

## **Head 176–Ministry of Ports and Shipping**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statement of the Ministry of Ports and Shipping for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Chief Accounting Officer on 26 June 2020 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Chief Accounting Officer on 20 November 2010. 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, the financial statements which was prepared according to the State Accounts Circular No. 271/2019 dated 03 December 2019, give a true and fair view of the financial position of the Ministry of Ports and Shipping as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for the Opinion**

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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 Officer for the Financial Statements**

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Chief 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 Ministry 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 Ministry 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**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 Ministry'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**

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I express the following matters in accordance with Section 6 (1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

- a. The financial statements had been prepared with the comparison of preceding year.
- b. The recommendations which I made on the financial statements of previous year had been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Statement of Financial Position

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
(a) An imprest balance of Rs. 459,566 which to be recovered from Department of Election and to be settled general treasury had not been shown under the cash and cash equivalents.	Actions should be taken to prepare accounts as per the instructions of the Public Account Circular No 271/2019 dated 03 December 2019.	A cheque obtained from Department of Election and had forwarded to general treasury in the year 2020.
(b) A motor vehicle worth Rs. 11,000,000 belongs to the Ministry had not been stated as a non financial asset and a double cab worth Rs.7,858,109 which had been taken under the operating lease method had been stated as a non financial asset of the Ministry. Due to this non financial assets had been understated by Rs. 3,141,891.	Actions should be taken to state accurate figures in the accounts according to the directions given by the Public Finance Circular No 271/2019 on 03 December 2019.	Actions will be taken to correct during the year 2020.

### 1.6.2 Responsibilities of the Chief Accounting Officer

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any changes as required for such systems to be effectively carried out and those reviews shall make in writing and a copy had not been submitted to the Auditor General.	Actions should be taken according to the provisions of Section 38 of National Audit Act, No 19 of 2018.	The review of internal control system for the year 2020 was forwarded with the signature of chief accounting officer according to the Section 38 of Audit Act.

### 1.6.3 Non-compliance with Rules and Regulations

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Reference to Rules and Regulation	Non-Compliance	Recommendation	Comments of Chief Accounting Officer
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Public Finance Circular No 1/2014 of 17 February 2014	Annual Requirement Plan, updated organization structure and cadre information of the Southern Interim Board had not been included to the Annual Action Plan.	Annual Action Plan should be prepared according to the requirements of the circular.	Actions will be taken to include Annual Imprest requirement plan to the Annual Action Plan.

## 2. Financial Review

### 2.1 Management of Expenditure

Under mentioned observations are made.

	<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
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(a)	Even though provision of Rs. 159,000,000 had been provided for 03 main port development projects under the Head 176-02- Development Programme on foreign aids, the whole amount of provision had been saved.	Expenditure estimates should be prepared according to provisions of Financial Regulation 50 and actions should be taken to implement the projects as planned.	The provision could not be utilized due to long delay in agreeing to terms and conditions of Asian Development Bank relating to tax and insurance of feasibility study; delay in cabinet appointed procurement committee decisions on construction of four port workshops buildings due to 2019 presidential election; having to revise the proposal requesting documents and the need to resolve the facts that arose during the evaluation process etc.

- (b) During the year under review, a net provision of Rs. 1,282,020,000 had been allocated by the treasury to implement 03 projects related to Southern Development. At the end of the year, after being adjusted liabilities and commitments of Rs. 226,008,380 which appeared on treasury books, to the expenditure of those three projects, further remaining provision was Rs. 596,587,767 and it represented 47 per cent of the net provision.
- By the extra ordinary gazette Notification No. 2103/33 dated 28th December 2018, the affairs of upgrading of social-economic and infrastructure facilities with regard to Southern Development had been entrusted to the Ministry and the relevant provisions had been made to the Ministry. Hence, it is the responsibility of the Ministry to achieve the desired targets.
- The targeted projects for the Galle and Matara districts under the Singharaja Aggregated Rural Development Programme was 185 and from those 140 projects had been implemented. Further, The money had not been spent due to non disbursement of imprest by the treasury to the district secretariats, inability to pay bills in hand, lack of feasibility studies and non receipt of project reports for some projects etc. The targets which mentioned in Budget Estimations had not been forwarded by this Ministry.

## 2.2 Incurring of liabilities and commitments

Under mentioned observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the note (iii) of the financial statement, the total amount of liabilities and commitments as at 31 December 2019, was Rs. 156,257,557 and according to the treasury statements it was Rs. 299,706,210, hence, a deference of Rs.143,448,653 were represented.	Financial statements should be prepared using the correct information of commitments at the end of the year.	The difference was due to a doubling of treasury books as the district secretariats had also reported these commitments and liabilities to the treasury.

