

Head 176 –Ministry of Ports and Shipping

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Ministry of Ports and Shipping 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 cash flow statement for the year then ended, 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. The summary report including my comments and observations on the financial statements of the Ministry of Ports and Shipping was issued to the Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Detailed Annual Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 31 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Ports and Shipping as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 opinion.

1.3 Responsibilities of the Chief Accounting for the Financial Statements

Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Department 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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists and

carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities 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 the summary report of the Auditor General that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

Since there was no requirement for the Ministry of Ports and Shipping to prepare financial statements for the preceding year, comparison with the preceding year cannot be done and recommendations on the financial statements also had not been presented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

a. Statement of Financial Position

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(i) A sum of Rs. 62,061,465 related to incompleting two projects which had been started in year 2017 and 2018 under Acquisition of Capital Assets by the Ministry, had not been shown under non-financial Assets as work-in progress.	Actions should be taken to enter the accurate details in Financial Statements as per the Public Accounts Circular No 267/2018 dated 21 November 2018 and as per the Accounting Policies.	It was noted to prepare accurate accounts as per the Public Accounts Circular from the year 2019 and advice was given to the relevant officers.
(ii) Even though the opening Balance of non-financial Assets is Rs. 232,863,367 it was stated in the statement of non-financial Assets as Rs. 266,621,052 overstating by Rs. 33,757,685. Reasons for this difference were not submitted to the Audit.	Actions should be taken to enter the accurate amounts in Financial Statements	-do-
(iii) Even though the values of vehicles and machineries and equipments as per the statement of Financial Position- are Rs. 248,915,208 and Rs. 21,270,663 respectively, as per the Schedules those values were Rs. 267,319,644 and Rs. 17,193,634. Thus a difference of Rs. 22,481,465 was observed between Financial Statements and Schedules.	Balances of the Financial Statements and the Detailed Schedules should be prepared in consentaneous manner.	-do-

b. Statement of Financial Performance

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(i) As a reason of the receipt of Government Officers Advance understated by Rs. 6,027,886 and Other receipts overstated by Rs. 4,205,860 during the year, non-income receipt in the Statement of Financial Performance had been overstated by Rs. 1,822,026	Actions should be taken to prepare accounts accurately as per the Chapter 3 of the Public Account Circular No 267/2018 dated 21 November 2018.	It was noted to prepare accounts as per the Public Accounts Circular No 267/2018 dated 21 November 2018, from the year 2019 and relevant officers were advised
(ii) Even though the Advance Payment according to the Financial Statement was Rs. 8,177,719, it has been shown as Rs. 5,511,133 in Financial Performance Statement. Thus the Payment of Advance understated by Rs. 2,666,586.	-do-	-do-
(iii) Even though the Imprest Adjustment Account had been prepared, A sum of Rs. 101,036,857 remitted to the General Treasury which was collected under Licence and Other Incomes had not been included. A sum of Rs. 5,369,898 which was not confirmed by the evidence had been shown in the Adjustment Account as the income collected by other Departments.	-do-	-do-
(iv) Even though the amount incurred for other Departments/ Ministries by the Ministry amounted to Rs. 2,344,210 as per the Monthly Summary of Accounts, it had been shown in the Adjustment Account as Rs. Rs. 738,065 understated by Rs. 1,606,145.	-do-	-Do-
(v) The differences amounted to Rs. 701,868 and Rs. 11,500 for Receipt and Payment of Advances between Treasury Books and Ministry Books had not been considered in the	-do-	-do-

preparation of Adjustment Account.

1.6.2 Reconciliation Statement on Government Officers Advance Account

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
i A sum of Rs. 462,459 to be recovered from 06 officers who transferred out from the Ministry to other external institutes had not been recovered for a period of 15 years. Moreover actions had not been taken to recover a sum of Rs. 293,470 and Rs. 21,140 from two employees who were suspended and vacated post respectively.	Action should be taken as per the provisions of section 1.6, 1.7 and 6.3 of the Chapter XXIV of the Establishments Code and Chapter I of the National Budget Circular No 118 dated 11 October 2004 and Chapter 4.3 of Public Finance Circular No පිළිබඳ/ආර්ථික/2015/08 පොදු (i) dated 09 October 2015.	The loan balance amounted to Rs. 462,583 recoverable from 06 officers is as old as 1990 decade. A request has been made to the Department of Public Finance to write off these loan balances. After receiving the decision of the case filed against the employee who suspended, he has filed a case in the Court of Appeal. Actions could be taken to deduct the balance from the gratuity upon the decision. As the sum amounted to of Rs. 21,140 is older more than a decade I would like to inform you that it is difficult to show any progress in recovery of this loan.

