

Head 176- Report of the Auditor General - Ministry of Ports and Shipping - year 2017

The Appropriation Account and the Reconciliation Statements under the Head and the Subject Code mentioned in the First and Third Schedules of the Appropriation Act No.24 of 2016 amended by the Appropriation (Amended) Act No. 32 of 2017 had been presented to audit by the Ministry of Ports and Shipping. The Audit of the Financial and physical performance reflected by the said Accounts and Reconciliation Statements was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer, Revenue Accounting Officer and the Accounting Officer on the Financial Management and Accountability

According to the Financial Regulation 124 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka, Generating of State Revenue and Collecting of Sums Receivable to the Government and the General Check on the Supervision of all activities of the State Funds were assigned to the Minister of Finance. As per the Financial Regulation 124 (2), Chief Accounting Officers were appointed by the Minister of Finance to accomplish the said responsibility. In accordance with the Financial Regulation (125) (1) (a), The Head of the Department is the Accounting Officer of the all money transactions of his Department and Revenue Accounting Officer had been appointed by the Treasury. This responsibility is included planning, implementing and conducting the internal controls relating to maintain, prepare and fair presentation of Accounts and Reconciliation Statements presented after performing their duties within the limitations enacted by the Parliament in accordance with article 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Regulations, Government Financial Regulations and Administration Regulations.

1.3 Scope of Audit

The audit of the Ministry of Ports and Shipping – Head 176 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 22 August 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports presented to Audit and test of samples of transactions. The scope and extent of such review and tests were such as to enable as wide audit coverage as possible within the limitations of staff, other resources and time available to me.

1.4 Audit Observations

The audit observations of the Ministry of Ports and Shipping for the year ended 31 December 2017 revealed in audit appear in Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.10 of this report. It was observed that accountability as the Chief Accounting Officer had been satisfactorily executed to ensure the adequacy of the Financial administration subject to the following summarized audit observation revealed in the execution of the provisions of the Financial regulation 127 of the Financial Regulations of the Democratic Socialist Republic Of Sri Lanka.

Financial Regulation 127	Accountability of Chief Accounting Officer	Non -compliance with the Direction of the Chief Accounting Officer/ Accounting Officer	Reference to the paragraphs of the report of which the observation included
Financial Regulations			
127 (1) (a)	All financial work should be planned so that the business is transacted with correctness and financial priority	<ol style="list-style-type: none"> Action plan not being prepared correctly. Procurement activities not being planned adequately 	<p>2.1 (a) to (e)</p> <p>2.3.1 (a)</p>
127(1)(b)	A system which provides adequate controls over expenditure and the collection of revenue should be evolved	<ol style="list-style-type: none"> Uneconomic transactions Management inefficiencies Unresolved audit paragraphs Deficiencies in Human Resources Management 	<p>2.5</p> <p>2.7 (a),(b)</p> <p>2.6</p> <p>2.10</p>

127 (2)	Existing items of expenditure as well as proposals or new or increased expenditure in the department under his control are closely examined in the Ministry from the points of view of economy and efficiency	<ol style="list-style-type: none"> 1. Two key development functions not being fulfilled as expected 2. Delays in fulfilling 3 key development functions 3. Deficiencies in implementation of procurement process 	<p>2.2 (a)</p> <p>2.2 (b) (c)</p> <p>2.3.1 (a)</p>
127 (6)	Collection of revenue or other Government dues for which Accounting officers are responsible is closely watched and examined by the Ministry	Deficiencies in the Advance to Public Officers Account	2.9

2. Material and Significant Audi Observations

2.1 Performance

According to the Public Finance Circular No.01/2014 dated 17 February 2017, the Action plan for the year 2017 had been prepared. However the following facts had not been included in the prepared action plan for obtaining expected results from 06 key functions which should be fulfilled by the Ministry during the year under review and 03 statutory institutes installed under the Ministry.

- a) A plan showing due period of time for implementation, expected production and results relating to 2 development activities for which the provision of Rs. 1,026 Million had made during the year under review.
- b) According to the Merchant shipping Act No.52 of 1971 license fees and other fees should got recovered and credited to the Treasury by the Merchant shipping Secretariat. Accordingly a plan for the period of time and the progress of collection relating to the estimated revenue of Rs. 60 Million for the year under review.
- c) Organization structure of the Merchant shipping Secretariat and information of the staff.
- d) The procurement plan showing the period of time of which the procurement of development activities valued at Rs. 2,090.7 and acquisition of capital assets valued at Rs. 7.0 Million were carried out during the year under review.
- e) The procurement plan and the internal audit programme relating to the institutions named Port Authority and Ceylon Shipping Corporation Ltd.

