

Head 434 - State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, and cash flow statements for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the State Ministry was issued to the Accounting Officer on 15 June 2022 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report of the State Ministry was issued to the Accounting Officer on 29 June 2022 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 give a true and fair view of the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development as at 31 December 2021 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 described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the financial statements are further described in the Auditor's Responsibilities 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 Responsibility of the Chief Accounting Officer and the Accounting Officer on Financial Statements

The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per 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 the preparation of annual and periodic financial statements to be prepared of the State Ministry.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the State Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the Audit of the 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 summary 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

As required by Section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) The financial statements are consistent with the preceding year,
- (b) The recommendations made by me on financial statements of the preceding year had not been implemented.

Reference to Paragraph	Audit Observation	Recommendation
1.6	In terms of provisions in Section 38 of the National Audit Act, No.19 of 2018, the Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the State Ministry 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. Moreover, the said reviews should have been in writing and a copy thereof furnished to the Auditor General. However, statements that such reviews were carried out, had not been made available to Audit.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.

1.6 Comments of Financial Statements

1.6.1 Non-compliance of Financial Statements with Circular Provisions

Audit Observation	Comments of the Accounting officer	Recommendation
(a) In terms of paragraph 7.7 of the State Accounts Guidelines Circular No.2021/03 of 26 November 2021, equivalent value of property, plant and equipment should be shown as Reserve under Net Assets/Equity in the Statement of Financial Position. However, a reserve value had not been shown as at 31 December 2021 in the Statement of Financial Position of the Ministry. Further, the value of	It is kindly reported that after rectifying the said error pointed out by the Audit, the value of the reserve will be accurate.	Action should be taken to include accurate values in accounts.

property, plant and equipment as at that date amounted to Rs.13,255,178.

- (b) In terms of paragraph 7.8 of the State Accounts Guidelines Circular No.2021/03 of 26 November 2021, the value resulted in after deducting the value of Deposit Accounts from the value of Advance Accounts should be indicated under net assets/equity in the statement of financial position. Accordingly, it was observed that the said value had been overstated by Rs.8,897,862 in the statement of financial position. The value of the reserve has been overstated due to failure in recording the balance of the Advances to Public officers Account in the statement of financial position. However, instructions were given to make calculations properly in future. --do--
- (c) As per Treasury Accounts Notes, balances of Advance Accounts as at 31 December 2021 should be shown under current assets of the statement of financial position. However, the balance amounting to Rs.1,318,626 of the Advance Account of the Ministry as at that date had not been indicated under financial assets of the statement of financial position. The said error had occurred due to the confusion of Schedule ACA 05 with ACA 05 (A). However, instructions were given to make calculations properly in future. --do--
- (d) According to the Treasury Notes to Accounts SA-82 and trail balance, the value of property, plant and equipment as at 31 December 2021 had been Rs.13,255,178. Nevertheless, the said value had been understated by Rs.3,038,690 in the statement of financial position. Instructions were given to rectify the value of Rs.3,038,690 in future. --do--

- (e) The value of 02 motor vehicles costing Rs. 13,500,000 owned by the Ministry had not been shown under non-financial assets and as such, non-financial assets had been understated by the same amount. Information necessary for updating the CIGAS computer system relating to motor vehicles has not been received so far from relevant institutions and as such, action will be taken to update the said system properly after receiving relevant information. --do--

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comments of the Accounting officer	Recommendation
(a) The value of provision which was transferred under supplementary estimates and F.R.66 not utilized in 03 instances even by the end of the year, had been Rs.18,817,526, thus observing savings ranging from 15 per cent to 110 per cent as a percentage of the provision transferred.	Even though additional provision had been made and many measures had been taken in a manner of not making savings, it is kindly reported that there were savings due to matters which were beyond the control of the Ministry.	Estimates should be prepared in terms of provisions in F.R. 50 and action should be taken to incur expenditure as planned.
(b) In terms of Financial Regulation 4, it is the responsibility of the Accounting Officer to ensure that the funds to be approved by Parliament, is restricted to the programme that can be achieved during the financial year. Contrary to that, provision had been allocated and as a result, there were savings of 84 per cent of the net provision made for the year 2021 of the Ministry.	Matters such as lack of video cameras and other accessories relating thereto in the market, suspension of renting buildings, lack of a computer with special accessories in the market for the Media Unit, non- release of money for making payments until the issues on taxes are resolved and failure in carrying out constructions as expected due to delay in receiving foreign consultancy services, due to the situation which is beyond the control of the Ministry in the year 2021, had attributed to the said savings.	--do--

- (c) There were savings totalling Rs.1,050,920,079 comprising Rs.1,013,600,664 relating to 6 Capital Object representing 21 per cent to 100 per cent and Rs.37,319,415 relating to 18 Recurrent Object of the net provision made for the year 2021.
- Even though many measures had been taken in a manner of not making savings, it is kindly reported that there were savings due to matters which were beyond the control of the Ministry.
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2.2 Incurring of Commitments and Liabilities

Audit Observation	Comments of the Accounting officer	Recommendation
According to audit examinations, liabilities of Rs.300,162 for the year 2021 had been settled in January, February and March 2022 and accordingly, it was observed that liabilities remained as at 31 December 2021 of the Ministry, had been understated by Rs.265,248 in the financial statements.	Any payment whatsoever including invoices or bills mentioning dates of the year 2021 has not been shown as a liability. Accordingly, payments of Rs.34,914 relating to bills received in the year 2022 pertaining to the year 2021, have been included in the financial statements as liabilities.	In terms of provisions of F.R.94, it should not be entered into liabilities without estimated provision.

