profit before tax, the tax liability is reduced by about Rs.123,137,909</p> | <p>Income tax calculations should be done accurately and the relevant adjustments should be made in the financial statements.</p> |
| <p>(g) In converting the foreign exchange income of the Authority into local currency, the following cases were observed where Selling Rate with higher value was used instead of Buying Rate.</p> | | |
| <p>(i) Due to the Selling Rate had been used in converting the "royalty" income received on the number of containers operated by Colombo International Container Terminal Company (C.I.C.T) that is the agreed minimum number of Twenty Equivalent Units (TEUs) and the number of containers handled in addition to the local currency, the value of other receivables had been overstated by</p> | <p>Not agree. In billing to charge "Royalties", it is done in American Dollar currency according to the agreement. The Selling Rate is applied from the beginning to take it into account and an adjustment is made in accounts when the Foreign Exchange Gain/Loss which arise in receiving refunds. Therefore,</p> | <p>In converting the relevant royalty revenue into local currency, foreign exchange should be used at the Buying Rate.</p> |

Rs.69.5 million as at the end of the year under review.	the income has not been overestimated.	
(ii) When converting the Royalty revenue paid by South Asia Gateway Terminal Company (S.A.G.T.) to the Authority and the value receivable from lease rent income as at 31 December 2022 to local currency, due to the use of Selling Rate, the said receivable balances had been overestimated respectively by Rs. 5.2 million and Rs. 2.9 million .	When billing to charge “Royalties” it is done in American Dollar currency as per the agreement. The Selling Rate is applied from the beginning to take it into account and an adjustment is made in accounts when the Foreign Exchange Gain/Loss which arise in receiving refunds. Therefore, the income has not been overestimated.	In converting the relevant royalty revenue into local currency, foreign exchange should be used at the Buying Rate.
(h) A loan agreement was entered into between the Government of Sri Lanka and the Japan Bank for International Cooperation (JBIC) on 28 March 2006 for the construction of a Multipurpose Terminal at Galle Port and the approval of the UNESCO should have been obtained for this construction near Galle Fort. The Project had been suspended due to the fact that more than 3 years had elapsed, the loan funds are not sufficient, and not extending the loan period. The consultancy fees of Rs.422.5 million spent for this purpose had been stated under the work- in- progress in the financial statements of the Authority for the year under review and the expenditure had not been recognized as capital or recurrent expenditure even by the end of the year under review. Further, the amount spent above had become an uneconomical expenditure due to non-implementation of this Project.	Not agree. Since the design plans of this project can be used at the time of restarting the project, this expense is not an uneconomic expense. Further, calling for project prospects for Galle Port has been commenced in 2022 based on these plans. Therefore, the plan prepared for the Galle Port Project has been adapted to the development project of the Galle Port by calling those project prospectus, this is not an uneconomical expenditure as the report states. Account No. 51 has revealed regarding this.	Arrangements should be made to account for the expenditure in rational in terms of Sri Lanka Accounting Standards considering the nature of expenditure, future prospects etc.
(i) A sum of Rs.4.39 million for field works and land clearing for the Hambantota Port Project in the year 2014, an amount of Rs. 108.77 million to the Hambantota Divisional Secretariat to compensate	Agree. The ownership of the land has not yet been transferred to Sri Lanka Ports Authority. The approval of the former President has been received for the transfer	Arrangements should be made to transfer the value of acquired lands from land clearance account to

those who lost their land in the years 2015 and 2016 had been incurred. Although the Authority had received the report on the relevant compensation payments by 30 April 2021, the amount of Rs.113.16 million spent had not been capitalized as investment property.

of the acquired land to the Sri Lanka Ports Authority. Deeds have been prepared and submitted to the President's Secretariat for signatures and certain documents have been returned to the Commissioner General of Lands due to several errors. The Office of Land Commissioner General is functioning to correct these documents and prepare the deeds. After transferring the land ownership to the Sri Lanka Ports Authority, these assets can be entered in the books of the Authority.

Investment Property Account when acquisition of lands legally.

(j) It had been stated in Note 12.2 of the financial statements that it had been agreed to give the shares of the South Asia Gateway Terminal (S.A.G.T) Company to the Authority at the value of Rs. 141.63 million to exchange the value of three cranes given by the Authority at the time of establishment of Company in the year 2001. This amount or ownership of shares, which was shown under other receivables in the financial statements, had not been given to the Authority even by the end of the year under review and the respective company had given confirmation of balance that there was no amount payable for the shares. Due to lack of a contractual relationship with the South Asia Gateway Terminal Company in this regard, the receipt of the shares of the relevant Company to the Authority was in an uncertain condition and, the Authority had not made any provision for impairment for the above receivables.

It is observed that the statement "Failure of establishing a contractual relationship with the South Asia Gate Terminal" has been presented without proper study of the incident. S.A.G.T. has been requested by letters continuously in order to obtain the share entitlement to be received to the Port Authority.

Actions should be taken to discuss with the relevant company in order to obtain the entitlement to be received to the Authority for the value of the cranes as per the agreement.

(k) An appeal had been submitted to the Tax Appeal Court regarding the calculation of the income tax of the Authority for the

Not agree. Since the Court of Appeal has given a judgment in favour of the Sri Lanka Ports

The relevant provisions should be made in the financial

financial years from 2007/08 to 2010/11 and as no judgment had been given, the taxes had not been paid for the respective years. However, although a provision of Rs. 6,387.35 million should be made in the financial statements for this, only a provision of Rs. 5,245.6 million had been made that is, Rs. 1,141.75 million less . Authority in relation to the tax year 2009/2010, a provision has not been made for this purpose in the accounts from the year 2020. A sum Rs. 5,245.6 has been made available in the accounts for other cases pending in the Court of Appeal. statements.

- (i) Although the the withholding tax balance shown as receivable as per the financial statements amounted to Rs. 581.31 million and the balance of income tax receivable amounted to Rs. 2,102 million as at 31 December 2022 should be offset against the tax liability payable, the Authority had not acted accordingly. Not agree. Until the amount is offset against the income tax payable it is accounted for and shown as income taxes receivable. Arrangements should be made to offset the applicable receivable withholding tax etc. promptly.

1.5.4 Unreconciled Control Accounts or Records

1.5.5

Item	Amount as per Financial Statements Rs. Mn.	Value as per corresponding records Rs. Mn.	Difference Rs. Mn.	Comments of Management	Recommendation
(a) Loan taken from a state bank for construction of Sooriyawewa Cricket Stadium	3,292.38	3,355.17	62.79	Arrangements are being made to discuss with the People's Bank through the Ministry in respect of the reason for the difference between these balances and to make relevant corrections.	The reasons for the difference should be examined and those differences should be corrected.
(b) Additions of Fixed assets related to 08 asset classes	316	866.2	550.2	Not agree. There is no difference between the additions made to the assets as submitted by the letter No. FD/FA/C/82/2023 dated 16 March 2023 and	The reasons for the difference should be examined and those differences

					additions to assets in Financial Statements.	should be corrected.
(c)	Ground rent receivable from debtor account No. 27	13.75	40.37	26.62	The amount of Rs.40,372,508 to be received from the private entity account No. 27 is accurate.	The reasons for the difference should be examined and those differences should be corrected.

1.5.6 Lack of Written Evidence for Audit

Item	Amount Rs. Mn.	Audit Evidences Unavailable	Comments of the Management	Recommendation
(a) The amount of Rs. 4,778 million as at 31 December 2022 including Rs. 4,406 million paid by the Authority in the year 2017 as an installment for the loan amount obtained for the Hambantota Port Construction Project and stamp duty of Rs. 372 million.	4,778	Balance Confirmations.	Not agree. Letters have been sent to the Secretary of the General Treasury to return the relevant amount to the Port Authority and it has also been informed about this through a Memorandum of Board of Directors to the Meeting of Board of Directors held on 12.02.2019. The Secretary of the Ministry of Ports, Navigation and Southern Development has sent letters to the Secretary of the Treasury asking for a discussion for this and the letters have also been sent to the Department of Public Enterprises requesting the above amount.	Actions should be taken to discuss with the Treasury to recover the amount receivable.
(b) As a result of the Dollar Loan received by the Treasury from a state bank for the construction of oil	377.8	Balance Confirmations.	Not agree. Letters have been sent to the Head Office of the Bank of Ceylon on 2021.03.31, 2021.06.15, 2021.12.02 and 2022.06.20,	It should have discussions with the Treasury and actions

tanks under the Hambantota Port Development Project was not paid by the Treasury on time, the amount of US Dollar 635,069 equal to Rs.377.8 million collected by the Bank from the USD account maintained in the name of the Authority in the State Bank in the year 2018

2023.03.24 in the year 2021, as in the previous years, requesting to correct this and return the relevant recovered amount. The Sri Lanka Ports Authority is making every effort to recover the amount. should be taken to recover the amount receivable.

