

Head 336 – Merchant Shipping Secretariat

1. Financial Statements

1.1 Qualified Opinion

Head 336 - The audit of the financial statements of the Merchant Shipping Secretariat for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, and cash flow statement for the year then ended 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 Department of Buildings was issued to the Accounting Officer on 27 May 2024 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Secretariat was issued to the 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.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared give a true and fair view of the financial position of the Department of Buildings 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 Qualified Opinion

My opinion is qualified based on the matters appear in Paragraph 1.6 of this report.

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 and 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 Accounting Officer.

As per 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.

The Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department 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 exercised professional judgment and maintain professional skepticism 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 its internal control.
- 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.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Chief Accounting Officer is 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 those of the preceding year.
- (b) The recommendations made by me regarding the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Property plant and equipment

	Audit Observation	Comments of the Accounting Officer	Recommendation
(i)	Three vehicles valued at Rs.21,000,000 assigned to the Merchant Shipping Secretariat by the Ministry of Ports, Shipping and Aviation had not been entered in the statement of financial position as at 31 December 2023 as stated in Paragraphs 8.1 and 8.2 of State Accounts Guide No. 05/2023 dated 30 November 2023 .	Although the Ministry of Ports, Shipping and Aviation handed over 3 vehicles on 21 September 2023, the issuance orders have been sent on 31 January 2024. Therefore it is later entered in the accounts.	Since these assets have been registered in the name of the institution in the year 2023, they should be accounted for in the final accounts of the Secretariat.
(ii)	Non-financial assets of Jaffna Slipway Project and Jaffna Sub-office valued at Rs.45,477,692 had not been included in the statement of financial position according to the Section 8.2 of Director General of Department of State Accounts of the State Accounts Guidelines Circular No. 05/2023 dated 30 November 2023 .	The Secretariat runs under a separate Head from 2022 and the fixed assets were transferred to the CIGAS programme on 18 January 2023. Actions will be taken to enter the assets not included so, in the future.	Non-financial assets should be accounted for at cost or assessed value in terms of circulars and guidelines.
(iii)	The value of the land had not been assessed and included in the statement of financial position in accordance with Section 8.2 of the State Accounts Guidelines Circular No. 05/2023 of the Director General	The value of the two lands has been sent to the Valuation Department for the valuation and once the value is received it can be entered in the accounts.	The Secretariat should take actions to assess and accurately account for the value of land as per circulars and guidelines.

of the Department of State Accounts dated 30 November 2023 and Appendix 2.1 of the Paragraph 06 of the Asset Management Circular No. 04/2018 dated 31 December 2018 .

(b) Imprest Balance

Audit Observation	Comments of the Accounting Officer	Recommendation
Even though there was a final balance of Rs.39,670,090 as at 31 December 2022 under the imprest account number 479/22 of the Secretariat, the opening balance as at 01 January 2023 had not been shown in the imprest accounts statement.	Difference occurred as at 31 December 2022 under Imprest Account No. 479/22 had been adjusted by Treasury printouts in the months of January and April 2023.	The Secretariat should take actions to prepare financial statements as per circular provisions.

(c) Failure to maintain Records and Books

Audit Observation	Comments of the Accounting Officer	Recommendation												
The Merchant Shipping Secretariat had not maintained the following documents in an updated manner.	The officers were made aware to update and maintain the Register of Losses and Damages, Leave Register and Vote Ledger properly in future. It is informed that the provisions of the Vote Ledger for the year 2023 had not exceeded.	The Secretariat should take actions in terms of the regulations and circulars and to update the documents .												
<table border="1"> <thead> <tr> <th>Type of Document</th> <th>Applicable regulation</th> <th>Observations</th> </tr> </thead> <tbody> <tr> <td>Register of Losses and Damages</td> <td>F.R. 110</td> <td>It had not been updated</td> </tr> <tr> <td>Leave Register</td> <td>F.R.190</td> <td>It had not been updated.</td> </tr> <tr> <td>Vote Ledger</td> <td>General 138(A)</td> <td>It had not been updated</td> </tr> </tbody> </table>	Type of Document	Applicable regulation	Observations	Register of Losses and Damages	F.R. 110	It had not been updated	Leave Register	F.R.190	It had not been updated.	Vote Ledger	General 138(A)	It had not been updated		
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2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although public expenditure should be used more sparingly and unnecessary expenditure should be reduced as much as possible in terms of Section 02 (a) of the Budget Circular No. 01/2023 dated 27 January 2023 of the Secretary to the Treasury, the Secretariat had not made arrangements for the savings of Rs.3,684,000 in 17 expenditure objects as per the circular.	Savings could not be made as the cost of moving the Merchant Shipping Secretariat to a new building had been approved to be managed in the 2023 provisions by decisions of the Cabinet of Ministers No. CMP/23/0624/628/022-I dated 2023.04.18.	The Secretariat should make arrangements as per circular provisions for more economical use of public expenditure.
(b) Although the information regarding savings should be notified by email to the Department of National Budget before 28 February 2023 in accordance with the format in Annexure 01 of the above Circular actions had not been taken accordingly.	The approval of has been given by the Decision of Cabinet of Ministers No. CMP/23/0624/628/022-I dated 18.04.2023 to be managed within the overall allocation made to the Merchant Shipping Secretariat in the Budget 2023 .	The Secretariat should make arrangements to prepare and submit the revised expenditure estimates as per the circular provisions and submit them on the stipulated date.
(i) Although due care should be taken in preparing the estimates of the Secretariat in terms of Financial Regulation 50 of the Democratic Socialist Republic of Sri Lanka, a total of Rs.29,970,000 had been transferred from other expenditure objects in relation to 16 expenditure objects in the year under review which ranged between 5 per cent and 500 per cent of the original estimate allocation .	Due to the financial difficulties in the country in the year 2023, and the need to move the office to a new building, the provision could not be managed.	The Secretariat should make arrangements to prepare the estimates properly as mentioned in Article 50.

