

## **Head 336 – Merchant Shipping Secretariat -2024**

### **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 2024 comprising the statement of financial position as at 31 December 2024 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 Merchant Shipping Secretariat was issued to the Accounting Officer on 30 May 2025 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report pertaining to the Department was issued to the Accounting Officer on 12 June 2025 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 fair view in all the material aspects of the financial position of the Merchant Shipping Secretariat as at 31 December 2024 and its financial performance and cash flow for the year then ended in accordance with the basis of preparation of the financial statements set out in Note 1 to the financial statements.

#### **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 Emphasis of Matter - Basis of Preparation of Financial Statements**

I draw attention to Note 1 of the financial statements, which describes the basis of preparation of these financial statements. The financial statements had been prepared for the requirement of the Merchant Shipping Secretariat, the Treasury and the Parliament in accordance with Financial Regulations 150 and 151 of the Government and State Accounts Guideline No. 06/2024 dated 16 December 2024, as amended on 21 February 2025. Therefore, these financial statements may not be suitable for other purposes. My report is intended only for the use of the Merchant Shipping Secretariat, the Treasury and the Parliament of Sri Lanka. My opinion in this regard is not modified

#### **1.4 Responsibilities of the Chief Accounting Officer and Accounting Officer on Financial Statements**

The Accounting Officer is responsible to prepare financial statements that give a true and fair view in all material aspects and to determine such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error in accordance with Government Finance Regulations 150 and 151 and State Accounts Guideline No. 06/2024 dated 16 December 2024 as amended on 21 February 2025 .

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.

#### **1.5 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 Accounting Officer is made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## **1.6 Comments on Financial Statements**

### **1.6.1 Accounting Deficiencies**

#### **(a) Property Plant and Equipment**

	<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<b>(i)</b>	Three vehicles with a current market value of Rs. 21,000,000 had not been included under property, plant and equipment in ACA-6 Format in the annual financial statements of the Secretariat as per the insurance documents received by the Merchant Shipping Secretariat in the year 2023 and it had also not been included in the statement of financial position.	Actions are being taken in coordination with the Department of State Accounts to correct these errors and arrangements will be made to correct those errors during this year.	Items of property, plant and equipment should be included in the financial statements at cost or at assessed value in term of State Accounts Guidelines.
<b>(ii)</b>	If there are more non-financial assets to be recorded, although they should be accounted for at cost or, where cost cannot be determined at estimated value, in accordance with Section 8.2 of State Accounts Guideline No. 06/2024 dated 16 December 2024, and also the construction cost of the Jaffna Merchant Shipping Sub-Secretariat Office, valued at Rs. 79,279,747, a sum	Actions are being taken in coordination with the Department of State Accounts to correct these errors and arrangements will be made to correct those errors during this year.	The cost of property, plant and equipment should be included in the financial statements in term of State Accounts Guidelines.

of Rs. 33,802,055 of Tourist Bungalow and Slipway had been accounted for in the annual financial statements, due to a sum of Rs. 45,477,692 had not been accounted for, that value had not been included in the statement of financial position.

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| <p><b>(iii)</b></p> | <p>Although the value of non-financial assets whose cost cannot be identified should be accounted for at the assessed value in accordance with Section 8.2 of State Accounts Guidelines No. 06/2024 dated 16 December 2024 and Paragraph 06 of Asset Management Circular No. 04/2018 dated 31 December 2018, the property, plant and equipment in the statement of financial position as at 31 December of the year under review had been understated by that amount due to the fact that the value of 2 lands taken over by the Merchant Shipping Secretariat on 14 November 2022 had not been assessed and accounted for.</p> | <p>Actions are being taken in coordination with the Department of State Accounts to correct these errors and arrangements will be made to correct those errors during this year.</p> | <p>Items of property, plant and equipment should be included in the financial statements at cost or assessed value as per the State Accounts Guidelines.</p> |
| <p><b>(iv)</b></p>  | <p>Printer purchased in the year 2024 for Rs. 20,574,167 had been added to the opening balance without recording as purchases under property, plant and equipment in ACA-6 Format in the financial statements of the year under review.</p>   | <p>Actions are being taken in coordination with the Department of State Accounts to correct these errors and arrangements will be made to correct those errors during this year.</p> | <p>Assets should be recorded in the financial statements as a purchase in the year in which they are purchased.</p>  |