2.2 Functions not being fulfilled

- a) Functions included in the action plan not being fulfilled
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Although 06 development activities should be fulfilled by the Ministry according to the annual action plan, out of that 02 activities had not been fulfilled as expected. A provision of Rs. 1,019.7 Million had been made for the said activities which had not been fulfilled.

The following observations are made in this regard

- (i) Suspension of Development project of Galle Harbor
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A total provision of Rs. 3,515 Million including Rs. 2,500 Million in the years 2015 and 2016 and Rs. 1,015 million in the year 2017 had been made to the Ministry of Ports and Shipping for implementation of development activities of the Galle Harbor under the loan of Japanese International Corporation Agency (JAICA). As the old Gall City surrounding the area of Gall Harbor had been named as the world heritage, it had been taken almost 3 years period to get the agreement of UNESCO for the development activities of Gall Harbor and the period of the loan agreement had been expired before that. The project could not be commenced due to non-obtaining of clearings and compliances which may be needed before making provisions for the project and the provision of Rs. 1,000 Million made for the year 2017 had been frozen since 19 July 2017.

- (ii) Amendment of Seashore Regulations and Local Ordinance as comply with the Enactment of International Maritime Organization (IMO)
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The approval of the Cabinet had been granted on 29 April 2015 to amend the local laws as to be fulfilled the requirement of the international enactment of the International Maritime Organization (IMO) and it had been planned by the action plan for the years 2016 and 2017 to amend the seashore regulations and ordinance as to be complied with the international enactments and to be presented to the parliament for approval. However Department of Attorney General and the Department of Legal Draftsman had not compromised to a final congruency. As a result the total provision of Rs. 4.7 Million made during the year was saved.

b) Non- achieving of expected Productivity level

Hambanthota Harbor - Acquisition of land for the second stage and paying Compensation

Provision had been made for the said project as per Rs. 1,000 Million for the years 2016 and 2017. Out of those provision a sum of Rs. 892.5 Million for acquisition of land and paying compensation in the year 2016 and a sum of Rs. 326.6 Million for acquisition of land, paying compensation and development of infrastructure facilities in the year 2017 had been incurred. Accordingly a sum of Rs. 673.4 was remained underutilized in the year under review. However activities relating to cancel the prior ownership of the lands acquired and transfer the legal right and granting proper title certificates for the alternative lands which had been given to the prior residents of the lands acquired had not been completed even up to 08 May 2018.

c) Delays in fulfilling Projects

Delays were observed in fulfilling following projects by the Ministry

Project	Provision Made	Date Commenced	Date to be Completed	Date completed	Expenditure as at 31 December 2017	Reasons for the Delay
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	Rs.Million				Rs. Million	
Development of Jetty Facilities in Jaffna Peninsula and associated Islands						
(i) Construction of slipway	50	29.08.2016	31.12.2017	Constructions not completed		Not Reported
(ii) Construction of the office and the official residence	35	10.07.2016	31.12.2017	Constructions not completed	35	Not Reported

(iii) Issuing of Continuous discharging Certificates and Certificates of competent for Sri Lankan sailors in an internationally accepted level Stage II	26	31.10.2016	30.04.2017	work not completed	11.5	Not Reported
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The following observations are made in this regard

(I) Development of Jetty Facilities in Jaffna Peninsula and associated Islands

Total provision of Rs. 85 Million including Rs. 50 Million and Rs.35 Million had been made in the years 2016 and 2017 respectively under this project. Only a sum of Rs.35 Million including Rs. 14.5 Million and Rs.20.5 Million had been utilized in the years 2016 and 2017 respectively in this regard. Two development projects had been implemented through the District Secretary Jaffna under this project.

(i) Construction of Jaffna District Sub Office and Official Residence of Merchant shipping Secretariat Office

Although the construction of District Sub Office and Official Residence had been planned to be completed on 08 August 2018, the progress of construction as at that date was only 45 per cent.

(ii) Construction of Slipway

It had been entered in to an agreement with the Navy on 29 August 2016 for this construction. According to the agreement constructions should be completed as at 31 December 2016. However the work had not been totally completed even up to 31 December 2017. According to the progress review report of the year under review, the progress of entire constructions as at that date was 65 per cent.

- (II) The project for Issuing of Continuous Release Certificates and Skill Certificates for Sri Lankan sailors in an internationally accepted level.

