

## **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 statements of the Ministry of Ports and Shipping for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021, the statement of financial performance for the year then ended and cash flow statement 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 containing my comments and observations on the Financial Statements of the Ministry of Ports and Shipping in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Chief Accounting Officer on 15 June 2022. Annual Detailed Management Audit Report related to the Ministry in terms of Section 11 (2) of the Audit Act was issued to the Chief Accounting Officer on 15 July 2022. This Report is presented to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion the financial statements give a true and fair view of the financial position of the Ministry of Ports and Shipping as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for 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 qualified opinion.

#### **1.3 Responsibilities of Chief Accounting Officer on Financial Statements**

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The Accounting Officer is responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the State 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.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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My objective is to express a 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 skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

#### **1.5 Report on Other Legal Requirements**

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I declare the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements were consistent with those of the previous year.
- (b) The following recommendations made by me on the financial statements related to the previous year had not been implemented.

## 2. Financial Review

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### 2.1 Expenditure Management

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) Total net provision amounting to Rs.63,077,100, in relation to 08 Objects, had not been utilized during the year.	Reasons for these savings were saving of provision as per the decision of the Cabinet of Ministers bearing No. 21/1596/304/134 dated 31 August 2021, not possible to partition the premises of the institution due to the Covid-19 pandemic, limitation of expenses due to the economic crisis, not incurring the expected expenses during the year and payments for the entire work had not been made due to delays in obtaining approvals for the issuance of payment certificates although the total work done by the contractor during the year exceeded the budget.	Estimates should be prepared properly as stipulated in F.R. 50.
(b) Allocations totaling to Rs. 1,332,748 had been saved in relation to 06 instances, where supplementary estimates and provision transferred under F.R. 66 had not been utilized even by the end of the year. The amount saved as a percentage of the provision thus transferred had been in the range of 26 percent to 252 percent.	The period of lease for the vehicles purchased under operating lease had ended in September and the lease period had not been extended as expected due to the unfavourable economic situation and not incurring expenses as expected although provision was made with the expectation that expenses would have to be incurred in the forthcoming period of the year as provision allocated from the budget was not sufficient to incur expenses during the year were the reasons for savings in the supplementary estimates and provision transferred under F.R. 66 amounting to Rs.1,332,748.	-Do-
(c) Provision totalling to Rs.148,787,979 comprised of Rs.139,510,966 saved from 9 capital objects in the range of 22 percent to 94 percent out of the net provision for the year 2021 and Rs.9,277,013 saved from 12 recurrent	Saving of provision as per the decision of the Cabinet of Ministers bearing No. 21/1596/304/134 dated 31 August 2021, not possible to partition the premises of the institution due to the Covid-19 pandemic, the expenditure during the year was lower than the expected level, payments for the entire work had not been made due to delays in obtaining approvals for the issuance of payment certificates although the total work done by the contractor	Estimates should be prepared properly as stipulated in F.R. 50.

objects in the range of 23 percent to 99 percent had been saved.

during the year exceeded the budget due to the limitation of expenses owing to the economic crisis and the work of the project was delayed by two months due to the Covid 19 pandemic were the reasons for the saving of Rs. 139,510,966 from 9 capital objects out of the net provision for the year 2021.

Reason for saving provision in recurrent objects out of the net provision for the year was the saving of provision as per the Cabinet decision No. 21/1596/304/134 dated 31.08.2021 and the reason for saving the supplementary provision made was not incurring expenses as expected although provision was made with the expectation that expenses would have to be incurred in the forthcoming period of the year as provision allocated from the budget had not been sufficient to incur expenses during the year. Furthermore, total saving of the provision according to the Cabinet Paper No. 21/1596/304/134 dated 31.08.2021, out of the budget approved for this Ministry for the year 2021, was Rs.30.35 million.

## 2.2. Incurring Commitments and Liabilities

Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) According to the audit examinations, liabilities amounting to Rs.377,810 for the year of 2021 had been settled in the months of January, February and March 2022 and these expenses had not been recognized as liabilities in the statement of commitments and liabilities for the year 2021.	As the bills related to those liabilities had not been submitted to the accounts department for payment even by 31.12.2021, the said bills were not included in the liability register of the year 2021. Those bills were submitted for payment in the year 2022. Therefore, they were not identified as liabilities in the register of liabilities of the year 2021. All the bills submitted in the year 2021 related to the year 2021 were paid on 31.12.2021.	In terms of provisions of F.R. 94, liabilities should not be incurred without estimated provision.