(ii) Out of the provision of Rs.1,000,000 transferred under the expenditure object of rent and local government tax (1404) under F.R. 66/69, the provision of 428,399 had been saved and it was 42.83 per cent as a percentage of the transferred provision.	The payment of the monthly rent of November and December 2023 was delayed due to the non-fulfillment of the service conditions of the rented building.	Adequate provision should be made for lease rent and actions should be taken to properly utilize the provisions transferred under F.R. 66/69
(iii) From the net provision for the year 2023, a sum of Rs.964,908 in 02 capital expenditure objects, Rs.138,160 in 04 recurrent expenditure objects, totaling to Rs.1,103,068 had been saved.	Savings have been made in the above expenditure objects as the expenditure should be limited according to Budget Circulars 2/2023, 01/2023 and 9/2022 .	Actions should be taken to properly utilize the allocations received under F.R.
(c) An excess of Rs.5,734,480 had been borne from the Budget Estimate of the Secretariat, in 15 cases and these had not been disclosed in the accounts.	Although the additional provisions have been requested for expenditure objects mentioned as over expenditure, due to non-availability of provisions, as mentioned above, additional expenses had to be incurred.	Actions should be taken to manage the expenditure.
(d) Out of the provision of Rs.100,000 made available with the aim of promoting the language ability of government officials under expenditure object number 336-1-1-0-1703, an amount of Rs.54,398 had been utilized contrary to the objective.	Payments were made under 336-2-1-0-1703 due to insufficient provision. It was noted not to commit such mistakes in the future.	Actions should be taken to spend the provisions only on budgeted allocations.

2.2 Entered into Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The commitments and liabilities to be paid in the year 2023 amounted to Rs.10,639,275 had been settled by 25 March 2024 and it was shown in the financial statements as Rs.4,752,354 by understating	Bills for certain expenses related to the year 2023 which have been paid in the year 2024 have been received in the year 2024.	Actions should be taken to properly record the commitments and liabilities of the period.

Rs.5,886,921 pertaining to 10 expenditure objects.

- (b) A Memorandum of Cabinet of Ministers was presented to move the office to a new building due to the collapse of the Merchant Shipping Secretariat's old building and accordingly, it had been decided that expenses should be managed in the overall provision of the year. Similarly, even though Finance Regulation 94(1) provides that commitments and liabilities shall be incurred only if there is provision in the annual estimates, in contrary to the said regulations, a sum of Rs.9,938,532 had been incurred in 11 cases for commitments and liabilities in excess of the provisions.
- Due to the unexpected collapsing of the Merchant Shipping Secretariat building in the year 2023,, it was necessary to immediately move to a new office building and incur costs for the continuation of essential services.
- The Secretariat should take actions in accordance with the provisions of F.R.94 (1) .

2.3 Non-compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Chief Accounting Officer	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.1645	Although monthly summaries and details of repairs should be entered in vehicle log books (General 267) actions had not been taken accordingly.	The vehicles numbers WPKR-5439, WPPJ-8817 and WPKS 2340 will be taken over to the office on 21.09.2023 and relevant information will be recorded in the log books from that date.	Actions should be taken to update log book properly as per circular provisions.