(c) Investment in shares of Lanka Coal Company	10.7	Financial statements of the respective company 2022	Not agree. Although we have requested several times from Lanka Coal Company to provide us financial statements for 31 December 2022, the financial statements have not been received so far. Accordingly, it has been revealed that the investment value of Lanka Coal Company will remain unchanged from 2021 to 2022.	It should obtain the new financial statements of Lanka Coal Company and its values should be considered.
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1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observations	Comments of the Management	Recommendation
(a) The total overdue shipping agent debtor balance of the Authority was Rs.4,795 million as at 31 December 2022 and it was 64 per cent out of the total shipping agent debtor balance. The overdue debt balance of the Colombo Port amounted to Rs. 2,798 million had not been settled even by the date of audit.	<p>Agree with the debtor balance exceeded the loan period as at 31.12.2022.</p> <p>The amount of Rs. 6,035,370.99 receivable from the above shipping agencies has been submitted to the Audit Committee to write off for obtaining of recommendations on 11.05.2023</p>	The management should make arrangements to introduce necessary internal controls to recover the respective loan balances within the approved loan period.

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| <p>(b) The dispute debtors balance amounted to Rs.229 million as at 31 December 2022 and, the debtor balance sent for re-dispute amounted to Rs.10.8 million had remained unsettled.</p> | <p>Agree with disputed debtor balances. The balance of the Colombo Port dispute account has decreased to Rs.113,772,450 and the Re-dispute balance has decreased to Rs.5,613,084. The dispute bills of Rs. 107,909,678 in a private company are the bills referred saying to be contrary to the tariff revision of the Terminal Service Agreement and necessary arrangements for resolution is under discussion. It will be resolved according to the decision taken there.</p> | <p>Actions should be taken to resolve the existing issues and collect the receivables as soon as possible.</p> |
| <p>(c) Shipping agent debtor value amounted to Rs. 491.6 million that had been commenced litigations in respect of the balance receivable from debtors as at 31 December 2022 and although 12 debtors (including the Marshal of Admiralty High Court) had been mentioned by the Finance Division for the balance of Rs.428.8 million related to Colombo Port out of that, the Legal Division had not informed the Audit that the case was filed in respect of 4 debtors valued at Rs.20.2 million within that value.</p> | <p>Agree with the debtor value. It has been decided in AR (Account Receivable Committee) Committee to write off account numbers 278 and 303 from the balance books of shipping agents and</p> <p>it has been submitted to the Audit Committee on 11.05.2023 to get recommendations to write off the money amounted to Rs.6,035,370.99 accordingly. The certified copies of fees charged for the Diamond Discovery vessel of the private institution have been forwarded to the Legal Division. It has been sent for legal advice in respect of another institution also.</p> | <p>The ability to sue debtors who have not paid for a long time</p> |
| <p>(d) The Legal Division had informed to the audit that the judgements of the orders of cases filed were given in favour of the Authority in respect of premises rent debtor valued at Rs.40.3 million and two shipping agent debtors valued at Rs.3.5 million for which the Authority had not collected for a long time. However, although a long time</p> | <p>The court has informed us to provide the details of the assets owned by a private institution to recover the amount due from that entity and steps have been taken to seek the assistance of another entity related to the provision of that service in order to look for</p> | <p>It should look for failure of entering of debtor information and a debtor reconciliation statement should be prepared indicating the reasons for</p> |

had elapsed since the date of the order, actions had not been taken to implement those decisions and to recover.

the assets owned by those entities.

differences between debit balances.

The order of the case of Ocean Lanka Services (Pvt) Ltd, was given in favour of the Authority on 13.05.2019 in the Colombo District Court. Accordingly, steps are being taken to execute of writ. Unilateral order in Consolidated Marine Engineering Ltd. case was given on 12.11.2015 and a statement of decision was filed by the Authority in the Court on 21.01.2016. The calculation of the fees to be charged as per the statement of judgment filed and after the accuracy is given by the Court, the assets owned by that institution should be searched and the decision should be implemented after informing the Court.

- (e) The Authority had filed a case in the Colombo High Court for the amount due for the services provided for the MV Jammi vessel and a sum of Rs. 197.1 million (USD 1,945,712) should have been received by the Authority from the respective vessel as per the decision dated 13 March 2009. The amount received from the auction of the respective vessel had been deposited in the Court and although the petitioner State Company and the Authority had reached an agreement as per the Decision of the Board of Directors dated 23 February 2017 to share the remaining amount of USD 692,080 equally after releasing the respective amounts to the various parties entitled for that money, the entire amount was shown as receivable in the accounts furthermore.

Agree with the amount Rs. 197,093,842 to be received for services rendered on MV Jammi.

To carry out further discussion with relevant institutions and measures should be taken to get the amount receivable to the Authority as soon as possible.

- (f) Although a system should be followed to collect the lease rent and electricity bill reimbursements receivable for the leased

It is agreed with the debtor balance. The outstanding balance of premises rent related to

To carry out further discussion with relevant institutions

premises without delay within the stipulated period, in terms of Section 6.5 of the Internal Circular No. මුකො/මුචි/කො/41/2022 dated 21 November 2022 of the Authority, the premises rent debtors for more than 6 months had been Rs. 172.9 million and it was about 76 per cent of the total premises rent debtors. Out of which, only Rs. 1.1 million had been settled even by 24 May 2023 and the Authority had arranged to write off an amount of Rs. 5.6 million.

Colombo Port amounted to Rs.1,062,272.59 has been settled as at 24.05.2023. The amount of Rs. 5,614,262 receivable in relation with Team Work was written off in February 2023 as per approval of Board of Directors dated 30.01.2023 and actions are being taken to obtain necessary approval to write off the balance of Rs.77,032,359 which is over 06 months. Necessary arrangements are being made to establish a formal process for collection of receivables of for the leased premises.

and measures should be taken to get the amount receivable to the Authority as soon as possible.

(g) The Chief Legal Officer had informed that the Sri Lanka Ports Authority had informed the court that an amount of Rs. 81.6 million should be received for the services rendered by the Sri Lanka Ports Authority to the Barge Formentera vessel as per the judgement of the litigation heard in respect of the Vessel and after recalculating that value, the court had ordered to release an amount of Rs. 69.1 million to the Sri Lanka Ports Authority on 09 March 2023 . However, only a balance of Rs.34.3 million receivable from the respective shipping agent debtor had been accounted for.

As the respective money is issued by a cheque signed by the Registrar of the Court in issuing money from the court's account here, there is no possibility of currency fraud as assumed.

It should find out the reasons for the respective difference and relevant adjustments should be made.

(h) The balance of dispute debtors balance of the shipping agent with account number 393, which was a major shipping agent, consisted of 1,292 bills was Rs. 128.3 million and due to "the tariff revision of implemented by the Sri Lanka Ports Authority in the year 2022, contrary to the terminal service agreement of the respective shipping agent", the respective shipping agent had submitted the bills for dispute resolution. Actions had not been taken to settle the existing disputed

As the Balance of Account No. 393 Evergreen Shipping Agency Lanka (Pvt) Ltd amounted to Rs. 128,304,375 cannot be solved by the Committee on Settlement of Unsettled Bills, a decision has to be taken by the port authority. Accordingly, a decision will be taken by the Ports Authority in consultation with the relevant institutions. Accordingly, a

The criticized bills should be settled quickly and in revision of rates, the approval of the Minister of Finance should be obtained as per the Ports Act.

bills with the main client organizations as soon as possible and to obtain the approval of the Minister for Finance in terms of Section 37 (1) of the Ports Authority Act No. 51 of 1979 in the amendment of the charges of the Authority.

decision will be taken by the Ports Authority conducting discussions with the relevant institutions.

(i) Although it is essential to ensure that the relevant addresses are accurate when sending balance statements to third parties in terms of Sections 2.4, 2.5, 2.7 and 2.10 of Sri Lanka Ports Authority Internal Circular No. මුකො/මුඊ/කො/41/2022 dated 21 November 2022, the balance confirmations which were sent to get confirmed the balances of 25 creditors with a value of Rs.651.3 million and 9 debtors with a value of Rs. 3,839.4 million as at 31 December 2022 had been returned due to lack of accurate addresses.

As the previous address is correct according to the creditors' file of some institutions, arrangements have been made to issue the letter to that address. If the address given to the Authority has changed, necessary steps will be taken to update the address.

Due to lack of accurate addresses, the addresses of the returned balance confirmations should be checked and corrected.

(j) Seventeen creditors valued at Rs. 66.3 million and 13 debtors valued at Rs. 424.8 million whose balances were sent for balance confirmation as at 31 December 2022 had submitted balance confirmations with a difference of Rs. 14.7 million and Rs.416.9 million respectively.

If there is a contradiction with descriptive explanations for balances that do not agree with the balances of the Authority, actions will be taken to discuss with the relevant institutions and related adjustments will be made in the future.

To prepare a debtor balance reconciliation statement in respect of the Balance confirmations submitted with the differences and the reasons for the difference should be checked and necessary actions should be taken.

(k) Three shipping agents valued at Rs.80.5 million had submitted balance confirmations with a difference of Rs.19.6 million regarding shipping agent security deposits.

Even though the relevant shipping agents were asked in respect of the difference of balance no answers have been received so far. Arrangements will be made to discuss with the relevant institution and to receive answers in the future.

Necessary actions should be taken finding the reasons for the difference in respect of balance confirmations submitted with differences.

- (I) Actions had not been taken to recover an amount of Rs.940,230 receivable as commission to the Authority for carrying out maintenance works at Galleface Ground by Sri Lanka Port Management Consultancy Services Company (SLPMCS) and the amount of Rs.7.61 million spent by the Authority in the year 2018 for the modernization of the Galleface Ground from that Company.
- Agree. The amount of Rs.7,609,035.79 spent by the Sri Lanka Ports Authority in the year 2018 for the modernization of the Galle Galleface Ground it has been stated in the financial statements of the Authority as a receivable from the Sri Lanka Port Management and Consulting Company which is an associate company, approval has not yet been received that it should be written off from the books.
- Actions should be taken to recover this amount from the respective company.