- (b) Liabilities amounting to Rs.372,469 that had exceeded the savings in 06 Objects had been incurred as at 31 December 2021 in relation to two projects. -Do-

### 2.3 Advance to Public Officers Account

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) The loan balance to be recovered from the officers transferred from the Ministry of Ports and Shipping to external institutions as at 31 December 2021 was Rs.119,200. This balance to be recovered from 02 officers, who had been transferred, had been carried forward for more than 16 years without recovering.</p>	<p>The loan balance of Rs. 119,200.00 to be recovered from 2 officers, whose date of transfer had not been stated specifically, was as old as the decade of 1990. A request was made to the Department of Public Finance to write off the loan balance and according to its recommendation, a Committee was appointed to write off the loan balance and the Committee has submitted its report on 18.10.2019 after studying the matters.</p>	<p>Action should be taken to settle outstanding loan balances.</p>
<p>(b) The loan amount of Rs.293,470, which had been carried forward for a long time to be recovered from an interdicted officer, could not be recovered even by the end of 2021.</p>	<p>The loan balance of Rs. 293,470.00 to be recovered from Mr. J.A. Ariyasena, who has been interdicted, the case, filed by the officer in the Court of Appeal based on the judgement of the case filed by the Commission to Investigate Allegations of Bribery and Corruption against him in the High Court, was heard on 08.03.2022 and according to its judgment he has been declared guilty.</p>	<p>Action should be taken to settle outstanding loan balances.</p>

## 2.4 Responsibilities of the Accounting Officers

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Audit Observation -----	Comments of the Chief Accounting Officer -----	Recommendation -----
According to provisions of Section 38 of the National Audit Act No. 19 of 2018, the Chief Accounting Officer should ensure that an effective internal control system for the financial control exists in each such entity 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 and the review to be carried shall be in writing and copies of the same shall be made available to the Auditor-General, statements had not been submitted to the audit that such reviews had been made.	Has not made Comments.	Action should be taken in terms of the provisions.

## 2.5 Non-compliance with Laws, Rules and Regulations

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Reference to Laws, Rules and Regulations -----	Non compliance -----	Comments of the Chief Accounting Officer -----	Recommendation -----
(a) Merchant Shipping Act No. 52 of 1971	The Merchant Shipping Secretariat charges fees under the Merchant Shipping Act No. 52 of 1971 and although the fees for those services were announced in dollars according to the Gazette dated 14 November 2016, it was observed that the fees were charged in rupees. The income earned for providing these services in the years of 2020 and 2021 were Rs. 18,117,849 and Rs. 16,574,013 respectively. The reasons for not charging fees in dollars had not been explained to the audit.	Necessary steps have been taken to open a dollar account for charging fees in dollars. Accordingly, the application and documents required to open a dollar account have been submitted to the Department of Treasury Operations for obtaining approval.	Action should be taken in terms of the provisions stipulated in the Gazette dated 14 November 2016 and the Merchant Shipping Act No. 52 of 1971.

- (b) Public Finance Circular No. 01/2018 dated 17 January 2018
- Over 54 types of sub-fees, under 10 categories charged for services provided by the Ministry had not been revised for over 15 years. Instructions had been given by Public Finance Circular No. 01/2018 dated 17 January 2018 to revise the fees charged in the provision of services by 15 percent. Even though the fee revision drafts belonging to 16 categories had been submitted to the Ministry of Finance for obtaining the approval, the approval had not been received for that even by 22 April 2022. Even though the fees levied for issuance of continuous release certificates, proficiency issues, fees charged in updating and in the issuance of imprest sheets had been revised with effect from 01 February 2017 those revisions had not been published through gazette notifications until 30 April 2022.
- The revised draft of fees charged in the provision of services has been prepared and submitted for the approval of the Department of Public Finance.
- Action should be taken in terms of the Public Finance Circular No. 01/2018 dated 17 January 2018.

### 3. Operational Review

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#### 3.1. Foreign Assisted Projects

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Audit Observation	Comments of the Chief Accounting Officer	Recommendation
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<p>(a) The estimated allocation in the year 2021 for the feasibility study of the development of Colombo North Port under Asian Development Bank loan assistance had been Rs.380,000,000 and the expenditure as at 31 December 2021 had been Rs. 286,943,711. Although the consultancy services and engineering works related to this project had been planned to be completed by the second quarter of</p>	<p>As planned by the Feasibility Study for the 176-2-4-25-2506 Colombo North Development Project, project activities had been carried out within the year 2021 and the payment invoices related to that from September 2021 to December 2021 had been submitted to the Ports Authority by the relevant consulting team (AECOM). However, the amount</p>	<p>Subsequent to designing plans, a preliminary consideration should be done in relation to the clearances and compliances that may be required for the implementation of the project.</p>

2020 according to the Loan Agreement, the award of the relevant contract had been delayed until 24 February 2020 due to the delay in the procurement process. The contract price had been GBP 0.85 million, US dollars 2.03 million and Rs. 66.17 million. The contract was scheduled to be completed in 15 months and the physical progress of the consultancy services had been 75% as per the performance report as at 31 December 2021.

to be paid to the consultancy service has been incorrectly recorded due to the arithmetical errors in the payment invoices. The Institution had been informed about this issue and the above errors had been rectified again and resubmitted to the Ports Authority for payment in February 2022 with the confirmation of the Team Leader. Therefore, payment for the project activities carried out from September 2021 to December 2021 had been started in February 2022. Although the planned works had been carried out according to the above facts, there had been no opportunity to make the related payments in the year 2021.

