

Jaya Container Terminals Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Jaya Container Terminals Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of profit and loss, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

1.4 Audit Scope

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1. Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of 13,140,300 liters of Lanka Auto Diesel and 11,186,700 liters of Furnace Oil had been purchased for the use of the Company in the year 2023 and 17355 liters and 4077 liters of unused Lanka Auto Diesel and Furnace Oil respectively had remained in the tank by 31 December 2023. As these balances had been omitted in the stock verification at the end of the year, current assets had been understated by the total value of Rs. 6,910,621 as Auto Diesel amounting to Rs.5,758,909 and Furnace Oil amounting to Rs.1,151,712 in the statement of financial position.	This fuel has been purchased from Sri Lanka Petroleum Corporation and carry out for the use of the boilers of and pumps our Company for day-to-day operational requirements. These stocks do not last long and the purchased oil lasts for about a month and use in pumps and boilers for day-to-day operational needs. The cost of buying these is shown in the relevant petroleum oil account. Since the beginning of our Company that is since 2008, these stocks have not been recorded as current assets.	The expenses incurred by the institution should be accounted for according to the accurate classification.
(b) Two credit balances of Rs. 3,294,694 which had arisen in adjusting the accounts of interest and gratuity related to low interest loans made in the year 2012 had been brought forward annually and due to adjustment made in salary account paid to officers in the	This was a balance in this account which was adjusted to record the accounts of employees' low interest loans and gratuity calculations by PWC (Pvt) Ltd. who audited our Company's accounts at that time with the introduction of SLFRS new	Expenditure relating to the year should be accurately accounted for.

year 2023 the salaries in the year under review had been understated by Rs.3,294,694 .

accounting system in the year 2012. Since you have verbally investigated the remaining of the balance of this account continuously and since that account balance is also an uneconomic balance, it was adjusted through a most suitable account this year. The effect on profit cannot be avoided through whichever account that balance is adjusted.

(c) The penalty amount for underutilized space charged from Sri Lanka Petroleum Corporation for the period from March to December 2022 was Rs.1,334,429 and as the amount of Rs. 733,936 which was equal to 55 per cent of the amount recovered from the Company in the year under review was taken to income, the income for the year under review had been overstated by that amount.

That income was not counted in income of our Company in the year 2022, because the invoice related to that fine was issued in 2023 for Sri Lanka Petroleum Corporation. Since the invoice was issued in January 2023, the income has been calculated in the income of the year 2023 . As compared to our total revenue of Rs.612 million, the impact is less than 0.1%.

That the income related to the year should be accurately identified and presented .

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

Reference to Laws, Rules, Regulations etc.	Non - compliance	Comments of the Management	Recommendation
(a) Section 3 of Part I of the Shop and Office Employees Act No. 19 of 9 August 1954	If an organization employs workers on a shift basis, although the working hours should be limited to a maximum of 8 hours per day and 45 hours per week, in contrary to that, the Company had employed 40 employees of the operational staff for 24-hour shifts in the year 2023 and the service was received only 02 days a week.	Twenty four hours shift has been introduced for efficient and uninterrupted operations as per the service requirement of the Company. The approval of the Board of Directors dated 25.02.2021 has been received to continue the 24 hour shift system.	Working hours of employees should be implemented as specified in the Act.