1.6.2 Advances

Audit Observations	Comments of the Management	Recommendation
(a) After settlement of advance paid by shipping agents in respect of Port of Colombo, a sum of Rs.197.31 million out of the remaining balance as at 31 December 2022 amounted to Rs. 997.83 million and, although a period of 06 months to 05 years had elapsed, a sum of Rs. 130 million out of Rs. 2,755 million paid in excess of invoice value shown as shipping agent credit balance in the financial statements had not been settled even by the date of audit.	Agree with the balances. Out of the balance of the Shipping Agent Advance Account at Colombo Port the balance exceeding 06 months as at 15.05.2023, has been settled to Rs.197,312,750.28 and the credit balance exceeding 06 months from the shipping agent credit balance has been settled to Rs.130,230,144. A sum of Rs. 265,608 out of the shipping agent credit balance of Trincomalee Port as at 15.05.2023 and shipping agent credit balance at Galle Port up to Rs. 3,853,376.09 have been settled.	Arrangements should be made to settle the advance amount remaining after the providing of the relevant service from the advance amount paid to the Authority for availing the service, and lapsed and non-moving balances considering detailed schedules and age analysis of overpayments.
(b) There was an advance balance of Rs.331 million paid to suppliers on various occasions for the purchases of the Authority and within that balance, a balance of Rs.1.5 million paid between the year 2004 to 2008 and a balance of Rs.30	A report is being prepared on the actions to be taken by a Committee as per the instructions given in the Audit Committee Meeting (Meeting No. 02/2023) for these balances.	As soon as the respective purchases are made, advances should be settled and taken into

million that exceeded 2 months remained unpaid as at 31 December 2022.

Out of the balance of Rs. 329.5 million, the remained amount of Rs. 304.5 million has been settled and the remaining files will be settled and accounted for as soon as the relevant documents are completed.

(c) Although arrangements should be made to settle the old balances of advance payments relating to capital expenditure remained under account number 142342 in terms of Section 2.12 and Section 8.1 of Sri Lanka Ports Authority Internal Circular No. මුකො/මුගි/කො/41/2022 dated 21 November 2022, a balance of Rs.2.7 million exceeding 05 years and a balance of Rs. 134,841 exceeding 03 years had remained unsettled (without being capitalized). Further, due to inability to identify projects related to 03 advance payments valued at Rs. 7.2 million the aforesaid advances had remained without being capitalized.

The respective officers have been informed to act regarding the removal or continuation of the amount of Rs.2,783,834.60 exceeded 05 years. Capitalize the amount exceeding 03 years amounted Rs. 134,841.17 has been removed from the advance account by now. Details have been identified about 03 Advance Payment Projects valued at Rs. 7,269,570 .

respective accounts. As soon as the respective purchases are made, advances should be settled and taken into respective accounts.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	the Recommendation
(a) Finance Act No. 38 of 1971	(i) Section 10 (5) and Paragraphs (a), (b) and (c) of Section 30 of the Sri Lanka Ports Authority Act No. 51 of 1979	If there is a surplus in a particular year, after making the deductions specified in the Act, the balance should be credited to the Consolidated Fund and a dividend not exceeding 8 per cent per annum shall be paid to the Consolidated Fund on the value of the assets handed over to the Authority and the financial	Not Agree. It has been stated that dividends should be given subject to a maximum of 8% of the capital (Equity Capital) held by the government during the establishment of the Sri Lanka Ports Authority as per the Sri Lanka Ports Authority Actions should be taken considering that it is the responsibility of the Management to take measures with surplus and dividends as per the provisions of the Finance Act

contribution made to the Authority as per the Ports Act. The maximum dividend to be paid on the equity capital was Rs.15,383 million only for the years in which the Authority made profits in 43 years from the year 1979 to the year 2022 and only Rs.1,585 million equal to 10 per cent was credited to the Consolidated Fund. However, only Rs.985 million equal to 2 per cent of the profit- after-tax of Rs.39,433 million had been remitted to the Treasury as dividends for the years 2020 and 2021 and no money was remitted to the General Treasury for the year under review.

Act. However, 8% of the equity capital of Rs. 600 million in terms of Section 30 (1) (c) of the Port Authority Establishment Act No. 51 of 1979 in the year 2019 and only an amount of Rs. 1000 million has been paid by the Sri Lanka Ports Authority based on the approval received from the Ministry of Finance, Economic Stabilization and National Policy's letter dated 31.10.2022 and Board Paper No. PAM/208/2022 dated 26.10.2022 . accordingly, it is pointed out that the total amount credited to the Consolidated Fund only from the Sri Lanka Port Authority is Rs.1,600 million (in the years 2019 and 2022) .

and the Sri Lanka Ports Authority Act.

(ii) Section 11

The concurrence of the Minister of Finance had not been obtained for Rs. 104,533 million invested by the Authority in fixed and short-term deposits as at 31 December 2022.

Letters have been submitted by the Ministry of Ports and Shipping to obtain the approval of the Treasury Secretary as at 31.12.2022 for the amount invested in short-term and fixed deposits during the year.

The Authority should make arrangements to obtain the approval of the Minister of Finance.

(b) Financial Regulation No. 1646 and Sri Lanka Ports Authority Circular No. 10/2003 dated

Although the daily running charts of each month should be submitted to the Auditor General before the 15th day of following month in which the reports are submitted, along with the original copy of the

Agree. The respective officers were advised to submit the daily running charts and monthly summary report on the due date avoiding the delays mentioned in the report.

Summaries on journeys should be maintained by the officers in charge of the vehicles in terms of Financial

25 April 2003

monthly summary of journeys written in Common Form 268 (a) by the officers in charge of vehicles, arrangements had not been so made.

Regulations.

(c) Section 3.3 of Chapter IV of the Establishments Code

Although it had been mentioned that until a vacancy in the approved permanent cadre is filled up on permanent basis, an officer should not be recruited on a casual basis for the vacancy and if an interim casual appointment is made due to urgent need, immediate steps should be taken to appoint a permanent officer as per the approved Scheme of Recruitment, a number of 344 posts that were not so done had remained in vacant for a period of 23 years.

The appointment is made for the basis of inspection of the work of the Authority to carry out the duties and tasks of the respective post to effectively ensure and implement the continuous services of the Port. Due to the circulars and general decisions of the government from time to time as there are cases where it is not possible to permanently appoint an employee for the vacant posts, there were the observations indicated in the report.

The vacancies remained in the Authority should be filled recruiting as per proper Scheme of Recruitment and not on acting basis.

(d) Sections 38 (1) (a) and (b) of Section (v) of the Sri Lanka Ports Authority Act No. 51 of 1979

If the seized or confiscated goods are disposed of by the Customs, all fees payable to the Authority shall be paid by Customs to the Authority. Nevertheless, a sum of Rs. 22.5 million that should be charged to the Authority for 6 seized containers It had not been recovered.

Not agree. Bills are issued to Sri Lanka Customs only for container handling charges as per the provisions of the Attorney General's Department regarding the containers confiscated by the Sri Lanka Customs and bills are not issued to Sri Lanka Customs for ground rent charges or storage charges. Therefore, the related bills have already been issued to the Sri Lanka Customs for the wharf handling charges indicated in the audit query. Nevertheless,

Actions should be taken to recover all charges payable to the Port under the Ports Act.

the related payment has not been made up to now.

- (e) Sections 7 and 32 of the Food Act No. 26 of 1980 and Section 4.18 of the Instructions to Bidders and Food (Registration of Premises) Order 2019 dated 14 June 2019 issued by the Minister of Health, Nutrition and Indigenous Medicine
- Although the bakery food manufacturers should apply for registration under the prescribed formats mentioned therein and a license should be obtained for those food manufacturing places, it had not been evaluated whether the bidders have such license in the procurement of short eats.
- A member representing the Kitchen Division was also included to the Technical Committee consisting of experts appointed within the Ports Authority in order to carry out this procurement. This Committee did not inform about the licenses to be obtained for the bakery production company and no entry was made in the tender document in that regard.
- Actions should be taken to check whether the required licenses are available during procurement and to take further actions.
- (f) Public Enterprises Circular No. PED/01/2021 dated 16 November 2021
- (i) Paragraph 3.2 (i) and letter No. DMS/F1/3/3-1 dated 23 January 2013 issued by the Department of Management Services
- Although a certain organization should formulate a Scheme of Recruitment and obtain the approval of the Department of Public Enterprises, and also the Authority had developed Draft Scheme of Recruitment and Promotion, the approval of the Department of Management Services had not been obtained for that.
- Although the prepared Scheme of Recruitment was approved by the Board of Directors on 31.03.2022 and submitted for the approval of the Department of Management Services as per the Guidelines of the Department of Public Enterprises, it was decided in the meeting held with the participation of the Line Ministry, Department of Management Services,
- A Scheme of Recruitment should be prepared and formal approvals should be taken as per circular provisions. It was also informed that the staff and recruitment procedure should be prepared considering the number of employees in the

Salaries and Cadre Commission and officers of the Ports Authority that the number of employees, Organizational Structure and Scheme of Recruitment of the Ports Authority should be reviewed once again. Accordingly, the Management Services Department is studying the number of employees by now and, it is stipulated to review the Scheme of Recruitment once it is approved.

competitive terminals as suggested at the time of the Committee on Public Enterprises held on 22 June 2022 and actions should be taken accordingly.