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| (b) | Paragraph 04 of Public Finance Circular No. 02/2020 dated 28 August 2020 | Although the Annual Procurement Plan should be prepared and approved by the Chief Accounting Officer, an Annual Procurement Plan for the year 2023 had not been prepared. | The Procurement Plan has been prepared every year and submitted to the Chief Accounting Officer. | The Secretariat should take actions to prepare the Annual Procurement Plan as per circular provisions and obtain the approval of the Chief Accounts Officer. |
| (c) | Public Administration Circular No. 30/2016 dated 29 December 2016 – Paragraph 3.1 | Although a fuel re-check should be carried out after a period of 12 months or 25,000 km after each fuel check, it had not been so done. | A Committee has been appointed on 03 April 2024 to carry out relevant fuel checks for the two pool vehicles and actions will be taken send the report of the Committee as soon as it is received. | The Secretariat should take actions to carry out fuel combustion test as per circular provisions. |
| (i) | Paragraph 3.3 | A record of transport services done for monthly duties had not been prepared as per the instructions in the Paragraph. | Arrangements have been as per the instructions made to record the transport service note sheets properly from May 2024. | Actions should be taken to prepare transport service notes as per circular provisions. |
| (d) | Public Administration Circular No. 2018/02 dated 24 January 2018 Annexure 02 | A Human Resource Development Plan had not been prepared. | A Human Resource Development Plan has been prepared and activities are being done to provide necessary training for officers. | The Secretariat should take actions to prepare a Human Resource Development Plan as per circular provisions. |

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| (e) | Public Administration Circular No. 05/2008 dated 06 February 2008 as amended by Circular No. 05/2018/(1) dated 24 January 2018 | The Citizen Client Charter introduced by this had not been prepared and implemented. | It is kindly informed that the Citizen/Client Charter is being prepared in Merchant Shipping Secretariat. | The Secretariat should take actions to prepare the Citizen Client Charter as per circular provisions. |
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3. Operational Review

3.1 Vision , Mission

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although the (Activity Plan prepared according to the priorities based on the approved Budget for the year, the implementation Time Line, approved revenue collection action plans for the Revenue Heads and the expected Output/Outcome of those activities should be included to achieve the Vision Mission and Objectives in terms of Guideline No. 12 as per Para 03 of Public Finance Circular No. 02/2020 dated 28 August 2020 a formal Action Plan had not been prepared accordingly.	Actions will be taken to include the Annual Action Plan, the Annual Revenue Estimate and the Annual Capital Plan of the Merchant Shipping Secretariat for the Action Plan in the future.	The Secretariat should take actions to prepare the Annual Action Plan in a formal manner as per approved budget based priorities as per Public Finance Circular instructions
(b) Although the Action Plan should contain the organizational structure of the institution, approved staff, current staff, capital requirement plan for annual activities and Internal Audit Plan, those matters had not been included in the Action Plan.	Necessary measures will be taken to prepare Action Plan with further updates in future.	The Secretariat should take actions to prepare the Annual Action Plan in a formal manner including all the matters to be included as per the instructions of the Public Finance Circular.

3.2 Performing of Task

Audit Observation	Comments of the Accounting Officer	Recommendation
According to the Draft Annual Report of the Merchant Shipping Secretariat for the year 2023, although 12 main tasks, 4 short-term plans and 03 long-term plans had been given as future plans, due to the fact that those key tasks and plans were not included in the Action Plan, it was impossible to check the performance of the Secretariat.	It was noted the main tasks and plans included in the Draft Annual Report to be included in the Action Plan in the future.	The Secretariat should take actions to include the main tasks included in the Draft Annual Report as well as long-term and short-term plans and to prepare the Action Plan.

3.3 Procurements

Audit Observation	Comments of the Accounting Officer	Recommendation
In obtaining the 6-storied building at No. 79 Maradana Road, Colombo 10 by the Merchant shipping Secretariat from 01 August 2023 for a monthly rent of Rs.1,697,400 for the next 05 years, actions had not been taken to call for competitive bids and arrange for the building to be acquired on lease basis and get it valued by a recognized valuer in terms of Procurement Guidelines 2006. Similarly, although arrangements should be made to obtain it subject to a tax period of one year according to the decision of the Cabinet of Ministers, on the contrary, the building had been taken on lease for a period of 5 years.	Due to the insecurity of the building where the Merchant Shipping Secretariat is located, the Departmental Procurement Committee had decided to take the building of the Dedigama Group on lease, which had offered the lowest price, and after the approval of the Cabinet of Ministers, the building was obtained on lease .	Actions should be taken as per the instructions mentioned in the Procurement Guidelines.

