

## **Head 176 - Ministry of Ports, Shipping and Aviation**

### **1. Financial Statements**

#### **1.1 Opinion**

Head 176 - The audit of the financial statements of the Ministry of Ports, Shipping and Aviation for the year ended 31 December 2023 comprising the statement of financial position, statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information 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, Shipping and Aviation was issued to the Accounting Officer on 28 May 2024 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 31 May 2024 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

The financial statements prepared give a true and fair view of the financial position of the Ministry of Ports, Shipping and Aviation as at 31 December 2023 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for 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 Officer on Financial Statements**

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 is the responsibility of the Chief Accounting Officer.

As per 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.

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**

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 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 and obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluate that the underlying transactions and events are appropriately and fairly included in the financial statements for the structure and content of the financial statements that include disclosures.
- 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

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 are consistent with the previous year,
- (b) The recommendations which I had made with regard to the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Recurring Expenditure

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
Although the sum of salaries, wages and other employee benefits under recurrent expenditure in the statement of financial performance (ACA-F) was shown as Rs.104,734,316, the sum of the values in Note 05 related to that was Rs.99,956,727. Accordingly, an amount of Rs.4,777,589 had been overstated. Similarly, although the total of other goods and services was shown as Rs.123,235,042, the total of the values in Note 06 related to that was Rs.128,012,631. Accordingly, an amount of Rs.4,777,589 had been understated.	The corrected statement of financial performance has been submitted by the reply dated 09 May 2024.	The expenditure related to the year should be accurately classified and entered in the statement of financial performance and submitted.

**(b) Certification of Chief Accounting Officer**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
According to provisions of Section 38 of the National Audit Act No. 19 of 2018, although 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 also the reviews should be made in writing and a copy thereof should be made available to the Auditor-General, statements had not been submitted to the audit that such reviews.	<p>Develop an effective internal control system for financial control</p> <p>The delegation of powers was done in accordance with the Financial Regulations 135 – 139 for the financial control of the Ministry. An internal control system has been created by Internal Audit Division to delegation of authority and delegating works among staff with internal supervision.</p> <p>I hereby inform that, according to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the internal control system has been periodically reviewed based on the timely requirement and the indications of the internal audit and the necessary changes have been made to carry out the internal control system effectively.</p>	Actions should be taken in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.

**2. Financial Review**

**2.1 Expenditure Management**

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) Out of the estimated sum of Rs.13,200,000 provisions for 05 expenditure objects, the total amount of Rs.8,348,480 provisions had been transferred to other expenditure objects under F.R. 66. It had in the	The provision has been saved due to non-submission of bills by the Sri Lanka Ports Authority for electricity and water in expenditure object 176-1-2-0-1403-0/11 and absence of incurring expenditure as expected in expenditure objects of 176-1-1-0-1302-0/11, 176-1-2-0-1205-0/11 and 176-1-1-0-1403-0/11	Estimates should be accurately prepared as per the F.R.50 .

range of 46 per cent to 100 per cent of the provision made available.

and majority of the executive officers choose to use government vehicles instead of getting transport allowance in expenditure object of 176-1-1-0-1401-0/11.

- (b) Even though a total of provision Rs.310,200,000 had been made from the Annual Budget Estimate for 05 expenditure objects, the entire provision had been saved without any use of the provision even at the end of the year under review.
- Officers not claiming uniform allowance in expenditure object of 176-1-1-0-1203-0/11, non-incurring of capital repairs of machinery and equipment in expenditure object of 176-1-1-0-2002-0/11, absence of incurring expenditure as expected in expenditure object of 176-1-2-0-1508-0/11, non-utilization of budget allocations as per the predicted disbursement schedule of the project due to expecting of pre-qualification document and approval of EXIM Bank of India for extension of loan in expenditure object of 176-2-4-21-2302-0/12, although provisions have been allocated to the Ministry of Investment Promotion, the Ministry has accounted for the expenses in expenditure object of 176-2-4-27-2506-0/11 have caused.
- Estimates should be accurately prepared as per the F.R.50 .
- (c) Due to non-utilization of provisions of 06 expenditure objects totaled to Rs.61,109,314 out of the total of net provision amounted to Rs.70,101,520, provisions ranging from 30 per cent to 99 per cent had been saved out of the provisions made available.
- According to Budget Circular 1/2023, expenditure object of 176-1-1-0-1403-0/11 is bound to save a provision of Rs.0.12 million to Department of National Budget. Further, expenses have not been incurred as expected under this expenditure object during the year. According to Budget Circular 1/2023, expenditure object of 176-1-2-0-1002-0/11 savings of provision of Rs.01 million also have been made from this expenditure object. Allocation of officers to other institutions also led to the remaining provision due to restriction of approved cadre while merging the Ministry and provisions have also been made here for the liabilities of the year 2023. Absence of
- Estimates should be accurately prepared as per the F.R.50