2.3 Non-compliance with Laws, Rules and Regulations

Observation			
Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Accounting Officer	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka	The voucher relating to the invoice of Rs.2,271,400 dated 22 December 2021 in respect of purchase of goods, had already been prepared, authorized, approved and certified by the time of receipt of the said invoice to the Ministry.	It is reported that the voucher was prepared based on the Proforma Invoice, a cheque written therefor and sent a photocopy thereof to the supplier, received relevant goods,	Action should be taken in terms of Financial Regulations when making payments.
Regulations 136, 137, 138			

inspected whether complied with specifications and the cheque handed over after certifying the quality of goods

3. Operating Review

3.1 Foreign Funded Projects

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>A loan agreement had been entered into for USD 45.27 million with an Indian company in the year 2018 for the Kankasanthurai Port Development Project. Even though a period over 03 years had lapsed by 31 December 2021, constructions of the port had not been commenced.</p> <p>According to the Action Plan 2021, the total estimated cost of the project for consultancy service and constructions were Rs.373 million and Rs.2,000 million respectively and the provision made for the year had been Rs.1,001 million. However, a payment of Rs.142.3 million had been made only for consultancy services during the year and it represented 38 per cent. As constructions had not been commenced, a sum of Rs.858.71 million had been saved of the sum allocated for the year. Moreover, settlement of issues relating to tax of this project had failed during the year 2021. As such, the provision of Rs.150 million made for tax relating to that year had been saved.</p>	<p>Cabinet approval had been granted on 05 May 2017 relating to reconstruction of the Kankasanthurai Port. However, procurement activities relating to providing relevant consultancy service, had been carried out by the EXIM Bank.</p> <p>Even though initial consultancy was commenced on 12 October 2020, a physical progress of 73 per cent has been achieved by obtaining an extension up to 07.05.2022 due to the Covid 19 pandemic and heavy rainfall.</p> <p>As commencement of constructions was delayed in the year 2021, the advance of 20 per cent of the contractual value could not be paid. Moreover, even though the project can be exempted from indirect tax, direct tax will be relevant for this project. As no tax had been paid in the year 2021, withholding tax of 10 per cent had been charged from the payments made in the year 2022. Action will be taken to deduct withholding tax relating to bills paid previously as well, from bills received in future.</p>	<p>In making plans for avoiding risks relating to payment of commitment fees after entering into the loan agreement, prior consideration should be given on clearances and compliances which could be required for implementing the project and an adequate time limit should be allocated for the said activities.</p>

3.2 Procurements

Audit Observation	Comments of the Accounting Officer	Recommendation
In the invitation of bids carried out during the year under review for purchase of camera equipment valued at Rs.2,271,400, weaknesses such as failure in mentioning the date for submitting bids, unavailability of evidence whether bidders or representatives participated at the opening of bids, non-inclusion of conditions on awarding of bids in the bidding document, failure in obtaining a performance security and in entering into an agreement with the contractor, were observed.	Instructions were given for carrying out procurements by registration or e-mail, indicating the minimum number of days for submitting bids and to send a representative of the institution to participate at the opening of bids. Moreover, it is kindly informed that a performance security and a formal agreement had not been signed and after preparing the voucher, the invoice was attached to it.	Reporting should be carried out, considering the provisions of the Government Procurement Guidelines No.09 dated 01 March 2006 of the National Procurement Agency.

4. Good Governance

Audit Observation	Comments of the Accounting Officer	Recommendation
All audit and management aspects of the auditee entity to ensure that its resources, are used economically and efficiently for the purpose of achieving the predetermined objectives of such entity as a whole, or in respect of any specific project or programme undertaken giving priority to the resources available and ascertain whether such objects have actually been achieved within the authorized time limits for the disbursement of funds allocated for such activity, and whether any completed project or programme	Had not commented.	Action should be taken in terms of provisions in Section 41 of the National Audit Act, No.19 of 2018.

is in actual operation as envisaged in the plans, should be reviewed. However, statements that such reviews were made, had not been made available to Audit.

5. Human Resource Management

Audit Observation	Comments of the Accounting Officer	Recommendation
There were 08 vacancies in the Senior Level and 36 vacancies of employees in tertiary, secondary and primary levels directly effecting the daily activities by the end of the year in the State Ministry.	It was possible to perform functions so far by deploying the limited staff and the officers amidst difficulties so as to avoid arise in issues and in a manner of achieving the objectives of the Ministry.	An adequate staff should be maintained to perform the duties and functions of the Ministry.