(ii) Section 3.4

Although a proper job evaluation and study should be conducted before creating a new position or approving an increase in the number of employees, there was an excess of 282 employees in 10 Divisions of the Authority and the employees had been recruited for those Divisions without conducting a job evaluation or staff study.

Although the number of employees belonging to each Division within the approved number of employees approved by the Department of Management Services in the year 2013 was a planned number of employees based on the move to a new administrative building, on being unable to be so located and although it is difficult to compute and recruit the number of employees approved for each division in a proper manner and carry out a job evaluation based on the status of approved number of employees and posts at the divisional level, recruitments can be done only for the posts belonging to the divisions

It should conduct a proper job evaluation and new staff and Scheme of Recruitment should be developed quickly.

according to the approved number of employees, in the future.

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| <p>(iii)</p> | <p>Subsection ix of Section 3.4 of Chapter 3</p> | <p>Although it was stated that when an acting post is created in certain cases, it should be limited to a period of one year, actions had not been taken even by 31 December 2022 to fill up the respective vacancies of 13 posts for which exceeded one-year period appointed on acting basis by the Authority.</p> | <p>The appointment for the acting basis of this Authority is done to ensure and effectively implement the functions and tasks of the relevant post. Due to the circulars and general decisions issued by the government from time to time, employees could not be permanently appointed to the vacant posts.</p> | <p>Actions should be taken to fill the vacancies properly.</p> |
| <p>(g)</p> | <p>Operational Manual for Public Enterprises issued with Public Enterprise Circular No. PED/01/2021 dated 16 November 2021</p> | | | |
| <p>(i)</p> | <p>Section (i) and (ii) of Paragraph 2 of 6</p> | <p>An Investment Committee (Investment Committee) should be formed in public institutions earning a uniform minimum annual income of Rs. 30 million in the last 02 years of state ownership for the investment of excess funds and it should act accordingly and, although the Committee should consist of at least 05 members, such a Committee had not been appointed by the Authority.</p> | <p>Not agree. A Committee consisting of the members mentioned in the approval of the Board of Directors No. PA/HD/28 dated 13 July 2016 has been appointed for investment of surplus funds and obtaining the approval of the Committee will be done in respect of daily investments made.</p> | <p>An Investment Committee should be established as required and actions should be taken in terms of the circulars.</p> |

(ii)	Section 2.3	<p>Although all the public enterprises should prepare a Process Manual for the main operational activities of their organization and a Process Manual for administrative and financial activities and get approval from the Board of Directors and periodically review and update, actions had not been taken to update the Process Manual including provisions regarding the loan collection policy or loan periods in the “Manual of Financial Regulations -2013” which is currently being functioned in the Authority.</p>	Manual of Financial Regulations -2013	The updates are currently being done.	Internal control weaknesses should be controlled by making updates related to the Manual of Financial Regulations promptly.
(h)	<p>Guidelines on Corporate Governance for Public Enterprises issued with Public Enterprise Circular No. PED/01/2021 dated 16 November 2021</p>	<p>Although it should formulate a Board approved subsidiary policy for subsidiary companies with the approval of Board of Directors of the parent company and act accordingly, such a policy had not been prepared for the subsidiary companies owned by the Authority.</p>	<p>A task force has been appointed for this purpose. The group has also held a discussion with the Honourable Minister of Ports, Shipping and Aviation on 22.05.2023. Accordingly, actions are being taken to promptly submit the first draft of the Corporate Plan and Subsidiary Company Policy.</p>	<p>As there are subsidiary companies belonging to the Authority, formulate a Policy for subsidiary Companies approved by the Board of Directors for subsidiary</p>	
(i)	Section 2.2.5	<p>Although it should formulate a Board approved subsidiary policy for subsidiary companies with the approval of Board of Directors of the parent company and act accordingly, such a policy had not been prepared for the subsidiary companies owned by the Authority.</p>	<p>A task force has been appointed for this purpose. The group has also held a discussion with the Honourable Minister of Ports, Shipping and Aviation on 22.05.2023. Accordingly, actions are being taken to promptly submit the first draft of the Corporate Plan and Subsidiary Company Policy.</p>	<p>As there are subsidiary companies belonging to the Authority, formulate a Policy for subsidiary Companies approved by the Board of Directors for subsidiary</p>	

companies and actions should be taken in respect of subsidiary companies accordingly.

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| (ii) | Section 3.2 | Entities incorporated in another way except under the Companies Act, a Performance Review Meeting should be held every year to present the Annual Report and although the said meeting should be held within 5 months from the balance sheet date and before the presentation of the Annual Report to Parliament, the Authority had not held such a Meeting. | The Performance Review Meeting of the Authority has been scheduled to be held after the Meeting of the Board of Directors scheduled for 31 July 2023 . | To conduct Performance Review Meetings within the prescribed time frame and Annual Reports should be submitted to Parliament. |
| (iii) | Section 4.3 | The Risk Committee shall be represented by at least three (03) non-executive directors and although the Committee shall meet quarterly, the Risk Committee appointed on 25 February 2022 currently consisted of only two (02) members and the Risk Committee had not met quarterly. | The Risk Committee was appointed in the Meeting of Board of Directors held on 20.04.2023. | The committee should be duly met and the necessary risk identification etc. should be done promptly. |
| (i) | Section 2-12 of Internal Circular 2022 No. මුකො/මුචි/කො/41/2022 of Sri Lanka Ports Authority dated 21 November 2022 | Although the advances received by all Heads of Divisions and Sections should be settled before the end of the respective year, there were advances of Rs. 16.62 million obtained by various Divisions of the Authority in 37 cases and a sum of Rs. 3.5 million and Rs. 5.8 million remained outstanding between 6-12 months within that balance, which exceeded two years. | Agree. Out of the balance of Rs.5.8 Mn. indicated in the report since the advance amount of Rs.391,949.34 forwarded on 28.10.2020 and Rs.137,500.00 forwarded on 22.04.2022 has not been settled, measures are being taken frequently to recover the amount. | After issuing advances, actions should be taken to settle them properly and immediately. |

- (j) Section 9.5.2.1 of the Manual of Administrative Procedure of the Authority
- Although 39 officers holding the posts of non-executive project survey development assistant, managerial assistant, work assistant (various task assistant and health worker), driver etc. who have completed six years of service in the same Division should be transferred for service in another Division under the general transfer system, actions had not been so taken.
- When making common transfers, arrangements have been made to retain only a very small number of working executives and other officers in several divisions on the basis of service requirement. Nevertheless, the necessary activities are being carried out to implement common transfers as per the provisions of the circular provisions and the Manual of Administrative Procedure .
- Actions should be taken in terms of Sections of Establishments Code / Manual of Administrative Procedure
- (k) Government Gazette No. 2278/02 dated 02 May 2022 functioning with Section 20 (5) of the Consumer Affairs Authority Act No. 09 of 2003
- It had been stipulated that no manufacturer, maker, supplier, distributor or dealer shall trade, supply, offer for trade or display for trade more than the maximum retail price of a white egg at Rs.43 and a brown/red egg at Rs.45. This regulation is effective from 19 August 2022 up to the date of audit query and when purchase of eggs from 19 August to 31 December 2022 by the Authority the eggs had been purchased at bid prices that were above the control price without considering the control price and a loss of Rs.1.1 million had occurred for that to the Authority for the period concerned.
- As more attention is drawn to the nutrition and appetite of the employees while preparing the menus, eggs have also been included in the menu of the week. The suppliers had offered prices exceeding the control price set by the government when the tenders were held for the purchase of eggs. Therefore, the eggs have been purchased the supplier who submitted the lowest price among those prices was selected by the tender board considering the need.
- Egg purchases should be made subject to the control price imposed by the Consumer Affairs Authority.
- (l) Government Gazette No. 2278/02 dated 02 May 2022 functioning with
- It had been stipulated that no manufacturer, maker, supplier, distributor or dealer shall trade, supply, offer for sell or display for selling White/Red Samba
- On purchase of white/red samba rice for June, July and August 2022, although the prices offered by the registered suppliers were
- Rice should be purchased subject to the control price imposed by the Consumer