3.4 Assets Management

Audit Observation	Comments of the Accounting Officer	Recommendation
A sum of Rs.79,279,747 had been spent during the period from 2017 to 2021, for the construction of the Sub-office of the Merchant Shipping Secretariat in Kayts, Jaffna and the Circuit Bungalow and the Slipway Project and a feasibility study had not been conducted before the construction and although maintenance expense of Rs.3,466,187 had also been incurred for the years 2022 and 2023, now it has become an idle asset .	Due to the cyclone of 2020, the runway was destroyed beyond use, and since actions will be taken in the future to leaset out the Slipway to an external party on a lease basis, there will be no expenditure incurred by the government in the future.	The Secretariat should take actions to take assets on lease basis as per a formal procedure.

3.5 Securities of Public Officers

Audit Observation	Comments of the Accounting Officer	Recommendation
Nine officers of the Secretariat who were supposed to keep securities had not kept security amounting to Rs.147,500 in terms of F.R..880 and Section 09 of Part (ii) of Public Finance Circular No. 01/2020 dated August 08, 2020 .	Actions are being taken even by now by the Officers of the Merchant Marine Secretariat, for keeping security deposits under the Government Officers Security Ordinance.	The Secretariat should take actions to make the required deposit as mentioned in F.R. 880 .

3.6 Losses and Damages

Audit Observation	Comments of the Accounting Officer	Recommendation
The main machine of the Jaffna Slipway Project experienced a damage of Rs 2,088,808 in the year 2020 due to the natural Buravi Cyclone and the Government had to bear the entire loss due to the failure of the management to obtain warranty and damage insurance to minimize the loss. Likewise, actions had	As it was a loss caused due to the naturally occurring cyclone Buravi in the year 2020, it is informed that it cannot be identified as losses and damages.	Actions should be taken to identify those responsible and submit preliminary and full reports in terms of F.R. 104 .

not been taken to identify the officers responsible for this in accordance with F.R.104 and to act accordingly and to adequately disclose it in the financial statements of the year under review.

3.7 Management Inefficiencies

Audit Observation	Comments of the Accounting Officer	Recommendation
Since formal actions had not been taken to allocate the Jaffna Circuit Bungalow to the applicants since the year 2020, it has become an idle asset and the government has lost its due income.	Actions will be taken to quickly outsource the Project.	Actions should be taken to manage assets properly and use it efficiently.

4. Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Accounting Officer	Recommendation
An Internal Audit had not been conducted in terms of Finance Regulation 133 of the Democratic Socialist Republic of Sri Lanka and in terms of Section 40 (1) of the National Audit Act No. 19 of 2018 and that responsibility had not been properly covered by the Ministry's Internal Audit Division in terms of F.R. 133 (b) and as per Management Audit Circular DMA/01-2019 .	The Internal Auditor of the Ministry of Ports, Shipping and Aviation also conducts the audit of the Merchant Shipping Secretariat. The Secretary of Ministry stated that it would be appropriate for the Ministry Audit Division itself to audit the Secretariat.	The Secretariat should take actions to conduct a proper internal audit as per F.R.133 and circular.

5. Human Resources Management

Audit Observation				Comments of the Accounting Officer	Recommendation
(a) Details of approved, actual and vacant staff are given below as at 31 December of the year under review.				Although the relevant approvals to recruit for professional executive positions in the naval sector were obtained and advertisements were published in national newspapers, no one had submitted applications for the that. Written and verbal notices have already been given to the Ministry of Public Administration to fill up the existing vacancies at tertiary, secondary and primary levels.	The Secretariat should take actions to maintain human resources optimally and efficiently.
Type of employee	Approved No.	Actual No.	Number of vacancies		
Senior	25	10	15		
Tertiary	04	01	03		
Secondary	66	48	18		
Primary	30	14	16		
	<u>125</u>	<u>73</u>	<u>52</u>		
Sixty per cent of senior level employees and 53 per cent of primary level employees in the Secretariat remained vacant.					
(b) A Scheme of Recruitment had not been prepared and got approved for the recruitment of 11 officers in relation to 07 posts including the Director General of the Secretariat in terms of Paragraph 34 of the Procedural Rules published by Special Gazette No. 1589/30 dated 20 February 2009 of the Democratic Socialist Republic of Sri Lanka and Paragraph 38 of the Procedural Rules published by Special Gazette No. 2310/29 dated 14 December 2022 .				Formal Scheme of Recruitment have been prepared and approved for 4 posts and the post of Director General is an appointment of Cabinet of Ministers. Preparation of Scheme of Recruitment for the other two posts are being done now.	The Secretariat should take actions to prepare and get approved formal Scheme of Recruitment as per the circular.