1.6.3 Responsibilities of the Chief Accounting Officer

The Chief Accounting Officer shall ensure that the following matters according to the provisions of Section 38 of the National Audit Act No.19 of 2018. However, actions had not been taken accordingly.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such system and make alterations as required for such system to be effectively carried out. Even though Copies of the reviews shall be submitted to the Auditor General in written, statements for having been done such a review had not been presented to audit.</p>	<p>Actions should be taken according to the provisions of Section 38 of National Audit Act, No 19 of 2018.</p>	<p>An effective internal control system for the financial control in the Ministry is maintained. Actions will be taken to follow the section 38 of National Audit Act, No 19 of 2018 after conducting a written review from the year 2019.</p>

1.6.4 Non-compliance with Rules and Regulations

The following instances of non-compliance with Rules and Regulations were observed in Audit test check.

Observation	Reference to Rules and Regulation	Value Rs	Non-Compliance	Recommendation	Comments of Chief Accounting Officer
<p>Public Finance Circular No 01/2014 of 17 February 2014</p>	<p>Annual requirement updated organization structure of the Ministry and Nautical Secretariat and carder detail reports and plans which should be included to the Annual Action Plan as per the circular, had not been</p>	<p>Imprest plan,</p>	<p>Actions should be taken in terms of Circular</p>	<p>Actions will be taken to prepare an amended Action Plan excluding the defects shown in the audit for the year 2019.</p>	

included.

2. Financial Review

2.1 Imprest Management

The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Imprest had not been received from the Treasury according to the plans made by the Ministry. Even though a sum of Rs. 1,413 million was requested only Rs. 329 million of imprest which is 23 per cent of the requested amount was received.	a plan should be prepared and presented When requesting imprest so as to implement the precise development projects in accordance with the Action Plan.	The amount which was not received out of the requested imprest during first three quarters was included in final quarter imprest request. This is the reason for non-utilization of the provisions provided by the Parliament. Provisions provided by the Parliament could not be utilized in optimal manner due to the non receipt of provisions

2.2 Management of Expenditure

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Remaining provisions exchanged under Financial Regulation 66	Expenditure estimates should be prepared accurately as per the Financial Regulation 50.	Even though exchange of provisions for the Expenditure Head 176-2-4-26-2509 had been done under Financial

construct Sooriyawewa international Cricket Stadium which is not included to the scope of the Ministry, the whole amount of provision that was exchanged has been remained.

However, the Ministry had made a payment of Rs. 278,835,112 to the Peoples Bank on 28 November 2018 for the payment of the interest for the loan on the provisions of Supplementary Estimates.

Regulation 66 due to the necessity, provisions have been saved as it was not possible to obtain imprest from the General Treasury for the incurring of expenditure and the said amount has been shown as a commitment of the year 2018.

(b) Non utilization or under utilization of provisions

Provisions amounted to Rs. 67,404,416 had been saved in 10 Capital expenditure heads and it represented a range between 25 per cent to 100 per cent. Provisions totalling Rs. 2,270,000,000 of 10 Capital expenditure Heads had been saved. Provisions amounted to 13,059,336 had been saved in 06 Recurrent Expenditure heads and it represented a range between 29 per cent to 60 per cent.

Expenditure estimates should be prepared accurately as per the Financial Regulation 50 and accordingly annual expenditure should be borne.

Reasons for those savings in the provisions are actual expenses are lesser than the expected in most Expenditure Heads, devaluation of the value of the rupee during the purchasing of machines and equipment, non receipt of ordered goods and failure to conduct training programs in Merchant Nautical secretariat as expected.

2.3 Incurring of Commitments

Audit Observation

Recommendation

**Comments of the
Accounting Officer**

Commitments of Rs. 3,023,031 had been incurred exceeding the provisions made relevant to 04 Expenditure Heads.

Incurring of commitments should not be done without estimated provisions in terms of the provisions of Financial Regulation 94.