<p>Section 20(5) of the Consumer Affairs Authority (Amendment) Act No. 09 of 2003</p>	<p>Rice (Local) at more than the maximum retail price of Rs.230 per 1 kg. should be done. This regulation is effective from 02 May 2022 up to the date of audit query and when the Authority had made the purchase of rice at the bid prices which had exceeded the control price in the months of June, July and August 2022 without considering the control price and a loss of 1.4 million had occurred from that to the Authority for the 03 months considered .</p>	<p>higher than the control price set by the government for rice at that time, arrangements have been made to purchase rice as per the prices selected from the tender based on the existing requirement of the Kitchens Division of the Ports Authority.</p>	<p>Authority.</p>
<p>(m) As per the approval of the Department of Management Services for the revised Human Resources Plan of the Sri Lanka Ports Authority No. DMS/F1/3/3-1 dated 23 January 2013 and Letter No. මාසකො/පා/01/ඊ.වි/2022 dated 07 February 2022</p>	<p>The approved cadre of the Welfare and Industrial Relations Division is 122 and a number of 167 employees had been assigned in the Kitchen Division as per the letter No. මාසකො/පා/01/ඊ.වි/2022 dated 28 November 2022. Accordingly, it was observed that there is an excess of 45 employees in the Kitchen Division.</p>	<p>As there are many different duties that the Kitchen Division has to perform, there is a need to employ all the existing employees on their natures. The activities of new human resources plan of the Ports Authority is being prepared by now and after processing that, actions will be taken as appropriate in respect of excess employees accordingly.</p>	<p>Necessary recruitments should be made by checking and properly evaluating service requirements during employee recruitment.</p>
<p>(n) Section 3 (xiii) of National Budget Circular No. 03/2022 on Government Expenditure Control issued by the Ministry of Finance No. BD/CBP/01/01/</p>	<p>Even though instructions had been given to suspend all overtime allowance payments made without verifying actual work/attendance and to prepare a system so that the sum of overtime allowances received in different ways does not exceed the salary, there were 72 employees who received</p>	<p>After the employees working in the kitchens of the Central Kitchens Division report for duty in 24 hours shift system, 08 hours Out of which are considered as overtime. Apart from this, special overtime (Target OT) payment considering the</p>	<p>In granting overtime allowances it should be very careful about it and additional overtime allowances should not be given</p>

04-2022 dated 26 April 2022 overtime allowances in excess of their salary from January to July 2022 as per the information submitted with the letter No. FD/SA1/2022/03 dated 28 October 2022 on for the employees of Kitchen Division 01 and the total value of overtime, including the overtime payments given for them was Rs.50.9 million. Accordingly, it was observed during the audit that the Management has not taken necessary measures for cost control. Similarly, the Management had informed that the overtime adjustment system currently used in the Kitchen Division had not yet been approved.

amount of food produced and overtime payment based on the nature of duties has been done from the past up to now to encourage them. Also the calculation of overtime in the Tea Supply Division is also done based on the nature of the duties of that Division. This overtime payment system has been practiced in the Kitchen Division since the past and changing it will cause to lead to worker unrest and breakdown of industrial peace. However, actions will be taken in this regard in the future.

unnecessarily.

- (o) Section 5:3:1 of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka
- The government has to charge 10 per cent of the monthly salary of an officer residing in a government quarters as rent if he is married and 5 per cent if he is unmarried. Although it has been mentioned that if there are any matters not contained in Chapter (X) of the Manual of Administrative Procedure of the Authority, the provisions contained in the Code of Establishments Code of the Democratic Socialist Republic of Sri Lanka should be considered, actions had not been taken in terms of Section 5 of Chapter XIX of the Establishments Code for charging the rent of quarters from officers.
- Actions are being taken in terms of Paragraphs 330 and 331 of the Manual of Administrative Procedure of the Sri Lanka Ports Authority and in addition to the circulars issued by the Authority and as it is functioned as per the Circular No. 02/2021 dated 01/31/2021 in respect of quarters rent, there is no need to act according to the Establishments Code. Further, Quarters are not provided for unmarried persons.
- Actions should be taken in terms of respective circulars in recovery of rent of the quarters.

- (p) Sections I and II of Paragraph 07 of Sri Lanka Ports Authority Circular No. 02/2021 dated 30 January 2021
- (i) Even though it had been stated that it is possible to re-apply for stay at the official residence after completion of 05 years residence period, new applications/renewal applications had not been submitted as at 31 December 2022 for occupancy of the respective houses by all 399 officers residing in the same quarters for more than 05 years.
- (ii) The period of residence for the official quarters provided to the officers of the Authority is limited to a maximum of 5 years from the date of the first house being provided and although the officer who resides for a further period of 06 months after the completion of that period shall pay double the amount of rent payable for the quarters, the number of officers who had stayed in their respective quarters for a period ranging from 05 years 06 months to 28 years had been 399.
- Although it has been mentioned in the circular that applications should be submitted on the basis of service requirements and marks for staying at the official quarters, as the Housing Committee has not yet taken a decision regarding the evacuate of those who have stayed beyond 05 years, actions have not been taken to notify to submit of applications.
- Double rent is charged from the officers who have been residing in official quarters for more than 5 years by now as per Sri Lanka Ports Authority Circular No. 02/2021 dated 31.01.2021. The management has decided regarding the employees residing in the quarters for more than 05 years that as it is difficult to evict them from their quarters due to certain humanitarian reasons, an alternative procedure should be implemented. Accordingly, amendments stipulated to be made for circular 02/2021.
- The relevant circulars should be followed if quarters are need be reclaimed .
- If they need to stay longer in quarters, payments should be made and actions should be taken as per relevant circulars accordingly.

1.8 Non-compliance with Tax Regulations

Audit Observations	Comments of the Management	Recommendation
(a) Social Security Contribution Levy Act No. 25 of 2022	<p>Not agree.</p> <p>This Act has been specified to apply to taxable income under (a), (b), (c), (d) as per Section 02 of Social Security Contribution Levy Act.</p> <p>Further, since Royalty income is not an income earned for providing services in accordance with the definitions given under Part 1 Sub No. 02 mentioned above included in Section 3 (2) c (III) of the Social Security Contribution Levy Act appear in this report, SSCL liability has been calculated after taking off this income.</p>	<p>In making provisions for social security levies it should be used to calculate all incomes subject to that levy.</p>
(i) Except for certain exempted in the services specified in sub-clauses (c) (i) and (ii) Part II of the First Schedule as per clause 3 (2) (c) (iii), in Sri Lanka, the amount due from the provision of a service is considered as taxable income, whether received in cash or not and Royalty income had been excluded from taxable income in calculating the taxable income for the last quarter of the year 2022 by the Authority. Only exempted goods should be considered as exempted and relevant calculations should be made.	<p>Not agree.</p> <p>Exempted services are specified in Part II of Schedule 1 of the Social Security Contribution Levy Act No. 25 of 2022 and item 05 and item 08 have been applied by the Ports Authority. Accordingly, most of the services provided by the Authority are export related services and as it should be clearly identified according to each revenue category, the task is currently being done with the support of the Operating Division.</p>	<p>In calculating Social Security Levies, the relevant calculations should be made considering only exempted goods as exempted .</p>
(ii) In calculating social security contribution tax when calculating taxable income in terms of Part ii of the First Schedule, as the income of Rs. 1,072 million, for which warehousing charges, equipment rental and fire fighting services, which are VAT Zero Rated Revenues were also calculated as income exempt from Social Security Contribution Levy a social security levy of Rs. 26.8 million had not been paid.	<p>Not agree.</p> <p>The surcharge amounted to Rs. 1,952.2 million was paid in April 2022 based on taxable income of Rs. 7,809 as per the income tax return filed for the year 2020/21. Nevertheless, the income tax return filed in September 2022 was again</p>	<p>Arrangements should be made to quickly recover the overpaid surcharge tax or to be offset from income tax payable.</p>
(b) The tax should be charged at the rate of twenty five per cent on taxable income of Rs. 2000 million of individual, partnership or company, for the assessment year commencing on 1 April 2020 in terms of Section 2 (1) (a) of the Surcharge Tax Act No. 14 of 2022, calculated in accordance with the	<p>Not agree.</p> <p>The surcharge amounted to Rs. 1,952.2 million was paid in April 2022 based on taxable income of Rs. 7,809 as per the income tax return filed for the year 2020/21. Nevertheless, the income tax return filed in September 2022 was again</p>	<p>Arrangements should be made to quickly recover the overpaid surcharge tax or to be offset from income tax payable.</p>

provisions of the Inland Revenue Act No. 24 of 2017 . Although the surcharge tax was Rs.1,105.2 million when calculated on the taxable income of the Authority amounting to Rs.4,420.9 million for the year 2020/21, the Authority had paid Rs.1,952.2 million as surcharge tax. Further, actions had not been taken to recover the amount of Rs. 847 million overpaid in terms of Section 5 (1) of the Surcharge Tax Act No. 14 of 2022 .

revised and there, the taxable income has decreased to Rs. 4,420.9 million. Therefore, an a surcharge overpayment of Rs. 847 million had to be paid and the surcharge tax return has been revised and submitted to the Inland Revenue Department for the recovery in terms of 5(1) of Surcharge Tax Act.

2. Financial Review

2.1 Financial Results

Profit of the Group for the year ended 31 December of the year under review as per the consolidated financial statements presented was Rs. 37,870 million and the profit of the Authority was Rs. 42,319 million. Thus the profit of the Group and the Authority was Rs. 19,843 million and Rs. 20,695 million respectively, the financial results of the Group and the Authority and the Group had increased by Rs. 18,027 million and Rs.21,624 million respectively as compared to the preceding year. The income of the preceding year of the Authority was Rs. 45,455 million and it had increased to Rs. 68,408 million in the year under review. Depreciation of the Rupee as compared the US dollar and increase of interest income as compared to the preceding year had mainly attributed to the increase of the aforementioned financial results.

2.2 Trend Analysis of Major Income and Expenditure Items

- (a) The income had increased by Rs. 22,953 million equal to 50.5 per cent as compared to the previous year and other operating income had increased by Rs. 10,236 million equal to 83.1 per cent. Although the operations had decreased compared to the previous year, the increase in the exchange rate had mainly attributed for this.
- (b) The direct expenditure and administrative expenditure had increased by 28.7 per cent and 44.1 per cent respectively in the year under review as compared to the year 2021. Increase in fuel prices and increase in electricity bills during the year under review had caused to an increase in direct costs.