**(b) Imprest Balance**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The imprest receipt of the Treasury was Rs. 171,714,000 according to the statement of financial performance in the Treasury Books and final financial statements and, the figure had been Rs. 205,777,042 according to the cash flow statement in the Departmental Books and final financial statements. Further, the Treasury's imprest settlement was Rs.225,907,101 according to the statement of financial performance in the Treasury books and final financial statements that value had been Rs. 259,970,143 according to the cash flow statement in the Departmental Books and final financial statements. Accordingly, the imprest receipts and imprest payments between the Treasury Books and the Department Books had deviated by Rs. 34,063,042 each.	The departmental dollar income consisted in the imprest receipts and imprest payments in the cash flow statement and the department's consolidated balance sheet through debit and credit entries made when transactions are entered into CIGAS when dollar income receipts between department accounts and dollar income transfer to bank account 7040299. Accordingly, the difference observed during the audit amounted to Rs. 34,063,042 was the dollar revenue received by the Department in the year 2024.	The statement of financial performance according to the Treasury Books and, the imprest statement and cash flow statement the as per Departmental Books should be prepared and, actions should be taken to correct the differences.

**2. Report on Other Legal Requirements**

I express 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 following recommendations made by me on the financial statements of the preceding year had not been implemented.

<b>Paragraph Reference from the Report of the Previous Year</b>	<b>Recommendation Not Implemented</b>	<b>Recommendation</b>
<b>(i) 1.6.1.1 (a)</b>	Three vehicles which were handed over to the Merchant Shipping Secretariat by the Ministry of Ports, Shipping and Aviation Services valued at Rs. 21,000,000 should be included in the statement of financial position as at 31 December 2023 as stated	1.6.1(a) (i)

in Paragraphs 8.1 and 8.2 of State Accounts Guideline No. 05/2023 dated 30 November 2023.

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| <p>(ii) 1.6.1.1 (b)</p>  | <p>The Jaffna Road Project and Jaffna Sub-Office which were the non-financial assets valued at Rs. 45,477,692, should be accounted for at cost or assessed value 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 of the Department of State Accounts dated 30 November 2023.</p>                            | <p>1.6.1(a) (ii)</p>   |
| <p>(iii) 1.6.1.1 (c)</p> | <p>The value of the lands should be 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 of the Department of State Accounts dated 30 November 2023 and in accordance with Section 2.1 of the Annexure set out in Paragraph 06 of the Asset Management Circular No. 04/2018 dated 31 December 2018.</p> | <p>1.6.1 (a) (iii)</p> |

### 3. Financial Review

#### 3.1 Incurring of Liabilities and Commitments

Audit Observation	Comments of the Accounting Officer	Recommendation
Commitments should first be identified within the annual budget limit for payments other than personal salaries and allowances in accordance with Paragraph (a) of the State Accounts Circular No. 255/2017 dated 27 April 2017 issued with the objective of optimizing the utilization of the provisions provided by the Annual Appropriation Act and preventing the entering into commitments and liabilities	Due to the lack of provisions allocated for building rent for the year 2024 it could not be included in the CIGAS programme as commitments and liabilities and therefore, it is not possible to include that value in the financial statements 2024.	Commitments and liabilities should be entered into within the approved provision limit as per the State Accounts Circular and it should record in respect of liabilities entered into, in the financial statements.

exceeding the approved appropriation limits. The register had not been prepared identifying expenses related to the year 2024 paid in the year 2025 amounting to Rs. 6,071,705 as liabilities and accounts payable according to the audit test check carried out.

### 3.2 Certification of the Accounting Officer

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The Accounting Officer should ensure that an effective internal control system is developed and maintained for the financial control of the Secretariat in accordance with the provisions of Section 38 (1) (c) and 38 (2) of the National Audit Act, No. 19 of 2018 and the effectiveness of the system should be reviewed periodically and necessary changes should be made accordingly to ensure that the system operates effectively. Further, a written report on those reviews should be prepared and a copy of it should be submitted to the Auditor General. However, the relevant information that such reviews were conducted had not been submitted to the audit.	The Internal Audit of the Merchant Shipping Secretariat is conducted by the Internal Audit Division of the Ministry of Ports, Shipping and Aviation Services and however, as you have indicated, the Line Ministry has been informed and steps have been taken to prepare and maintain an effective internal control system for the internal control of this office and to carry out reviews.	The Accounting Officer should ensure that an effective internal control system is established and maintained in accordance with the National Audit Act.

