

Shipping Development Fund – 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Shipping Development Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and notes to the financial statements, 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 read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be furnished to the Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund because of the impact of the matters discussed in the paragraph 1.5 of this report. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of financial position as at 31 December 2018 and the statement of financial performance for the year then ended.

1.2 Basis for Disclaimer of Opinion

Base on the matters described in the paragraph 1.5 of the report, I do not express an opinion on the financial statements.

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 disclaimer of 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 Public Sector Accounting Standards and for such internal control as management determines 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 Fund'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 intends to liquidate the Fund or to cease operations, or has no realistic alternative to do so.

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

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

1.4 Auditor's Responsibility for the Audit of the 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 those 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 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 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 Fund'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 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 Fund's ability to continue as a going concern. If I conclude that 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 date of my auditor's report. However, future events or conditions may cause the Fund 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 audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organizations, 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 Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties, and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the applicable standers	Comments of the Management	Recommendation
----- According to the paragraph 38 of Sri Lanka Public Sector Accounting Standards No.1, when the management is aware that there are material uncertainties upon the entities’ going concern, even though those uncertainties shall be disclosed it had not been disclosed in the financial statements.	----- Actions are being taken to close the Fund according to the Public Finance Circular No 2/2018 dated 18 August 2018.	----- The uncertainties upon the going concern of the Fund shall be disclosed in the financial statements.

1.5.3 Lack of Documentary Evidence for Audit

Observation	Comments of the Management	Recommendation
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No proof document whatsoever had been furnished to audit relating to the sum of Rs. 366,691,764 given to the President's Office, and it was reported to audit that the sum of Rs. 55,000,000 which had been given to the Ceylon Shipping Corporation had been taken on the reimbursement basis by the General Treasury, and it was not a responsibility of the Ceylon Shipping Corporation. Accordingly, non-receipt of confirmation of balances in respect of the entire value of Rs, 421,691,764 shown as assets in the financial statements, and it had not been shown as a liability in the financial statements of the relevant institutions. As such, the recovery of money had remained uncertainty.	Actions are being taken to close the Fund according to the Public Finance Circular No 2/2018 dated 18 August 2018.	The uncertainties upon the entities' going concern of the Fund shall be disclosed in the financial statements.

2. Operational Review

2.1 Going Concern of the Fund

Audit Observation	Management Comment	Recommendation
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While the Fund had established under the provisions of Sri Lanka Central Freight Bureau Act, No. 26 of 1973, by utilizing the charges and commissions recovered from the shipping agents, it had been functioned as a non statutory fund under the Ministry of Ports and Shipping. According to the instructions given by the Department of Public Enterprises by its letter No.PE/Cop/(4)31Gen. dated 24 May 2011, a sum of Rs. 46.47 million out of the Fund had been released to the Ceylon Shipping Corporation for the investment to establish a new passenger terminal and the balance financial assets of the Fund had been credited to the Consolidated Fund when up to 10 September 2012. After then, no operations whatsoever had been carried out. Therefore the Fund had not going concern.	Actions are being taken to close the Fund according to the Public Finance Circular No 2/2018 dated 18 August 2018.	Prompt actions should be taken to close the Fund according to the Public Finance Circular No 2/2018.

2.2 Management Inefficiencies

Audit Observation

The approval was granted to close the Fund at the Cabinet Meeting held on 9th August 2017 on the recommendation of the Cabinet Committee on Economic Management and the recommendation of the Treasury Committee which appointing according to budget proposal 2016, to review and make recommendations of non-statutory and statutory funds.

Accordingly, the Secretary to the Treasury had instructed to take immediate actions to close the Fund through the Public Finance Circular No.02/2018 issued on 18 August 2018. However, as of 31 March 2019, no action had been taken to close the Fund.

Management Comment

Actions are being taken to close the Fund according to the Public Finance Circular No 2/2018 dated 18 August 2018.

Recommendation

Prompt actions should be taken to close the Fund according to the Public Finance Circular No 2/2018.