

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

1. Financial Statements

1.1 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 2020 comprising the statement of financial position as at 31 December 2020 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. In terms of Section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development was issued to the Accounting Officer on 28 June 2021. In terms of Section 11(2) of the Audit Act, the Annual Detailed Management Audit Report relating to the Ministry was issued on 21 October 2021 to the Accounting Officer. This report will be presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, the financial statements of the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development give a true and fair view of the financial position of the State Ministry as at 31 December 2020 and its financial performance and cash flows 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 responsibility, under those standards is further described in the Auditor's Responsibility 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 Responsibility of the Accounting Officer for the Financial Statement

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 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 of the 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 Ministry and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for the 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 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 scepticism 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 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 the 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 Sub-section 6 (1) (d) of the National Audit Act, No.19 of 2018, I state the followings:

As the State Ministry of Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development has been established in the year under review, there was no requirement of preparation of financial statements for the preceding year.

1.6 Certification of the Accounting Officer

Even though the Accounting Officer should certify in respect of the following matter, action had not been taken accordingly.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| 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. | Has not commented. | Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018. |

2. Financial Review

2.1 Management of Expenditure

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|--|---|
| (a) The savings of net provision amounting to Rs.2,472,680,000 relating to 18 Objects of the State Ministry was Rs.976,062,195 representing 39 per cent. Accordingly, the said savings out of the net provision made for Objects, had ranged between 12 per cent and 99 per cent. | Inability of filling employees' vacancies, savings of employees' expenditure including salaries and wages, receipt of goods in January 2021 which were ordered in December 2020 and acquisition of furniture and office equipment had also resulted in savings of provision of 99 per cent in relevant Objects. The delay in development of relevant buildings due to Covid pandemic had resulted in savings of 49 per cent of the provision made relating to Object on development of jetty facilities in the Jaffna Peninsula and related islands relevant to development of infrastructure. | Estimates should be prepared in terms of provisions in Financial Regulation 50. |
| (b) The total net provision amounting to Rs.70,390,000 made relating to 11 Objects had not been utilized during the year. | As the Ministry was established in August 2020, one hundred per cent provision made for relevant Objects has been saved due to non-incurring of expenditure on uniforms, lack of rehabilitation on any machinery and unavailability of a permanent building for the Ministry. | -do- |
| (c) Provision for the current year relating to the loan approved for Japanese Yen 1,000 million (Rs.1,671 million) received under foreign grants in the year 2017 for the Trincomalee Port Development Project, | The provision relating to this Object has been saved as excess provision has been made under the Vote on Account for the year 2020. The Director General of the Department of National Budget has been informed by my letter | -do- |

could have been computed accurately. However, provision of Rs.963,599,578 had been saved as at 31 December 2020 due to making excess provision of Rs.2,447,120,000. No.PAAD/ACC/11/Trincomalee Port dated 21.12.2020 to freeze the said provision.

- (d) As per letter No.JC/JICA/G/DF:02 dated 25 April 2017, provision required for the Project mentioned in (c) above, should have been made in the year 2017. However, provision has not been made in the year 2017. Even though the expenditure of the Project relating to the years 2017 and 2018 amounted to Rs.80,765,238 (Japanese Yen 48,333,476 x 1.671), the said expenditure had not been accounted against the provision of Rs.740 million made in the year 2018. Replies have not been submitted. Expenditure incurred during the year should be identified and brought to account against the relevant provision.
- (e) Adequate evidence was not made available to Audit for confirming the payments of Rs.42,276,300 (Japanese Yen 25,300,000 x 1.671) and Rs.543,075 (Japanese Yen 325,000 x 1.671) made to the Mitsubishi Corporation and Sirius Corporation of Japan respectively for the equipment imported for this Project. Replies have not been submitted. Adequate evidence should be obtained for confirming an expenditure.

2.2 Balances of Advance Accounts

The following observation is made.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|--|---|---|
| As per National Budget Circular No.118 of 11 October 2004, loan balances of officers transferred in, should be settled within 02 months. However, action had not been taken up to now to settle the loan balance amounting to Rs.179,150 granted to an officer for purchasing a motor car. | It has been settled to the North Western Provincial Road Development Department in June 2021. | Action should be taken in terms of circular provisions. |

2.3 Entering into Liabilities and Commitments

The following observations are made.

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|---|--|
| (a) According to audit examinations, liabilities of Rs.2,034,908 for the year 2020 had been settled in January and February in 2021 and these expenditure had not been identified as liabilities in the statement of liabilities for the year 2020. | As internal measures have been taken from the year 2021 to prepare the statement of commitments and liabilities, so as to avoid such deficiencies, such a situation will not arise in future. | In terms of provisions in Financial Regulation 94, liabilities should not be entered into without estimated provision. |
| (b) It was observed that liabilities of Rs.994,288 had been entered into relating to 02 projects as at 31 December 2020, exceeding the savings of 05 Objects. | As this Ministry was commenced in August 2020, liabilities have been entered into in such manner for essential expenditure. | -do- |

3. Operating Review

3.1 Assets Management

| Audit Observation | Comments of the Accounting Officer | Recommendation |
|---|--|---|
| Even though this Ministry has obtained 09 motor vehicles from various Government institutions for its use, action had not been taken up to now to transfer the ownership thereof. | As these motor vehicles were not transferred to this Ministry in the year 2020, they have not been indicated under non-financial assets. Action is being taken to transfer 02 of those motor vehicles to this Ministry. It is also kindly informed that ownership cannot be transferred as 05 motor vehicles have been obtained for use by this Ministry on temporary basis. | Action should be taken in terms of provisions in State Accounts Circular No.259/2017 of 13 December 2017. |

4. Human Resource Management

| Audit Observation | Comments of the Chief Accounting Officer | Recommendation |
|--|---|---|
| The number of approved posts and vacancies as at 31 December 2020 for the performance of functions of the Ministry, stood at 52 and 46 respectively. | Even though the Ministry of Public Administration has been requested to fill those vacancies, they have not been filled in the year 2020. | An adequate staff should be maintained to perform the duties and functions of the Ministry. |