incurring expenditure as expected in expenditure objects of 176-1-2-0-1203-0/11, non-submission of bills by the Sri Lanka Ports Authority for water and electricity in expenditure object 176-1-2-0-1403-0/11 and an amount of Rs.6.1 million for withholding tax on payments made in the year 2022 has been released to the consultant from the expenditure object of 176-02-4-21-2506/17. Therefore, project payments have not been released within the year 2023. Therefore, tax payments also have not been exempted accordingly.

- (d) Provision of Rs.119,550,000 had been obtained under supplementary estimate provision of Ministry to expenditure object 176-02-4-23-1509. A provision of Rs.131,356,467 had been saved under that expenditure object and it was 110 per cent of the supplementary estimate provision which had been made available. Expenditure object of 176-02-4-23-1509, inadequacy of allocated provisions for the payment of interest of loan and installments of loan payable as at 31/12/2023 and in case of failure to make the payment on the due date, a penalty has to be paid in addition to the amount payable had caused. Estimates should be accurately prepared as per the F.R.50
- (e) A provision of Rs.10,000,000 made available under expenditure object of 176-02-4-27-2506 for providing infrastructure to industrial parks/zones by the Budget Estimate for the year 2023 under the expenditure head of the Ministry had not been utilized even by the end of the year. This provision has been transferred to the Ministry of Investment Promotion. Steps should be taken by inquiring regarding the savings of provisions given.

## 2.2 Entered into Liabilities and Obligations

### Audit Observation

As indicated in (b) of the State Accounts Circular No. 255/2017 dated on 27 April 2017, issued with the aim of utilizing the provisions provided by the Annual Appropriation Act at the optimum level and preventing incurring obligations and liabilities beyond the limits of approved provisions, it has been stated that based on the obligations identified, after obtaining the goods or services related to those obligations, the amount to be paid for the same and the value of the work guaranteed in relation to the contracts entered into should be recorded as a liability. Nevertheless, in checking of vouchers in January and February 2024, an amount of Rs.3,088,383 had been settled in relation to 110 liability cases for the year 2023 in these first months and only the liabilities of Rs.1,561,914.71 had been included as liabilities in the statement of commitments and liabilities in the financial statements as at 31 December 2023. Accordingly, the liabilities had been understated by Rs.1,526,468 in the financial statements.

### Comments of the Chief Accounting Officer

Your attention is drawn to State Accounts Guidelines No. 04/2023 and as mentioned therein, the second and final supplementary accounts summary should be submitted to the Department of State Accounts on or before 30.01.2024. Therefore, after 30.01.2024 (after submission of final supplementary accounts summary) it is not possible to enter the vouchers received to the accounts division into the financial statements as liabilities.

### Recommendation

As the expenditure objects such as overtime, traveling expenses, other allowances, stationery and office requirements, postage and communications are relevant to commitments, those payables should be identified in advance.

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

Reference to the Laws, Rules, Regulations etc.	Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <p>F.R. 1645</p>	<p>Departmental vehicles should be kept in the custody of a staff officer or responsible officer and the officer should keep a vehicle log book as stated in General Format 267 in his office for each vehicle in his charge and should make notes therein regularly. Details of quantity of fuel combustion, annual revenue license, transfer of custody of vehicle, monthly summaries of journeys, and notes of inspectors had been incomplete and had not been maintained in an updated manner.</p>	<p>Vehicle log books are maintained according to the common format 267 for all 42 vehicles belonging to this Ministry and kindly mention that the notes about the annual licenses mentioned in the above audit query are being updated even now and further kindly informed that the quantity of fuel burnt, transfer of custody of the vehicle, monthly summaries about the journey and notes of the inspectors will be updated from May 2024 onwards.</p>	<p>Actions should be taken in accordance with the Financial Regulations 1645 of the Democratic Socialist Republic of Sri Lanka.</p>
<p>(b) Public Administration Circulars</p>			
<p>(i) Public Administration Circular No. 30/2016 dated on</p>	<p>Although it is stated that fuel combustion of vehicles should be re-checked after the</p>	<p>Fuel has been tested in the 02 motorcycles and several other vehicles owned by the Ministry and due to the</p>	<p>Actions should be taken in accordance with the Public Administration</p>