- (b) Commitments of Rs. 42,645,949 had been incurred exceeding the annual provisions made relevant to 03 expenditure heads. Incurring commitments Should not be done exceeding the provision. of There was no any commitment which exceeded the provisions and the difference was indicated due to the liabilities were doubled according to the Treasury Statements.
- (c) As per the audit test revealed that, liabilities of Rs. 4,313,283 relevant to the year of 2019 which were not identified as liabilities in the statement of commitments and liabilities, had been settled in the months of January and February of the year 2020. Actions should be taken to identify the expenditure related to the year by strengthening the internal control process. Bills submitted after the end of the treasury accounting process for the year 2019 could not be accounted as liabilities.

### 2.3 Reconciliation Statement on Government Officers Advance Account

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#### Audit Observation

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 A sum of Rs. 172,403 to be recovered from 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.

#### Recommendation

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 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 PFD/RED/2015/08 GEN (i) dated 09 October 2015.

#### Comments of the Chief Accounting Officer

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 As the non availability of information of old loan balances, 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 in the Court of Appeal by the employee who suspended, actions could be taken to deduct the balance from the gratuity upon the decision.

### 3. Operating Review

#### 3.1 Planning

##### Audit Observation

Even though Rs. 1,250 million had been provided by Annual Estimates, to implement 03 projects under the Southern Development, the expected time frame for implementation of projects, expected output and expected outcome etc. had not been determined by the Action Plan prepared by the Ministry.

##### Recommendation

Plans should be prepared as per the Chapter 3 (e) of Public Finance Circular No 2014/01 dated 17 February 2014.

##### Comments of the Accounting Officer

Such shortcomings will be rectified in the future.

#### 3.2 Frailer to perform of Duties

##### Audit Observation

Excluding three types of charges, more than 50 types of charges belong to 10 groups which were charged by the Merchant Shipping Secretariat, under the Merchant Shipping Act No 52 of 1971 and its amendment, had not been amended after year 2006, that is, for more than 14 years. Hence, a considerable amount of revenue had been lost to the government.

According to the Public Finance Circular No.01/2018 dated 17 January 2018, a draft act to amend the tariffs belonging 16 categories under this had been submitted to the Ministry of Finance for approval on 05 August 2019 but it was still under observation level till 30 August 2020.

##### Recommendation

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.

##### Comments of the Chief Accounting Officer

Though the draft of the amendments had been submitted to the Department of Public Finance, approval had not received. As per the verbal instructions given by that department, actions had been taken to ask for ideas of maritime stakeholders and informed that the increase of charges was not appropriate during the period of Corona epidemic.

**3.3 Failure to achieve the expected outcome**

Under mentioned observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Chief Accounting Officer</b>
<p>(a) Construction Projects of Jaffna District sub office and the Slipway of the Merchant Shipping Secretariat had been implemented in year 2016 with the objective of streamlining the Costal Passenger and freight transportation services between Jaffna Peninsula and Islands. Though the basic construction works had been completed at a cost of Rs. 65.5 million as at 31 December 2018, a provision of Rs.16 million had been made during the year under review to complete the additional work identified later. However, according to the performance report at the end of the year under review, financial progress was as low as 9 per cent and physical progress was as low as 10 percent. As per the basic plan, it was planned to complete the construction before 31 December 2017, but it had not been able to complete and put into public use even by 31 July 2020.</p>	<p>Project should be well planned and implemented and actions should be taken to complete within a reasonable time frame and to use for public utilization.</p>	<p>Construction of slipway had been completed by the end of the year 2018 and identified additional work scheduled to be completed by October 2020. Construction of office building had been completed by the end of April 2019 and the procurement for its additional work is underway. Though the provision was made in the year 2019, it could not be finished during the year 2019, due to non release of imprest.</p>
<p>(b) In line with the International Labor Organization convention, it had been planned since 2015 to issue a biometric featured identity document to all Sri Lankan seafarers. Rs. 20 million had been allocated for this project during the year under review, and Rs. 53.46 Million had been spent by the end of the year. According to the action plan, the software development work was expected to be completed by 50 percent and the acquisition of other equipment by 80 percent, but the progress achieved by the end of the year under review was only 20 percent. Due to this, it had not been completed</p>	<p>Should be acted to achieve the targets by reaching the desired performance level within the specified time frame.</p>	<p>The project of issuance of biometric identity document to seafarers is scheduled to finish on 05 May 2020 and the software development had been completed but the issuance had been delayed on the inability of import of cards due to Covid 19 epidemic.</p>



the planning of a biometric featured identity document even up to 31 July 2020.

