

Shipping Development Fund - 2013.

The audit of Financial Statements of the Shipping Development Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the Statement of Changes in the Accumulated Fund for the year then ended and a summary of explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations on the above financial statements appear in this report.

1:2 Management's Responsibility for the Financial Statements

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

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

1:4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of the report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2:1 Adverse Opinion

In my opinion because of the significance of the matters described in paragraph 2.2 of this report the financial statements do not give a true and fair view of the Financial Position of Shipping Development Fund as at 31 December 2013 and its Financial Performance for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements

2:2:1 Irregular maintenance of the Fund and Action not taken to better Strengthen Legally

Even though more than 39 years had elapsed after the establishment of the Shipping Development Fund, action in terms of the Public Finance Circular No.PF/423 of 22 December 2006 had not been taken to present a Parliamentary Act for the promulgation of laws for better strengthening of functioning as a Statutory Fund. A Board of Governors or a Board of Directors had not been appointed up to date for regularising the administration of the Fund. Neither a contribution for the development of the Shipping Sector nor the preparation of plans for that purpose had been made up to date. Even though the uncertainty of the going concern of the Fund was observed, the Financial Statements had not been presented in accordance with that situation.

2.2.2 Public Sector Accounting Standards

Even though the financial statements should be prepared and presented in accordance with the Public Sector Accounting Standards the whatever Standards followed had not been disclosed.

2:2:3 Accounting Deficiencies

The following observations are made.

- (a) Even though sums totaling Rs.460 million receivable from 04 State institutions had been shown under the assets in the balance sheet, those are nothing more than nominal

balances remaining receivable over a long period. No action whatsoever had been taken for the recovery or provide for bad debts as the recovery of the amounts is uncertain.

- (b) The fixed assets valued at Rs.94,598 belonging to the Fund but remaining in the custody of another institution had been depreciated by a sum of Rs.16,342 and written off against the Accumulated Fund.

In view of the non-submission of the Registers of Fixed Assets, age analysis, information of balances, Reports of Physical Board of Survey, etc. relating to the assets and balances shown in paragraphs (a) and (b), above could not be satisfactorily vouched or verified.

3. Financial Review

3:1 Financial Results

The Fund had not presented a statement of income and expenditure for the year under review. According to the statement of changes in the Accumulated Fund, the expenditure of Rs.16,342 as the depreciation of fixed assets had been shown as the only expenditure and the deficit for the year had been Rs.16,342. As compared with the deficit of Rs.19,342, the deficit of the year under review had increased by a sum of Rs.3,000.

4. Operating Review

4:1 Performance

According to a case filed in the Courts by the shipping agents against the Central Freight Bureau challenging the recovery of Commission, the Court had issued a restraining order in the year 2006 with regard to the commission. As a result the commission for the allocation of freight facilities which is the major income source of the Fund had not been received during the 6 preceding years. The Central Freight Bureau as well had been liquidated. Even though this Fund has several computers and photocopiers, the commencement and implementation of any activity by the Fund had become a problematic matter for the Fund and as such no performance had been reported.

4:2 Management Inefficiencies

The Fund had given a sum of Rs.60,000,000 comprising Rs.35,000,000 and Rs.25,000,000 to a Government Shipping Company in June 2011 for the purchase of accessories required for a shipping operations terminal. Out of that a sum of Rs.46,476,266 had been spent on the purchase of goods and the balance a sum of Rs.13,523,734 had left idling in an external

institution over a period exceeding 14 months. Subsequently that money had been refunded to the Treasury on 12 August 2012.

The following observations are made.

- (a) Out of the money given for capital works in the passenger terminal a sum of Rs.29,686,523 had been spent on recurrent expenditure such as building rent, transport, labourers' wages, electricity, telephone and other petty expenditure.
- (b) The baggage scanner, metal detector and iron trolleys purchased as a cost of Rs.11,883,238 had been given free for the Department of Prisons without making use of those.
- (c) Computers and office furniture costing Rs.4,906,505 had been given for use by the line Ministry and a Government Shipping Corporation.

As such, out of the money received for carrying out improvements to a passenger terminal, a sum of Rs.46,476,266 had been used for other purposes instead of the intended purposes, resulting in a fruitless expenditure.

5. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Debtors
- (c) Fixed Assets