Even though the vouchers to be payable entered in to the Liability Register, failure to rectify it after closing the accounts due to the reasons such as although the vouchers ready for the payments included in to the Liability Register it could not be uploaded to the Cigas new web page, non inclusion to liability sheet due to non receipt of imprest from the Treasury even though the provisions were reserved, due to a problem arose when uploading the liabilities which were paid off by 31.12.2018, they were shown in the new Cigas web page. Actions will be taken to avoid such negligence.

3. Operating Review

3.1 Planning

Audit Observation	Recommendation	Comments of the Accounting Officer
Procurement Plan regarding the main Procurement		
Procurement Plans related to two development projects and Acquisition of Capital Assets and rehabilitation and development activities which were facilitated with a provision of Rs. 65 million by Annual Estimates, were not included to the Annual Action Plan.	Plans should be prepared as per the Chapter 3 (e) of Public Finance Circular No 2014/01 dated 17 February 2014.	The part of the said activities to be fulfilled in the year 2019 and it will be included in the amended Action Plan in the year 2019.

3.2 Non-compliance of Duties

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Other than the three types of charges charge for the issuance of Certificate of Compliance, Certificate of continuous release and copies, charge under the Merchant Shippin Act No 52 of 1971 and its amendment by Nautical Secretariat, more than 50 types of charges belong to 10groups had not been amended after year 2006.	Actions should be taken to amend the charges, charge in service providing as per the Public Finance Circular No 01/2018 dated 17 January 2018, relevant to the implementation of Budget Proposal 2018.	Preparation of the draft of the Charges Amendment is completed by a committee appointed under the approval of the Secretary. It is expected to fulfil this task within the year 2019.

3.3 Failure to achieve the expected outcome

The following observations are made.

Audit Observation

Recommendation

Comments of the Accounting Officer

Projects of construction of the sub office of Jaffna District of the Nautical Secretariat and the construction of Slipway had been implemented in year 2016 with an aim to regulate the Maritime Passenger Transportation service by providing facilities for registration, regulation and for repairs of the passenger and goods transportation vessels voyage between Jaffna Peninsula and Islands. Even though it was planned to complete relevant construction activities before 31 December 2017, only the basic construction was completed by 31 December 2018 and it was not possible to use even by 09 April 2019 as activities related to water electricity and other infrastructure facilities were not finished up.

Actions should be taken to utilize the provisions made within the expected time frame by adhering to the Annual Estimates and Action Plan.

It is expected to procure infrastructure facilities and utilize them on public in the year 2019.

3.4 Foreign Funded Projects

Audit Observation

Recommendation

Comments of the Accounting Officer

A provision of Rs. 1,350 million had been made for year 2018 under the program of Line of Credit if Exime Bank, India to construct an administrative building and a store to operate activities related to the development of Fort Kankasanthurey. Even though plans had been made to complete the Procurement Procedure and

It is the responsibility of the Ministry to take actions efficiently to utilize Public debt in optimal manner.

Provisions had not been requested from the Ministry and a sum of Rs 1,350 million has been allocated from the Treasury. Commencement of the fort development activities was delayed

05 per cent of the constructions within the year under review, the planned activities were in a preliminary stage and the total provisions were saved. As a result of that it was observed that the Public Debts had not been utilized in a maximum level.

due to the issues in basic steps such as acquisition of lands, appointment of project consultant and establishment of the buildings of Navy.

3.5 Procurements

Audit Observation

Recommendation

Comments of the Accounting Officer

 When Bids were called for a printing job of the ministry, the minimum number of sealed bids were not called as per the Government Procurement Guideline, bidders were informed to submit their bids by way of fax, e-mail or by hand instead of calling of sealed bids, clear specifications were not provided, date and time scheduled for the opening of bids were not mentioned and standard method of documentation was not used are some of the shortcoming observed.

 Actions should be taken as per the guidelines given in the Government Procurement Guideline

 At present actions are done as per the guidelines given in the Government Procurement Guideline when Bids are called by the Ministry.

4. Human Resource Management

Audit Observation

Recommendation

Comments of the Accounting Officer

 Even though there were 18 vacancies in senior level including 11 vacancies of nautical professionals belong to engineering sections, 18 vacancies in tertiary level and 46 vacancies in secondary level, actions were not taken for recruitment.

 Adequate staff to fulfil the duties and missions of the Ministry should be maintained.

 There is a difficulty in recruitment due to the non adequacy of the salary and the Ministry of Public Administration was informed to fill up vacancies.