- (c) Rs. 710 million had been allocated during the year under review, to implement 978 roads, 58 water and sanitation projects, 52 educational project and 61 other projects of Galle, Matara, Kalutara and Rathnapura districts under the Sinharaja Aggregated Divisional Development Program. According to the financial statement, only Rs. 274 million had been spent during the year under review. According to the Performance report presented by the Ministry regarding the projects implemented each districts, only 159 projects had been implemented and out of that, the physical progress of 18 projects were less than 50 percent.
- Should be acted to implement the projects within the expected time frame and the annual estimations.
- The targets stated in the annual estimations are those given by the Ministry which had assigned the subject of Southern Development at that time, and not by this Ministry. 159 projects had been approved by this ministry and out of that, 131 projects had shown 100 percent progresses. Six projects of Rathnapura District had not implemented as on requested by the Ministry of Finance on 20 November 2019.
- (d) Rs. 7,889,105 and Rs. 23,396,673 had been allocated respectively to implement 02 road development projects and 02 water supply schemes in Matara district, under the project mentioned in above (c). However, though the projects had not been launched even up to 31 December 2019; it had reported hundred percent progress as per the progress report. Further, the total amount of Rs. 23,396,673 had been paid to National Water Supply and Drainage Board during the year under review without entering in to agreement to implement above two water supply schemes.
- Action should be taken to achieve the desired level of performance of the projects and to utilize them for public use as intended.
- The targets for the year 2019 stated in the budget estimates are those given by the Ministry which had assigned the subject of Southern Development at that time. Two road development projects that could not be implemented had been canceled. As it is a government agency, checks are issued directly to that institution. The Matara District Secretary has informed that the possibility of entering into an agreement with the institution in the future will be explored and that the physical progress had been shown as 100 percent due to a mistake.

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| (e) | During the year under review, Rs. 200 million was allocated for the implementation of 10 tourism development projects and 3 urban development projects. At a cost of Rs. 169.64 million, it was planned to implement 19 projects that were not directly related to tourism or urban development. Of these, construction of 12 projects had not commenced. | Action should be taken to achieve the desired level of performance of the projects and to utilize them for public use as intended.                | Five approved projects in Galle District and 12 approved projects in Matara District failed to be implemented as the Ministry of Finance had informed by letter No. BD / GPS / 155/09/01 / HA-2019 dated 20.11.2019 to temporary suspend the projects which have not commenced work.                                   |
| (f) | A net allocation of Rs. 270 million had been provided to complete of 10 sub activities of 3 main projects and construction of 3 swimming pools in Matara and Galle Districts under the Southern Development Board, and only Rs. 15.6 million had been spent during the year under review.   | Action should be taken to achieve the desired level of performance within the relevant time frame and to utilize them for public use as intended. | These project proposals were submitted in the latter part of the year 2019 and had been forwarded to the District Secretaries for implementation after obtaining the approval of the Department of National Planning. The relevant preliminary works had been done in the year 2019 and year 2020 has been continuity. |

### 3.4 Procurements

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#### Audit Observation

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At the procurement of feasibility study on Fauna & Flora relating to Dedduwa Tourism Development Project of Southern Development Interim Board, instead of following the Guidelines for Selection and Employment of Consultants (August 2007) which includes the reviewing of Request For Proposals and evaluation of proposals on a formal criterion, etc., it had been followed the Shopping Method under the

#### Recommendation

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The selection of advisors should be done in accordance with the guidelines laid down in the Government Procurement Guidelines with transparency.

#### Comments of the Chief Accounting Officer

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The Cabinet Committee on Economic Management (CCEM) had approved the selection of advisors on a Single Source Method with a view to conducting other preliminary studies related to the project.

Procurement Guideline for Goods and Works of 2006.

Further, the appointment of the Technical Evaluation Committee for this purpose had been made contrary to the basic procurement objectives mentioned in 1.2 of those guidelines and the ethics mentioned in 1.4.

As this was also one of the preliminary studies related to the project, did not follow a lengthy procurement process as pointed out by the audit.

Letter No. Minlo / 03 / PP / GEN / 13/17 of the Ministry of Law and Order and Southern Development dated 29.09.2017 informing that there is no need to follow procurement procedures for that.

#### 4. **Human Resource Management**

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##### **Audit Observation**

##### **Recommendation**

##### **Comments of the Chief Accounting Officer**

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At the end of the year under review, there were 15 vacancies in senior level including nautical professionals belong to engineering sections, 22 vacancies in tertiary level and 35 vacancies in secondary level.

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

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Relevant approvals have been sought for the recruitment of permanent and contract basis for senior level posts. The Director General of Combined Services has been notified on several occasions to fill the vacancies in the Combined Service.