3. Operational Review

(a) Container Handling Functions at Port Authority and Other Terminals

There were 05 Terminals in the port of Colombo that carry out operations including container handling by the end of the year 2022, out of which, Jaya Container Terminal, Samagi Container Terminal and 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 out to two private entities on 85 per cent ownership for 35 years on a Built, Operation & Transfer basis.

The details related to the way of carrying out container operations in terms of domestic and re-export at all Terminals of Colombo Port from the year 2021 to the year under review are as follows.

	<u>(S.L.P.A)</u>		<u>(S.A.G.T)</u>		<u>(C.I.C.T)</u>		Total	
	Units		Units		Units		Units	
	2022	2021	2022	2021	2022	2021	2022	2021
Transshipment	1,633,176	1,846,264	1,481,513	1,521,373	2,520,946	2,482,410	5,635,685	5,850,047
Domestic	256,318	321,121	229,711	265,285	544,201	612,649	1,030,230	1,199,055
Re-Stowing	36,401	30,949	40,962	52,035	118,906	117,275	196,269	200,256
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	1,925,895	2,198,334	1,752,236	1,838,693	3,184,053	3,212,331	6,862,184	7,249,358
	=====	=====	=====	=====	=====	=====	=====	=====

The following matters were observed in this regard.

- (i) In comparing with previous years, there was a decline (fall) in total container handling and transshipments at Colombo Port. Similarly, when comparing the number of container operations of the Ports Authority at the end of the year under review, with the previous year, it had declined from 2,198,334 to 1,925,895, equal to 12.4 per cent.
 - (ii) In total container handling in the year under review, a market share of 28 per cent had owned by the Authority, 26 per cent by South Asian Gateway Terminal (S.A.G.T) and 46 per cent Colombo International Container Terminal Company (C.I.C.T). Colombo International Container Terminal Company (C.I.C.T) had the highest contribution and being that Terminal is the only Terminal where vessels above 14.25 meters can arrive in the Port had caused to that.
 - (iii) In considering the Terminal Occupancy Ratio related to the Authority's container operations, it was 64, 70, 72, 70 and 63 per cent respectively from 2018 to 2022. Accordingly, it was observed that the Terminal Occupancy Ratio of the Authority had gradually increased since the year 2018 and decreased since the year 2021.
- (b)
- (i) In consideration of the arrival of naval vessels, there was a decrease of about 17 per cent in the number of vessels arriving at the ports of Colombo, Galle and Trincomalee from the year 2018 to the year 2022 and it was 4,933 in 2018 and it had been 4,073 in the year 2022. Arrival of large size vessels instead of medium and small size vessels had caused for this.
 - (ii) A number of 59 and 11 naval vessels had arrived at Kankasanturai Port in the years 2018 and 2019 respectively and it was observed that even a single naval vessel had not arrived since the year 2020.

- (c) Container vessel arrivals in 2019, 2020, 2021 and 2022 were 3,604, 3,281, 3,180, 3,287 respectively. Even though the arrival of container vessels at the Port of Colombo in 2021 and 2020 had decreased by 3 per cent and 9 per cent, respectively as compared to previous years, it had increased by 3 per cent in the year under review. Likewise, the number of vessels arriving at the C.I.C.T Terminal was 1,027 in the year 2021 and it had grown to 1,146 in the year 2022 and the arrival of container vessels at Jaya Container Terminal, Samagi Container Terminal, East Container Terminal of the Port Authority was 1,286 in the year 2021 and an increase up to 1,304 was shown in the year 2022. Further, the number of vessels arriving at the S.A.G.T Terminal was 867 in the year 2021 and it had reduced to 837 in the year 2022.

Market Share

As per the Alpha Liner Report released on world port operations for the year 2022, Colombo Port was ranked 22nd in the world by carrying out operations of 6,862,178 Twenty Equivalent Units and there had been a decline of 5.3 per cent as compared to 2021. The container handling of Sri Lanka Ports Authority was 2,198,334 Twenty Equivalent Units in the year 2021 and it had decreased by 5 per cent to 1,925,895 Twenty Equivalent Units in 2022. Further, the container handling capacity of Port Authority in Colombo Port was 1,396,946 Twenty Equivalent Units in 2001 and it had dropped from 81 per cent to 28 per cent to 1,925,895 Twenty Equivalent Units in the year 2022.

However, S.A.G.T, a private company which competes in Colombo Port, has gradually increased from 229,670 Twenty Equivalent Units to 1,749,809 Twenty Equivalent Units, that is from 19 per cent to 51 per cent, it had gradually declined to 26 per cent by the year under review. The C.I.C.T Company from 57,541 Twenty Equivalent Units in the year 2013 to 3,184,053 Twenty Equivalent Units by the year 2022 that is, a rapid growth from 01 per cent to 46 per cent had been achieved. Accordingly, it was observed that the main function of the port, the handling of containers, is gradually being lost from the Port Authority and it is being taken over by the private sector.

3 Operating Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
<p>(a) Although 914 employees had been employed in excess of the approved staff related to 86 posts as per staff details submitted by 25 Divisions of the Authority as at 31 December 2022, it was observed that there are 726 employee vacancies in the Divisions directly related to the operations of the Authority. Likewise, the total overtime allowance of the Authority amounted to Rs.11,968 million including Rs. 924 million as</p>	<p>The Department of Management Services has approved the number of employees as 9990 of the Authority. Due to the fact that several positions have been merged and new positions have been created and some positions have been considered to be abolished and employees have not been recruited for those positions, the total number of employees has</p>	<p>The Management should make arrangements to employ staff effectively and to reduce overtime expenses and arrangements should also be made to approve overtime in advance and to</p>

overtime allowance in the year under review for the employees of 10 divisions who are not directly related to the operational activities of the Authority had been paid.

decreased to 8507 as at 31.12.2021. Although for some of the posts the candidates who are considered as excess mentioned above can apply, in internally filling up the vacancies to be filled up as essential, they are not able to apply for many posts and such positions will have to be recruited externally.

maintain records of work done.

(b) The caisson, fenders, quay wall etc. of the Jaya container terminal were damaged due to the accident that occurred on 04 December 2019 when a ship collided at Jaya Container Terminal in Colombo Port. The damage had been estimated as Rs. 315.90 million. Similarly, although an amount of Rs. 384.42 million had been received by the Authority on 30 December 2019 for the above damage, other than the Fenders, the repairs have not been done so far.

Fenders damaged in this accident have been replaced. As we do not have the necessary machinery and equipment facilities to carry out other repair works, it should be done by engaging an outside contractor. However, as operations are taking place at the Jaya Container Terminal, operations have to be temporarily suspended due to the unfavourable economic climate in the country and the operation of the respective section for carrying out repairs.

Actions should be taken to carry out the relevant repairs without delay using compensation for damages and plan accordingly.

(c) The lease agreement of debtor of NFCL PENNA Port Storage (Pvt) Ltd. existing in the premises rent debtor balance was cancelled as per the Decision of the Board of Directors dated 25 February 2022 on "Breach of contract by both parties" had been reactivated as per Decision of the Board of Directors dated 30 November 2022. In re-implementing of the lease agreement in accordance with the said Decision of the Board of Directors, even though the respective company had decided to settle the debtor balance by paying Rs. 30 million to the Authority, the total amount receivable amounted to Rs. 95 million had further been shown in the financial statements.

As per Board Decision No. PAM/237/2022 dated 30-11-2022, the Company has been informed on 10-04-2023 to pay to Sri Lanka Ports Authority Rs. 30,000,000.00 as Rs.18,000,000.00 with security deposit of Rs.12,000,000.00 out of the arrears of Rs. 95,032,359.32 payable by NFCL PENNA PORT STORAGE (PVT) LTD. (Sinha Cement Company).

It should be sent to the Legal Division of the Authority to take all necessary steps to recover arrears of lease rent or to take legal actions in relation with recovery of money.

Although it was decided to recover only Rs.30,000,000.00, since the approval of the Audit Committee and the Board of

Directors approval have not been obtained so far to write off the remaining outstanding amount of Rs.77,032,359.82 from the books after deducting Rs.18,000,000.00 from the total outstanding amount, actions have not been taken so far to make adjustments in accounts.

(d) It had been revealed in the financial statements of the Authority that the operations of Lanka Gas Terminal Company, an administered company, which was reported in the financial statements of the Authority as not taking place and, the Management had not taken decisions on the future operations of this Company and acted accordingly even by 15 March 2023.

Agree.

Actions will be taken to remove this Company from the accounts and to take a decision by the Ports Authority regarding further activities.

The Management should take actions to do further works on this Company immediately.

(e) Officers directly or indirectly responsible for the recovery of monies receivable to the Authority shall take every care to ensure that they are not allowed to become arrears in terms of Section 9.3.1 of the Manual of Financial Regulations of Sri Lanka Ports Authority. Nevertheless, it was observed that there was an outstanding premises rent balance of Rs. 155.9 million in Colombo Port as at 31 December 2022, as per information letter No. Premises/1/1/156/B and the rent income receivable as per Finance Division was Rs.197.1 million. Accordingly, a difference of Rs. 41.2 million was observed between the information provided by the Finance Division and the Premises Division.