29 December 2016	<p>matter whichever occur first of once in every 12 months period or after driving a 25000 km mileage or after a major engine related overhaul, fuel test for the Ministry's vehicles as per that circular had not been done in the year 2023.</p>	<p>fact that the majority of vehicles owned by the Ministry are driven only within the city limits, according to 3.1 of the above circular, those activities are being done by the Administrative Officer and Transport Officer under the full supervision of the Senior Assistant Secretary of the Ministry in accordance with the criteria of 80 km limit of the city inside and outside, by using appropriate alternatives to fuel inspection problems.</p>	<p>Circular No. 30/2016 dated 29 December 2016.</p>
<p>(ii) Paragraph 01 of Public Administration Circular No. 02/2018 dated 24 January 2018</p>	<p>Annual performance agreements that prepared to appropriate into the institution to evaluate the performance of the staff should be sign for the entire staff employed in the institution from the year 2018. However, the performance agreements of the Ministry had not been signed for the year 2023.</p>	<p>It was observed during the audit that the performance agreements related to the year have not been signed and the reasons for this are given below.</p> <p>It is difficult to evaluate the performance of an officer at the beginning of the year as per the performance agreement forms given in Public Administration Circular 02/2018 and it seems impossible to be done at the end of the year to entering to the performance agreement.</p> <p>Therefore, performance agreements related to the year 2023 have not been prepared and kindly inform that it will be done to sign the performance</p>	<p>Actions should be taken in accordance with Public Administration Circular No. 02/2018 dated 24 January 2018.</p>

agreements for the year 2024 by revising performance formats to suit this Ministry as per the instructions given in the said circular in future.

### 3. Operational Review

#### 3.1 Non-Achievement of Expected Outcome

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>According to the Regulations 07 and 08 of the Gazette of the Democratic Socialist Republic of Sri Lanka (Extraordinary) No. 1550/7 dated 22 May 2008, a surcharge of US Dollar 60 (OSS Levy) or its equivalent should be charged in respect of every passenger ticket issued or sold outside Sri Lanka for flights originating in Sri Lanka and although the surcharge that levied should be credited to the Consolidated Fund, surcharge amounting to Rs.22,113,189,430 collected during the period 2008 to March 2024 had been accounted for as revenue of the Authority without being credited to the Consolidated Fund by the Civil Aviation Authority.</p>	<p>Foreign sales surcharge revenue has been credited to Consolidated Fund on 10.05.2024 according to the decision taken in the meeting of Cabinet of Ministers held on 19.02.2024 in relation to the memorandum dated 30.01.2024 submitted by the Minister of Ports, Shipping, Aviation and Shipping titled "Procurement of funds for the expenses of the Sri Lanka Civil Aviation Authority".</p>	<p>Actions should be taken to collect the revenue due from the institutions under this Ministry, to the government.</p>

#### 3.2 Foreign Aid Projects

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) A Dollar Loan Agreement had been signed on 10 January 2018 between the Government of Sri Lanka and the Indian Import and Export Exim Bank to obtain a</p>	<p>As it is waiting for the pre-qualification document and approval of EXIM Bank of India for extension of loan,</p>	<p>Before making plans, a prior attention should be drawn to the clearances and</p>

loan amounting to US\$ 45.27 million for the reconstruction of Kankesanthurai Port. Although more than 04 years had passed since the signing of the loan agreement on 31 December 2021, the construction of the Port had not been commenced. Similarly, although an amount of Rs.360 million of provisions had been made under the Kankasanthurai Port renovation project for the payments to be borne by the government in relation to that loan in the 2023 Annual Budget Estimate, expenses had not been incurred. Accordingly, 100 per cent of the provision had been saved.

the project has been stalled in the year 2023. Hence, it has not been possible to utilize the budgetary allocations as per the predicted appropriation schedule.

compliances that may be required to implement the Project.

### 3.3 Losses and Damages

#### Audit Observation

The cab No PG 9548 was involved in an accident on 06 April 2022 and an amount of Rs.587,480 had been spent by the Ministry for its repair work. But the insurance company had agreed to pay only Rs.250,000. The government had incurred a loss of Rs.337,480 due to the failure to meet the conditions required to take the necessary actions to obtain full compensation from the insurance company or to be paid by the driver to recover the damages occurred to the vehicle by the accident.

#### Comments of the Chief Accounting Officer Recommendation

After receiving Rs.250,000 as insurance claim out of Rs.587,480 for the repair of PG-9548 cab on 06.04.2022 and after taking all possible actions to recover the outstanding amount of Rs.337,480 spent for the above repair, the outstanding amount has been written off as damages and losses according to F.R. 108 and 109 .