(b) The estimated provision for the activities of the Port Access Elevated Highway Project built on towers implemented by the Road Development Authority under the assistance of the Asian Development Banka had been Rs.210 million and the expenditure at the end of the year had been Rs.107.5 million. The contract for the re-construction of the workshops belonging to the Authority, which had been removed for the construction of the relevant Port Access Elevated Highway, had been handed over to BEL-DGESJV on 06 August 2021. Furthermore, the related works had started on 09 September 2021. The contract value had been Rs. 1,090 million and the contract period had been 09 months. According to the performance reports, the physical progress of the Port Access Elevated Highway Project as at 31 December 2021 was 12%.

This project has been planned as a project that can be completed in 09 months. After the completion of the initial planning activities of this project, it had to be re-estimated during the procurement process and as a result, obtaining the relevant formal approvals had delayed. However, the project had been awarded to the respective contractor in August and the order for the commencement of the Project had been issued in September 2021. Mobilization Advance (10% of the contract value) when considering the work that can be accomplished in the year 2021 for the remaining 03 months is Rs. 107 million only. Since the project period has been scheduled to be ended in July 2022, the remaining payments would be made in the year 2022.

Subsequent to designing plans, a preliminary consideration should be done in relation to the clearances and compliances that may be required for the implementation of the project.



### 3.2 Asset Management

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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A motor vehicle worth Rs.10,500,000 belonging to the Ministry had not been listed under non-financial assets and a motor vehicle worth Rs.6,000,000 belonging to the Ministry of Southern Development had been listed as a non-financial asset. Due to this, the non-financial assets shown in the statement of financial position had been understated by Rs.4,500,000.	Action will be taken to account the motor vehicle bearing No. KS 2992 by the amount of Rs.10,500,000 under non-financial assets and the error will be rectified.	Assets should be taken over and handed over according to formal procedures and asset registers should be maintained accurately.

### 4. Human Resources Management

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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There had been 17 senior level vacancies including 03 senior level vacancies in the Ministry and 06 vacancies of naval professionals belonging to the engineering sections of the Naval Secretariat at the end of the year under review. Furthermore, there had been 14 employee vacancies at the tertiary, secondary and primary levels of the Ministry that would have a direct impact on the daily functioning of the Ministry and 50 vacancies in all levels in the Naval Secretariat.	<p>It has been possible to reduce the number of vacancies at present up to 03 senior level vacancies and 07 tertiary, secondary and primary level vacancies by informing the Secretary of the Ministry of Public Services, Provincial Councils and Local Government several times through letters to provide the employees for the number of vacancies in order to discharge the duties of this Ministry in a regular manner. I kindly inform that the vacancies prevailed at that time had been an obstacle for the discharge of the functions and duties of the Ministry.</p> <p>Action has been taken to recruit Naval Professionals in the recruitment of officers for the positions of naval professionals in the Merchant Shipping Secretariat subsequent to granting the necessary approval by the decision of the Cabinet of Ministers bearing No. CP/13/0709/505/029 dated 21.02.2014 to recruit suitable naval professionals on contract basis in cases, where it was not possible to recruit officers on permanent basis.</p>	An adequate staff should be maintained to carry out the functions and duties of the Ministry.

However, it was not possible in the last year to get approval for the recruitment of naval professionals on contract basis and although the necessary arrangements have been made for the recruitment of officers on permanent basis from the year 2020 and the necessary action has been taken to publish the notification of calling applications in the gazette, the respective recruitments were temporarily postponed as per the instructions stipulated in Section VII of the National Budget Circular No. 03/2022 issued on 26.04.2022. However, the recruitment activities will be implemented in the future as soon as the relevant instructions are issued. It has been stated that there were 50 vacant posts at the tertiary, secondary and primary levels in the Merchant Marine Secretariat and the Director General of Combined Services has been informed on several occasions to attach officers to those posts when there have been vacancies and thereafter. Moreover, arrangements have been made by 31.12.2021 to attach 06 trainee graduates and 06 officers in primary levels and students, who have completed their training in technical colleges to this office for training for 06 months each.