## 4. Operating Review

### 4.1 Planning

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
The Department had not prepared its Action Plan or revenue collection action plan as per the format given in Guideline No. 12 of Public Finance Circular No. 02/2020 dated 28 August 2020. Further, the main function of the Merchant Shipping Secretariat is to implement the	Necessary steps have been taken to prepare an Action Plan including all the above points in the year 2025.	Action Plan should be prepared according to the format specified in the Public Finance Circular and including all activities identified under priority areas

provisions of the Merchant Shipping Act No. 52 of 1971, the Shipping Agents Licensing Act No. 10 of 1972, and the Jurisdiction Act No. 40 of 1983 and accordingly, although the functions of the Department had been identified under 12 main areas, the Department had prepared its Action Plan by including only activities related to one project, “Establishment of E-Government project integrating all services of the Merchant Shipping Secretariat”.

based on the approved budget for the relevant year.

## 4.2 Management Weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>There were proposals to construct a sub-office at the Merchant Shipping Secretariat in Kayts, Jaffna in the year 2016, with the aim of expanding the activities of the Merchant Shipping Secretariat and providing the necessary facilities to ensure that goods and passenger transport between the islands in the Jaffna Peninsula is carried out in a more orderly, safe and in accordance with the laws and regulations and the construction work had been completed on 19 August 2019. The office premises had been constructed as two buildings and in one building, the ground floor as an office and the upper floor as a circuit bungalow with 4 rooms, while in the other building, the ground floor as staff accommodation and the upper floor as a circuit bungalow with 3 rooms. There, only one Development Officer has been assigned to operate the this and income generation from the circuit bungalow has been very low since 2020.</p>	<p>The circuit bungalow belonging to the Merchant Shipping Secretariat located in Kayts, Jaffna is being used and the income generated from that, is being credited to the government revenue. Moreover, actions have been taken by the decision of the Cabinet of Ministers No. CMP/25/0299/809/026 dated 04.03.2025 for not taking action furthermore to give the Slipway and Sub-office premises in Jaffna on long-term lease in accordance with the Decision of Cabinet of Ministers No. CMP/24/0520/628/026 dated 01.04.2024.</p>	<p>Infrastructure should be developed to enable effective utilization of assets.</p>



## **5. Good Governance**

### **5.1 Internal Audit**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
An Internal Auditor should be appointed to review the effectiveness of internal control in accordance with Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka and Section 40 (1) of the National Audit Act, No. 19 of 2018 and the Internal Auditor should report directly to the Chief Accounting Officer or Head of the Institution. Further, although the Management Audit Circular DMA/01-2019 had provided guidelines regarding internal audit, steps had not been taken to establish an Internal Audit Division.	The internal control of the Merchant Shipping Secretariat is carried out by the Internal Audit Division of the Ministry of Ports, Shipping and Aviation Services, and the Internal Audit Plan relevant to this office is contained in the Internal Audit Plan submitted to you by the Audit Division of the Ministry.	An Internal Audit Division should be established for the success of internal control in accordance with the Financial Regulations and the National Audit Act.

### **5.2 Audit and Management Committee**

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Although Audit and Management Committee Meetings should be held at least quarterly, in accordance with Paragraph 5.3 of the Internal Audit Guidelines Circular No. DMA/01-2019 dated 12 January 2019 of the Department of Management Audit; the Secretariat had not taken actions to establish an Audit and Management Committee and to hold meetings.	The Merchant Shipping Secretariat has not yet held Audit and Management Committees and only participation has been made in the Audit and Management Committees conducted by the Internal Audit Division of the Ministry of Ports, Shipping and Aviation Services. Therefore, the necessary steps have been taken to inform the Line Ministry and conduct an Internal Audit of this office and to carry out required future activities to systematically conduct internal audits related to this office.	Actions should be taken to establish and hold meetings of an Audit and Management Committee in accordance with the Internal Audit Guidelines Circular.

## 6. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The approved staff of the Merchant Shipping Secretariat was 125 and the vacant staff was 54. It consisted of 15 executive level vacancies, 2 tertiary level vacancies, 21 secondary level vacancies and 16 primary level vacancies.</p>	<p>The approved staff of the Merchant Shipping Secretariat is 125 and the actual staff as at 31.12.2024 is 72. Accordingly, the number of vacancies on that day is 53. Although applications were invited on two occasions, to fill the vacancies of executive grade positions in this institution, no any application was submitted for that. Therefore, applications were invited to fill these vacancies on a contract basis, as approved by the Public Service Commission and the 11 applicants who had submitted their applications had been sent to the Prime Minister's Review Committee for approval to conduct interviews. Further, written and verbal requests have already been made to the Ministry of Public Administration to fill the vacancies in primary, secondary and tertiary level posts belonging to the Combined Service.</p>	<p>Actions should be taken to fill vacancies in the approved staff so that the functions can be carried out efficiently and effectively.</p>