Arrangements should be made to hand over the vehicle in a formal manner when assigning duties to the drivers.

### 3.4 Management Inefficiencies

#### Audit Observation

- (a) Although the loan balance of the transferred officers should be settled within 03 months

#### Comments of the Chief Accounting Officer

The debt balance that could not be recovered even by 31.12.2023 Rs.119,200 receivable from 2 officers

#### Recommendation

Actions should be taken to recover the outstanding debt

as per Paragraph 1.1.7 of the National Budget Circular No. 118 dated 11 October 2004, the debt balance of Rs.119,200 that existing for more than 20 years belonging to two officers who were transferred from the Ministry to external institutes as at 31 December 2023 had not been recovered even at the end of the year under review. whose transfer date is not specified is as old as the 1990s. A request was made to the Department of Public Finance to write off that debt balance and according to its recommendation, a committee was appointed to write off the debt balance, studied the facts and submitted the committee report on 18.10.2019. Information was last submitted to the Department of Public Finance on 01.11.2023 seeking instructions to write off these debt balances.

- (b) Even though the debt balance of Rs.293,470 which should have been charged to the Ministry from an officer who had been suspended has been in arrears for over 20 years, the Ministry had not been able to recover that balance by the end of the year under review. These outstanding debt balances continued to be brought forward in the debt documents. Although the loan balance of Rs.293,470 receivable from a suspended officer is ready to be recovered if the case filed by the officer in the Court of Appeal is settled and he has to pay the gratuity due to him based on the judgment of the case assigned by the Bribery or Corruption Investigation Commission in the High Court against him, he was declared guilty according to the judgment of the case held on 08.03.2022. Therefore the actions to be taken to recover this loan balance are currently being studied. Actions should be taken to recover the outstanding debt balances.

### 3.5 Transactions of Contentious Nature

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
<p>The approval had been given through consolidated cabinet memorandum and cabinet decisions for the payment of Rs.11,796,877,071 to be paid over a period of 15 years with an annual interest of 33.30 per cent (interest rate varies) for the loan amount of Rs.3,950,858,870 obtained from the People's Bank by the Sri Lanka Ports Authority on 14 December 2017 to settle the debt owed to a contractor for the construction of the Suriyawewa Cricket Stadium constructed in the year 2011. Accordingly, the</p>	<p>The Suriyawewa Cricket Stadium has been constructed as an additional work to the Hambantota Port construction contract. Due to the non-payment of arrears owed to the contractor and the contractor had gone to a debt settlement process, and the Ministry of National Policy and Economic Affairs No. MNPEA/2017/132 and the Cabinet Memorandum dated</p>	<p>Officials should ensure that the provisions should not be utilized for activities inconsistent with the objectives of the Ministry.</p>

necessary provisions for the payment of loan interest from the year 2018 and for the payment of loan interest and installments from the year 2021 had been made to this Ministry through the Annual Budget Estimates. An amount of Rs.991,193,533 as loan premiums and interest had been paid in the year under review as bank interest and financial expenses of the Ministry under the object of expenditure - 176-2-4 - 23 1509 ii (Sri Lanka Ports Authority, Suriyawewa, International Cricket Stadium - Government Institutions). This expenditure was 73.62 per cent of the recurrent expenditure, 26.99 per cent of the capital expenditure and 46.62 per cent of the total expenditure of the Ministry.

Although the land on which this cricket stadium is built was transferred to Sri Lanka Cricket on 26 April 2011 in terms of 23(2) of the Government Land Ordinance, the Ministry of Ports, Shipping and Aviation has no any right over it. Thus, this expenditure incurred under the expenditure head of the Ministry had not been complied with the objectives and activities of the Ministry.

2017.10.04 and Ministry of National Policy and Economic Affairs the then Ministry of Finance and Media and the Ministry of Ports and Shipping No. MNPEA/2017/158 and the Joint Cabinet Memorandum and Cabinet Decisions dated 20.11.2017 had decided to cancel it and make payment to the contractor and an amount of Rs.3,950,856,870 obtained from the People's Bank by the Sri Lanka Ports Authority and to pay directly to the contractor. It was stipulated to provide the necessary budget allocation by Ministry of Media to pay the loan amount with interest within 15 years. Accordingly, the necessary provisions for the payment of loan interest from the year 2018 and for the payment of loan interest and installments from the year 2021 have been made to this Ministry through Annual Budget Estimates.