- (b) Section 56 of the Companies Act No. 07 of 2007
- The Company had paid Rs. 25,000,000 as dividends from the profit of the year 2022 and actions had not been taken to obtain a certificate stating that the Directors will carry out the solvency test after the payment of the said dividend or to obtain a certificate from the Auditors to that effect.
- Actions will be taken to obtain a certificate of solvency in future years in case of need. As you have pointed out, the amount of dividend paid for the year is Rs.25 million has been adjusted from the Retained Earnings account.
- Actions should be taken to obtain a certificate of solvency from the auditors as per Section 56 of the Companies Act No. 07 of 2007 .
- (c) Public Finance Circular No. 05/2018 dated 23 October 2018, Public Finance Circular No. 05 dated 16 November 2018 and Ministry of Finance Economic and Policy Development Circular No. 08/2019 dated 17 December 2019
- Registration of the procurement agency in relation to the implementation of the Electronic Government Procurement (e-GP) system in Sri Lanka, registration of Liaison Officers, publication of Annual Procurement Plan, publication of Procurement Notices, use of shopping method e-GP system etc. had not been done in terms of the circular.
- Steps will be taken to gradually introduce the implementation of Electronic Government Procurement (e-GP) system to our institution after a proper study.
- Actions should be taken in accordance with the new systems introduced in respect of procurement as indicated in the relevant circulars.
- (d) Public Enterprises Circular No. 01/2015 (ii) dated 14 January 2022 of Secretary to the Treasury
- An amount of 90 litres, 85 litres and 40 litres of fuel were given to those 03 categories of officers contrary to the circular, exceeding the monthly limit of fuel available for the vehicles assigned to 03 categories of officers who can get transport facilities of Corporations, Boards and Government-owned Companies and a sum of Rs.621,581 (1670 litres) had been overpaid for 07 months
- Jaya Container Terminals Limited, which is operated as a subsidiary of the Sri Lanka Ports Authority, submitted the decisions of Board of Directors from time to time for the approval of the Ministry of Finance through the Line Ministry. It has been informed in writing by the Ministry of Finance to the JCT on 31.01.2022, 14.03.2022, and 09.05.2022 to get the proper approvals made on the basis of a written approval obtained from
- The fuel limit specified in the circular should not be exceeded.

from June to December 2023 thus the increase was 62 per cent, 59 per cent and 30 per cent.

the parent body Sri Lanka Ports Authority as a subsidiary of Sri Lanka Ports Authority henceforth to perform this function properly.

I would like to mention that, by following the instructions, the approval of the Board of Directors was obtained to raise the fuel limits, and the proper procedure was followed by submitting it to the Sri Lanka Ports Authority for approval by getting approved it in writing.

As the reasons to do so, the officers should report to work regularly in order to properly run JCT, which is an institution that directly contributes to the serious fuel crisis in the country and we have approved giving this fuel increment to officers of concurrent parallel ranks of our institution with the view of running the daily activities of the JCT in an orderly and formal manner, taking into account the fuel requirement of the officers and taking into account the fuel allowances issued for the concurrent ranks of the Sri Lanka Ports Authority and following the proper method. Further, the quarters have not been provided for these officers and in spite of this, the decision has been taken to maintain the continuity of the service and to increase the profitability in view of the service fuel and the economic crisis and the time constraints that have arisen from time to time.

<p>(e) Circular No. 02/2023 dated 14 March 2023 of the Department of Public Enterprises</p>	<p>Even though the approved Budget for the year 2023 had indicated to curtail the allocated recurrent expenditure by 6 per cent, actions had not been taken accordingly.</p>	<p>It has been proposed to hold a committee headed by the Managing Director and with the participation of the Heads of Departments to submit proposals to reduce the expenses of our institution in accordance with our Circular No. 02/2023 dated 14 March 2023 and Public Enterprise Circular 2022/04 and the proposals were also sent to the Secretary of the Ministry of Ports, Shipping and Aviation. As per these circulars, several sessions of meetings were held in the years 2022 and 2023. Minutes of meetings with cost reduction proposals discussed in those meetings have also been forwarded to the Board of Directors for approval. Therefore, I would like to inform you that our organization has duly drawn attention to the above circulars and taken appropriate measures accordingly.</p>	<p>Actions should be taken as per the circulars issued by the Treasury for Expenditure Limits.</p>
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1.7 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
<p>Even though it had been stated that oil pumping charges cannot be treated as tax exempt service under Item 04 of Part II of the First Schedule to the Social Security Contribution Tax Act as per the letter of Commissioner General of Inland Revenue No. FPFS/CONF/2023/25 dated 24 October 2023, actions had not been taken to collect and remit Social Security Tax of Rs.2,960,568 and Rs.10,772,738 to be charged on the oil pumping fee of Rs.115,462,139 and Rs.420,136,784 respectively</p>	<p>With the introduction of Social Security Contribution Tax in October 2022, advice was received from our tax consultancy, Amarasekara & Company, on its applicability to our Company's income items. According to the instructions, it was informed that the oil pumping service (Pumping Charge) has been exempted from this tax. A letter was sent to the Sri Lanka Port Authority also about this situation and, the Sri Lanka Ports Authority informed in the letter dated 28 March 2024 to</p>	<p>The relevant taxes should be collected and remitted to the government revenue in terms of the tax bills introduced by the government.</p>

from October to December 2022 and from January to December 2023, to the Inland Revenue Department.

meet the officers of the Inland Revenue Department to further discuss the situation and take a decision. Accordingly, Amarasekara and Company has held a discussion on this matter on 04.04.2024 with the officers of the Sri Lanka Ports Authority and the officers of the Inland Revenue Department. There, Amarasekara and Company informed that the pumping service falls under the category of Transportation of Goods. However, another discussion will be held on this in the future.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a surplus of Rs. 243.8 million and the corresponding surplus of the preceding year was Rs. 245.6 million. Accordingly, a decrease of 1 per cent was observed in the financial result.