Arrears of premises lease rent balance of Rs. 197,079,282 is accurate as per reports of Finance Division as at 31.12.2022 and because of the balance of Rs.155,912,330 shown as balance as at 31.12.2022 has made up of balances of bills relating to different dates as per the details given in the Premises Division indicated in the audit query, the difference shown in the query has occurred. However, a plan is being prepared together with the Premises Division and the Finance Division indicating the procedure to be followed in respect of recovery of existing arrears and actions will be taken to present it to the Audit Committee.

Necessary arrangements should be made to recover the relevant arrears promptly.

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| (f) | The Management had not taken actions to update lease agreements of 24 trade stalls including the lease agreements of the above mentioned 21 shops during the audited year and 03 more stalls as per the information provided by letter dated 03 May 2023 even by 31 December 2022 . | Lease agreements have been signed for 16 of the sales outlets mentioned in the Audit Paragraph and arrangements will be made to sign the agreements for the remaining 08 shops very soon. | Arrangements should be made to properly update and maintain lease agreements. |
| (g) | Ten plots of land possesses as an investment property by the Authority without a lease agreement with the lessee were observed and the absence of a lease agreement can be problematic for the Authority in the event of a legal requirement. | They temporarily used this premises adjacent to the premises given on lease basis to the Distilleries Company and as it is not used by the Company at present, it is not necessary to enter into a lease agreement and the Ministry of Ports and Shipping has been running in a building owned by the Authority for a long time and although a monthly rent of 614,560/- is being paid , arrangements have not been made to enter into a lease agreement. Necessary arrangements are being made to enter into a lease agreement with INSEE CEMENT. | Actions should be taken to enter into lease agreements properly. |
| (h) | Although it was expected to be leased out by the Authority or used for any other productive purpose, it was observed as at 31 December 2022 that 05 pieces of land valued at Rs. 3,997 million have not been used for the intended purpose so far. | The lands located on D.R. Wijewardhena Mawatha have to be jointly developed With the Urban Development Authority as per the Colombo City Development Plan.
A development scheme related to Beira Lake is being implemented on the land of Kew Road and Morgan Road located in Kompannaveedi.
Approval of the Cabinet of Ministers have been received for a mixed development project on the land located at Galwala , Mahara . | The respective lands should be used for income generating activities without being kept in idle. |

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| <p>(i) There are 635 quarters belonging to the Authority in terms of letter No. Premises/4/ Miscellaneous dated 26 May 2022 and a total of 604 quarters have been utilized as 399 quarters whose residing period has exceeded 05 years (prior to 2018) and with 205 quarters provided within 05 years (2018-2022) as at 31 December 2022 and 31 quarters had remained vacant.</p> | <p>Out of 635 quarters of Sri Lanka Ports Authority, there were top management quarters, executive residence, sports club, welfare day care centre and houses to renovate. However, when the houses become vacant, it has been arranged to give all the houses to the applicants promptly.</p> | <p>The relevant quarters should be utilized as per the circulars.</p> |
| <p>(j) Audit of Lands</p> | | |
| <p>(i) Although the lands of 02 acres in extent bordering Canal Yard (West) Colombo 01 Main Street and Olcott Mawatha bearing Plan No. LS/MIS/344 valued at Rs. 947.5 million had been given to the Customs Department to construct a building, actions had not been taken to legally transfer the land and take off it from the books even as at the date of this report.</p> | <p>The Management has not yet responded.</p> | <p>Arrangements should be made to agree upon proper methodologies and to transfer the land and take off the relevant asset from the books.</p> |
| <p>(ii) Although the land in extent 2 acres 3 roods 9.61 perches situated at D.R Wijewardhena Mawatha, Colombo 10 bearing Plan No. CO/COL/2012/1047, valued at Rs. 628.5 million had been handed over to the Urban Development Authority for the construction of the Lotus Tower, taking off the value from the register and transferring the land by a title deed had not been done as per formal proceedings.</p> | <p>The Management has not yet responded.</p> | <p>Land transferring activities should be properly done and actions should be taken to remove the relevant asset from the books.</p> |
| <p>(iii) Although the land in extent 14.9 acres 01 rood 02 perches located at 601 Watta , Cyril C. Perera Mawatha bearing Plan No. S/P/183F was acquired by Urban Development Authority, it was observed that the legal transactions had not been completed by 31 December 2022. As a result, the land value of the Authority</p> | <p>The Management has not yet responded.</p> | <p>Arrangements should be made to complete the exchange activities legally after transferring of lands and to take off the respective</p> |

had been overstated by Rs. 83.723 million.

land from the land register.

3.2 Operational Inefficiencies

Audit Observations

An agreement had been entered into with the Government of Sri Lanka and Exim Bank of India to obtain a loan amounted to USD 45.27 million for the rehabilitation of Kankesanthurai Port on 10 January with a view to attaining the concept of North East Gateway Zone. Nevertheless, predicting that the loan amount is insufficient, although the approval of the Cabinet of Ministers was obtained to increase the loan amount to USD 61.5 million with an additional amount of USD 16.23 million, the Government of India had not approved it. Although 05 years had elapsed since the signing of the loan agreement, the construction works of the Port had not yet been commenced. Likewise, only US Dollars 0.905 million (US Dollars 905,194.38) had been spent from the loan amount and the Authority had made an uneconomic expenditure of US Dollar 21,139.78 (Rs. 5,838,633.73) as commitment charges for the debt which was not obtained and an amount of US Dollar 20,937.57 (Rs. 6.1 million) as loan interest.

Comments of the Management

Not agree. According to the Dollar Loan Relief Agreement signed between the Government of Sri Lanka and EXIM Bank of India on 10 January 2018, the liability fee and interest fee should be paid by the Government of Sri Lanka to EXIM Bank. After the External Resources Department recommends and submits that these payments be made, it is the responsibility of the Sri Lanka Ports Authority to pay the relevant liability charges and interest charges and it is a matter beyond the control of the Sri Lanka Ports Authority.

Recommendation

Plans should be as realistic as possible because there are uneconomical costs like commitment charges and price fluctuations due to failure of making realistic plans and failure of executing projects as planned.

3.3 Delays in Projects or Capital Works

Audit Observations

- (a) The following matters were observed in the audit conducted regarding the road construction contract commenced by the Authority in the year 2022.
 - i. Unless otherwise agreed by both parties, the contractor shall sign the contract agreement within 28 days of receipt of the Contract Acceptance Letter as per Clause 1.6 of the

Comments of the Management

After awarding the contract of the Project to the respective contractor, the contract agreements are prepared. Including the

Recommendation

Actions should be taken to sign contract agreements promptly as stipulated.

Contract Agreement entered into between Sri Lanka Ports Authority and Maga Neguma Road Construction Equipment Company. Although the contract had to be signed on 06 April 2021, the contract agreement had been signed on 18 August 2021. Accordingly, there was a delay of 122 days in signing the contract agreement.

amendments made by the Legal Department of the Authority, the Plan of the Agreement send back to staff approval through the Legal Division. After that, contracts are signed between the contractor and the Ports Authority. During the Corona pandemic, all government institutions including the Port Authority were maintained with a minimum number of employees. As a result, there has been a delay in signing the contract.

ii. Although the contractor should prepare monthly progress reports and submit them in two duplicates to the Engineer of the Authority as per the Clause 4.14 of the Contract Agreement, the contractor had not formally prepared and submitted the monthly progress reports of the Project to the Ports Authority and also 18 months had elapsed since the commencement of this contract, the monthly progress review meetings had been held only in 03 months. Failure of conducting of monthly progress review meetings continuously based on formally prepared progress reports had also led to delays in the completion of the contract.

When functioning this Project, the main power supply to the Serendib Flour Mills was disrupted due to a breakdown in production. The Port Authority has made arrangements to restore those activities. As if this cable gets damaged, it will incur huge cost, the relevant cable construction took place only under the supervision of the Electricity Division of Port Authority. The above task took a considerable time since the employees were called according to the work schedule, the number of supervisors required for the same was reduced, and the transport restrictions imposed due to the Corona epidemic situation.

Actions should be taken to prepare proper progress reports within the relevant period.

iii. Although the Project had to be completed on 30 January 2022 as per the Revised Contract Plan submitted by the contractor on 19 May 2021, the construction works of the Project had been stopped on 30 September 2022 and the physical progress of the Project was at a minimum level of 21.2 per cent as at 30 August 2022 .

The extension was done on 2 occasions to complete the Project and the additional activities, the situation of corona epidemic in the country, employees being affected by corona disease and quarantine were taken into consideration for that. Further, an additional time was taken for the failure of the main power supply to the Serendib

Actions should be taken to complete all projects within the contract period.

Flour Mill, previously undetected water supply pipes, and the drain system for the oil pipelines.