Although work should be completed on 30 April 2017 as per the agreement entered in to with the supplier for the above mentioned project, it had not been completed even up to 31 December 2017.

2.3 Obtaining supplies and Services through the Procurement Process

Provision of Rs. 13.56 Million had been made by the Ministry for obtaining supplies and services following the Government Procurement Guideline and out of the said provision a provision of Rs. 11.26 Million had been utilized. Accordingly a sum of Rs. 2.3 Million represents 16.96 per cent of the provision made had been saved.

2.3.1 Procurement Planning

Provision of Rs. 13.56 Million had been made by the Ministry for fulfilling supplies and services following the Government Procurement Guideline. The following observations were made in connection with the procurement plans which should be prepared relating to the procurement made by utilizing a provision of Rs. 11.26 Million out of the said provision.

Procurement Planning and the Preliminary Stage

A procurement plan for the year under review had been prepared by the Ministry on 17 February 2017. However a Master Procurement Plan and Procurement Time Table had not been prepared showing the details relating to the expected procurement activities for coming 3 years and the procurement activities for the next year in accordance with the paragraph 4.2.1 and 4.2.2 of the Government Procurement Guideline. Further the format mentioned in the paragraph 2.11.3 and 6.3.6 of the Government Procurement Guideline had not been used in the procurement valued at Rs.3, 140,177 for purchasing furniture and office equipment.

2.4 Asset Management

The following observations are made

a) Vehicle Utilization

Thirty Five vehicles were owned by the Ministry as mentioned below as at the end of the year under review and distance driven by those vehicles was 599,671 kilometers. A total sum of Rs.27,175,581 had been incurred including Rs.10,280,014 for fuel and lubricant, Rs. 2,257,503 for service of vehicles, Rs. 11,624,718 for repairing vehicles and Rs. 3,013,346 for insurance of vehicles respectively. Accordingly the Ministry had spent Rs. 45.32 per kilometer for running vehicles except salaries and allowances for drivers.

b) Utilization of Vehicles under the operating and Finance lease

A sum of Rs. 2,332,812 had been incurred by the Ministry including Rs. 2,084,292 as leasing instalment for a vehicle obtained under operating lease and Rs. 248,520 for fuel and lubricant. This vehicle had been run 36,654 kilo meters. Accordingly a sum of Rs. 63.64 had been incurred per kilometer for the said vehicle.

c) Expenses for conducting offices

Offices were being conducted in 2 buildings which had been obtained by the Ministry at annual rate of lease rent of Rs.21, 286,758. The annual fees for cleaning was Rs.3.809, 712 and a sum of Rs. 8,552,529 had been incurred for water, electricity and other expenses. Accordingly the total expenses for the entire buildings was Rs. 33,648,999. Accordingly the maintenance cost of the office per head was Rs.350, 510.

2.5 Uneconomic Transaction

The Asian Development Bank had been appointed (ADB) on 23 February 2016 as the Project Operating Consultant for carrying out activities including calling intention and business proposals from the parties concerned with the operation of Eastern Container Terminal belonged to the Sri Lanka Port Authority with a State and Private Strategic Partnership. However work including calling proposals and the said consultancy activities was inactivated after 21 December 2016 and a sum of Rs. 24,341,965 (U.S. \$.159, 977) which had been paid to the Asian Development Bank by the Ministry during the years 2016 and 2017 for accommodation and travelling expenses had become fruitless.

2.6 Unresolved Audit Paragraphs

Actions had not been taken to recover the loss of Rs. 481,550 which had been pointed out by the paragraph 3.9 of the Auditor General's Report for the year 2016 relating to the damage occurred to a Jeep belonged to the Ministry in an accident taken place in the year 2015 and had not got recovered from the insurance even up to 31 December 2017.

2.7 Management Inefficiencies

The following observations were made in sample audit tests.

a) Weaknesses in estimating Revenue

The revenue estimated by the Merchant shipping Secretariat for the year 2015 which should be collected for the Sundry Income Head of the General Treasury was Rs.45 Million and Rs. 60 Million for the years 2016 and 2017 per each whilst the actual revenue was Rs.91 Million, Rs. 86 Million and Rs.110 Million respectively. Therefore there were differences of 202 per cent, 143 per cent and, 183 per cent between the estimated and actual income.

d) Delay in Publishing Gazette Notifications relating to Fees Revisions

Although the fees for issuing updating and duplicating of continuous discharging certificates (CDS) and certificates of competent (COC) had been increased in a range of 50 per cent to 233 per cent since 01 February 2017 subject to the Cabinet Approval, actions had not been taken to obtain the approval of the Cabinet and to publish Gazette Notifications even up to 30 August 2018.