2.2 Trend Analysis of Major Income and Expenditure Items

The following observations are made.

- i.** The cost of fuel for vehicles had increased by Rs. 2.4 million from Rs. 4.7 million to Rs. 7.1 million as compared to preceding year. This is a 50 per cent increase. For this, the increase in the fuel limit given to officers' vehicles had also affected.
- ii.** The office vehicle maintenance expenses had increased by Rs.4.1 million, from Rs.6.1 million to Rs.10.2 million as compared to the preceding year. This is an increase of 68 per cent. Out of this, approximately Rs. 3 million and Rs. 1.8 million had been incurred for the maintenance of the Chairman's official motor vehicle and the car assigned by the Ministry respectively.

2.3 Ratio Analysis

The following observation is made.

- i.** The current ratio and liquidity ratio in the year 2018 were 19.04:1 and 18.93:1 respectively and, it had gradually declined to 5.16:1 and 5.09:1 respectively by the end of the year under review. It is observed that the current ratio and current assets ratio had grown by 1.08 and 1.04 respectively in the year under review as compared to preceding year.

3. Operating Review

3.1 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
An amount of 275 MT of 380 (HSFO) had been stored as at 31 December 2023 in oil tank number 102 with 1000 MT capacity. It is made up of 162.257 metric tons of oil confiscated by Sri Lanka Customs, 40.26 metric tons belonging to two companies, 72 metric tons belonging to Sri Lanka Ports Authority. As this oil tank had been sealed by customs for legal purposes and had remained in idle since 2020, it was unable to be used for operational purposes.	As the oil in this tank has been confiscated by Sri Lanka Customs and as a case is being heard on it, our Company had informed regarding this to the Sri Lanka Customs several times to withdraw this oil. Similarly, the customs officers have been informed about this in several meetings chaired by the Secretary of the Ministry of Ports, Shipping and Aviation Services, and told to remove this oil as soon as possible.	Actions should be taken to manage oil tank space in negotiation with relevant parties.

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Because a strategy is needed to get the job done efficiently and effectively due to the manual nature of Human Resources and payroll activities since the HR & Payroll system, which was obtained at a cost of Rs. 976,000 from the year 2021, has not been able to be implemented until now, and as it had been impossible to get the accurate printed pay slips which is the final result obtain by the HR & Payroll system, it had been impossible to obtain maximum return for the expenditure incurred.	The Antler IT Solutions Company, which prepares this software, will make the necessary improvements regarding the error of the computer software system not being able to automatically identify the working periods for 03 days for 24 hours shift of employees working under shift system (08.00 a.m. - Next Day 08.00 a.m / 08.30 a.m. - Next Day 08.30 a.m.) . It was agreed to take actions to correct this error immediately in the meeting dated 19/04/2024 held with the CEO of that company and the company has agreed to take steps to make the necessary improvements on the other defects that are currently being reported. The existing software has to be changed due to the changes made after the evaluation of the project, such as the availability of overtime and the introduction of flexible office hours also.	It should comply with the provisions of the Procurement Guidelines.

3.3 Human Resources Management

Audit Observation

A formal Scheme of Recruitment had not been prepared and the approval of the Board of Directors and the Line Ministry and the agreement of the Department of Public Enterprises had not been obtained for the Company in terms of 3.2 (ii) of the Operational Manual for Public Enterprises issued with Public Enterprises Circular No. 01/2021 dated 16 November 2021 and although every government enterprise should have prepared the Organizational Chart with the approved number of employees in terms of Section 3.3(ii) thereof, the Company had not fulfilled that requirement.

Comments of the Management

The drafts of Organizational Chart and Scheme of Recruitment of Jaya Container Terminals Limited along with the approved number of employees have already been submitted to the Human Resources Committee and further steps will be taken after getting the approval of the Board of Directors.

Recommendation

Actions should be taken as per circular provisions introduced by the government.