- iv. The contractor had got extended the Project completion time on two occasions and accordingly, although the Project should be completed on 30 June 2022, an updated implementation plan covering that period had not been provided by the contractor to the Authority and the Authority had not taken steps to get such a plan.
- The Port Authority has requested updated launch work plans through letters submitted to the contractor regarding the Time Extension for the completion of the contract and the contractor has failed to submit the work plans so requested due to additional unscheduled works during the contract and temporary termination of contract work because of high cost of contract raw materials.
- Actions should be taken to obtain relevant updated launch plans if project extension is done.
- (b) A sum of Rs. 960 million had been allocated from the Annual Budget of the Authority from the year 2017 to the year 2020, for installation of CCTV cameras for all gates and bonded warehouses of the Authority and the amount allocated in the year 2021 had been applied for another purpose. However, the works of installation of CCTV cameras had not been completed even by the end of 2022 .
- Plans have been made to cover all port entrances with CCTV camera systems in several stages and an amount of Rs. 10 million has been allocated in the Budget of the year 2023 to install CCTV camera systems for gates number 1,2,3,4,5 and 8 in the year 2023 and CCTV cameras were installed for gates No. 1A, 1, 2, 3 and 6 at present.
- Actions should be taken to complete such projects, which are very important for the safety of the Authority, within the relevant time frames
- (c) Even though three cranes purchased for the Jaya Container Terminal were installed at ECT and its operations had been commenced in 2021, the agreement had been entered into on 20 December 2021 by awarding a supply contract of USD 282.56 million to the contractor on 18 December 2021 for the purchase of 12 Large Scale Cranes (STS Cranes) and 40 Automated Rail Mounted Gantry Cranes (ARMG Cranes) for maximum utilization of the operational capacity of the Terminal. Although the mobilization advances amounted to USD 56.51 million should be paid in lump sum by 20 January 2022 as per the agreement, it had been paid in installments up to 24 August 2022 and
- The advance amount payable amounted to USD 56.51 million on 24.08.2022 for the devices in ECT, in addition to the advance amount, the first installment of USD 56.51 million on 17.03.2023 have been paid and a 20 per cent progress has been achieved by commencing crane production by now.
- Actions should be taken to complete such projects, which are very important for the safety of the Authority, within the relevant time frames.

therefore, the production of cranes had been commenced in delay.

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| <p>(d) As the length of the Jaya Container Terminal (JCT), where the authority currently carries out the main operations, is only 600 meters, the approval of Cabinet of Ministers had been given in July 2017 to extend the Terminal by 120 meters and to construct the quay as 15 meters deep and the contract cost was Rs.5,035.30 million (excluding VAT) as per the agreement made with a Chinese company on 29 November 2018. Due to failure of complying with the agreement, the physical progress was only 42 per cent.</p> | <p>Although the Project was scheduled to be completed on 09 April 2020 as per the contract agreement, later, it had been agreed to complete the project by 23 July 2022 due to the Covid-19 situation and the situation in the country. Nevertheless, although an extension of the Project period up to 31 July 2023 has been granted, the physical progress was 60 per cent as at 07 July 2023.</p> | <p>Actions should be taken to complete such projects which are important for the performance of the Authority within the relevant time frames.</p> |
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3.4 Procurement Management

Audit Observations	Comments of the Management	Recommendation
<p>(a) Officers in charge of procurement activities shall prepare draft bid documents including specifications, submit them to the Technical Evaluation Committee for review and approval as per Sections 2.3.2 (b) and 2.3.2 (c), 2.6.1 (a) (ii), 5.1.1 (a) and 5.2.1 (a) of the Government Procurement Guidelines 2006 and review and approval of specifications should be done by Technical Evaluation Committee. Nevertheless, the Authority had not taken actions as per above provisions when purchasing kitchen food from registered suppliers.</p>	<p>Even though the Central Kitchens Division has appointed a Tender Board and an Evaluation Committee in the year 2022 and the previous years and carried out the necessary procurement activities, a methodology for submission to Technical Evaluation Committee had not been used to prepare, review and approve draft bid documents including specifications as mentioned in the letter. Nevertheless, only a certain specific limit for fish had been mentioned. It is acknowledged that this is against the public procurement process and it's our mistake. All purchases for the Central Kitchens Division will be made through the Supply Division since 2023 onwards, the related actions will be accurately done in</p>	<p>Actions should be taken in terms of Procurement Guidelines.</p>

the future as per the Government Procurement Guidelines.

- (b) Although Procurement Committees should be appointed and approved for purchases by estimating the total value in carrying out procurements accordingly, as per the appointment letter of the Procurement Committee issued by the Additional Secretary of the Ministry in terms of Section 4 of the Procurement Guideline issued by the National Procurement Agency, it had not been so done accordingly in the procurement of chicken and cashew nuts by incurring Rs. 44.9 million and Rs. 29.1 million respectively from January to June 2022.
- A method as mentioned in (a) above had not been used in making the purchases in the Kitchen Division and purchases have been made as per approved food menu for employees. Since all the procurement activities will be done by the Supply Division from the year 2023, the deficiencies mentioned in the report will be corrected.
- Actions should be taken in terms of Procurement Guidelines.
- (c) Although it was stated that purchase should be made from Government Departments or State-Owned Public Enterprises at competitive prices as far as possible in terms of Section 41 of the Procedure for Purchase of Goods in the Kitchen Division of Part III of the Chapter (x) of Manual of Administrative Procedure of the Authority, actions had not been so taken in procurement of short eats.
- In this, the Management Committee has decided to outsource the production of bakery items to an external recognized agency, considering the ability of obtaining high quality and high hygiene bakery food and to follow a standard transparent method for that.
- Actions should be taken in terms of Manual of Administrative Procedure of the Authority.
- (d) Although the Authority should not take decisions of a monetary nature in respect of amounts not less than ten lakh rupees unless the Finance Manager of the Authority submits a financial analysis showing all the financial implications of the expenditure, in terms of Section 14 (2) of Part II of the Sri Lanka Ports Authority Act No. 51 of 1979, without making such an evaluation, purchase of bakery products had been done for 05 years by leasing out the bakery established within the premises of the Authority to an external agency instead of the previous system of getting bakery food by calling prices on a monthly basis in
- This method of providing food was done only to provide high quality bakery products to the employees of the Ports Authority and there, there was a possibility to get bakery items at a reasonable price relative to the prevailing market price for the first six months. Without considering supplier market price increase for six months at these basic prices, the bakery products should be supplied to the Ports Authority and after that, once in every six months, the prices for the next six months are
- Actions should be taken in terms of the Act.

procurement of short eats. Further, the Authority had lost the ability to obtain the benefits of market competition in procurement for another 5 years on non-compliance with Section 3 of the series of conditions for registration of suppliers in the year under review by the Authority.

decided according to the prevailing market prices. A Monitoring Committee is also supposed to be appointed by the Ports Authority for this purpose.

(e) It had been stated that a non-refundable fee for the purchase of bid documents was Rs.25,000 in the newspaper advertisement published in English medium regarding the procurement of short eats and it had been stated as Rs.25,000.000.00 in the newspaper advertisement published by the Sinhala medium with a typographical error. It had not been corrected and published. Therefore, mentioning a very high non-refundable deposit in the widely used Sinhala medium advertisement had caused to discourage prospective bidders.

The English medium advertisement regarding this procurement is prepared by us and its Sinhala and Tamil translations are done by the respective newspaper agencies. It is observed that there is a typographical error in the Sinhala medium advertisement as a very large non-refundable deposit. However, there was an opportunity to correct this unusual amount as the proposal documents could be inspected without paying any other fees and a telephone number was mentioned for enquiries. However, it is agreed that this typographical error has remained without being noticed.

While publishing newspaper advertisements, their accuracy should be scrutinized and if there are any mistakes, arrangements should be made to correct them and publish them.

(f) In the procurement of short eats, there was an agreement with the supplier that the price of the bakery products should be revised every six months according to the average market price and although the Authority buys a bulk of about 4000 units of bakery food per day, price was not the main criterion in the selection of bakery food under the Two Envelop Method and the terms of the agreement had not been set as the wholesale price is also considered in price revisions. Twenty items out of 63 types of bakery products, had been considered for retail prices without considering the market wholesale prices as per the analysis report related to the study of prices of bakery products sold in the

The prices have been revised by comparing the period of price revision of bakeries and the price prevailing for the relevant raw material 10 months prior to that and also considering the matters such as increase in prices, prevailing prices for the same bakery products in the market. Although it is true that the bakery production company supplies snacks in a bulk at the same time, since the food should be supplied with a significantly greater weight than the weight of the products available in the market as per the standard to be provided to the

When buying such large quantities measures should be taken to receive a competitive price whenever possible.

market conducted by the Authority regarding the price revision of bakery food.

Central Kitchens Division, it is not reasonable to consider wholesale price in the market.

- (g) Even though it was stated that the quality of bakery food should be inspected by a Quality Verifying Committee (QVC) appointed by the Authority for bakery food once in 03 months or on any complaint as per Section 20 of the agreement entered into with the supplier in the procurement of short eats, a report had not been provided by the members of the respective Committee by conducting such an examination up to 28 September 2022 .

The Committee on Regularization of Kitchen Activities has been constantly working on the quality of the products of the bakery production company and actions are being taken to appoint a Quality Verifying Committee (QVC) expeditiously.

Relevant inspections should be carried out as stipulated.

3.5 Management of Vehicle Fleet

Audit Observations

Comments of the Recommendation Management

As per Section 08 under special conditions of the series of instructions and conditions issued for the provision of vehicles on rental basis to the Authority, the vehicle provided should not exceed 08 years from the year of registration and although it was stated that the vehicle expected to be supplied should be in very good condition, 10 vehicles which were more than 08 years old from the year of registration had been obtained on rental basis.

Although the registration year should not exceed 08 years, the contractors were not able to supply good quality vehicles and they have stated that it was because of the restrictions on the import of motor vehicles in the country. Therefore, it was decided to extend the registration to 18 years for the year 2022 and rent the vehicles.

Arrangements should be made to obtain only the vehicles included in the respective registration years on rental basis.