2.8 Utilization of Provisions made by the Parliament to accomplish Duties

Details relating to the provisions made to the Ministry, utilization and savings for the period of 3 years ended 31 December 2017 and the audit observations in this regard are given below.

Year	Expenditure Category	Net Provision	Utilization	Savings	Savings as a percentage of Net Provision
		Rs. Million	Rs. Million	Rs. Million	%
2015	Recurrent	216.54	205.81	10.73	5
	Capital	2011.28	8.71	2,002.57	99.6
	Total	2,227.82	214.52	2,013.30	90.3
2016	Recurrent	197.40	179.06	18.34	9.3
	Capital	1,747.77	1,052.80	694.97	40
	Total	1,945.17	1,231.86	713.31	36.7
2017	Recurrent	251.85	209.74	42.11	16.7
	Capital	2,148.25	410.30	1,737.96	81
	Total	2,400.10	620.04	1,780.07	74

The following observations are made in this regard

(i) Non-Utilization and / or Underutilization of Provisions

According to the Financial Regulation 04, it is the responsibility of the chief accounting officer to ensure that the funds to be authorized by the parliament in the annual estimates is restricted to the programme of work that can be achieved during the financial year. However due to allocating provision contrary to that requirement, 74 per cent of the net provision of the Ministry of Ports and Shipping for the year 2017 had been saved. The total provision of Rs. 1,760.68 had been saved including Rs. 1,737.20 represents 25 per cent to 100 savings of 14 Capital Expenditure Codes and Rs. 23.48 Million of 12 Recurrent Expenditure Codes. However, out of this savings a sum of Rs. 1010 Million had been frozen by the General Treasury since June 2017.

(ii) Savings of Provisions transferred under the Financial Regulation 66

Provision of Rs. 3,018,663 relating to 08 instances which had been transferred under the Financial Regulations 66 and had not been utilized even up to the end of the year, had been saved and when considering as a percentage of the provision transferred, it was in a range of 27 per cent to 203 per cent. The Secretary to the Ministry had informed that insufficient receiving of imprest had resulted to this situation.

2.9 Advances to Public Officers Account

Limitations imposed by the Parliament

Limitations imposed by the Parliament for the Advances to Public Officers Account under the Subject Code 176011 relating to the Ministry and the actual values are given below.

Expenditure		Receiving		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
6.00	5.93	3.50	4.13	18.00	14.46

The following observations are made in this regard

- a) Loan balances settled during the year not been adjusted to accounts

Although the loan balance of Rs. 184,265 which should be recovered from a female officer transferred in the year under review had been settled, it had not been adjusted in the accounts. As a result, the balance of the Advances to Public Officers Account as at 31 December 2017 had been overstated by Rs. 184,265.

- b) Loan balances to be recovered from transferred officers

Recoverable balances of loans from 06 officers transferred from the Ministry to external institutions amounting to Rs.462,583 and recoverable balances of loans from 02 officers who had interdicted and vacated their posts amounting to Rs.314, 610 had been brought forward over a period more than 13 years without being recovered. Necessary actions had not been taken in this regard.

2.10 Human Resources Management

2.10.1 Approved Cadre, actual Cadre and expenses for personal emoluments

Details relating to the approved cadre, actual cadre and the vacancies and surplus staff for performing functions of the Ministry of Ports and Shipping as at 31 December 2017 are given below. A sum of Rs. 95 Million had been incurred by the Ministry for the expenditure code of personal emoluments for the year under review. Accordingly expenditure per person was Rs 989, 485

	Employees Category	Approve cadre	Actual Cadre	Vacancies	Surplus
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(i)	Senior Level	36	19	17	-
(ii)	Tertiary Level	14	04	10	-
(iii)	Secondary Level	80	40	40	-
(iv)	Primary Level	55	25	30	-
(v)	Casual/Contract basis	03	08	-	05
	Total	<u>188</u>	<u>96</u>	<u>97</u>	<u>05</u>

The following observations are made in this regard

- a) There were 17 vacancies in the senior level including 05 vacancies of Marine professionals relating to the engineering sections as at the end of the year under review. The possibility of this adverse situation which could be affected to the function of Ministry cannot be ruled out in audit.
- b) There were 80 vacancies in tertiary, secondary and primary levels which were affected directly to the day today activities.