

## **Head 176–Ministry of Ports and Shipping**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statement of the Ministry of Ports and Shipping 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 statement 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 including my comments and observations on the financial statements of the Ministry of Ports and Shipping was issued to the Chief Accounting Officer on 19 May 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Detailed Annual Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Chief Accounting Officer on 30 November 2021. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, the financial statements give a true and fair view of the financial position of the Ministry of Ports and Shipping as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Opinion**

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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 for the Financial Statements**

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Chief 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as Chief 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 Sub-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.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control of the Ministry exists 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 Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue the summary report of the Auditor General 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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 Chief 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

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I express the following matters in accordance with Section 6 (1) (d) of National Audit Act, No. 19 of 2018.

- (a) The financial statements are in consistence with that of the preceeding year,
- (b) The following recommendations which I made on the financial statements of previous year had not been implemented.

## 2. Financial Review

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### 2.1 Expenditure Management

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Of the net provision amounting to Rs. 7,485,000 made for 03 Objects of the Ministry, a sum of Rs. 4,495,486 had been utilized and accordingly, provisions of Rs. 2,989 ,516 had been saved. Accordingly, savings ranging from 10 per cent to 100 per cent of the net provisions made for 23 Objects were recorded.	Allocation of provisions were made under 3 Vote on Accounts in the year 2020 and a budget estimate for the year was issued in September 2020. Further, the Covid 19 pandemic also contributed to that matter. Accordingly, it is informed that it is not practical to state that the improper estimation had given rise to these savings.	Estimates should be prepared properly as stated in F.R.50.

### 2.2 Incurring Liabilities and Commitments

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<b>Audit Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>
Liabilities amounting to Rs. 6,395,851 for the year 2020 had been settled in January and February 2021 and these expenditure were not identified as liabilities in the Record of Commitments and Liabilities. Further, commitments of Rs. 4,192,277 had been incurred in excess of the savings of 17 Objects relating to three projects.	Since the budget is prepared on cash basis, it is possible to keep accounts as commitments and liabilities only if there are savings of provisions. If there is no saving of provision in the budget prepared on cash basis, there is a practical problem of allocating provisions for liabilities to prepare accounts on accrual basis. Since the budget is prepared on cash basis, payments had not been made in excess of the limits of provisions during the year.	In terms of provisions in F.R.94, no liabilities should be incurred unless the estimated provisions are available.

## 2.3 Advance Account Balances

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### Audit Observation

Loan balances due from 05 officers transferred from the Ministry of Ports and Shipping was Rs. 171,402 as at 31 December 2020, those balances had been carried forward for more than a period of 16 years without being recovered. Further, loan balances of Rs. 293,470 that remained unrecovered over a long period from the interdicted officers and a loan balance of Rs. 21,140 due from an officer who had vacated the post could not be recovered even by the end of 2020.

### Comment of the Chief Accounting Officer

A request was made to the Department of Public Finance to write off the outstanding balance of Rs. 171,403 due from 5 officers who had been transferred and according to the recommendations thereof, a committee was appointed to write off the outstanding balance and after studying the matters, the committee report was submitted on 18.10.2019.

Loan balance of Rs. 293,470 due to the interdicted officer will be recovered if his gratuity has to be paid on the decision of the case filed by the Bribery or Corruption Commission against him on the High Court is settled and the case filed by the officer in the Court of Appeal is settled and.

It is informed that it is difficult to show a progress on the recovery of Rs. 21,140 due from the officer who had vacated the service.

Action should be taken to settle the outstanding balances.

## 2.4 Certification to be made by the Accounting Officer

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### Audit Observation

According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Chief Accounting Officer shall ensure that effective internal control system for the financial control of the Ministry exists and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any changes as required for such systems to be effectively carried out and those reviews shall make in writing and a copy thereof should be submitted to the Auditor General. Nevertheless, statements were not furnished to audit to the effect that such reviews had been made.

### Comment of the Chief Accounting Officer

Not commented.

Action should be taken in accordance with provisions in Section 38 of the National Audit Act No.19 of 2018.

## 2.5 Non-compliance with laws, rules and regulations

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	<b>Observation</b>	<b>Comment of the Chief Accounting Officer</b>	<b>Recommendation</b>	
<b>Reference to laws, rules and regulations</b>	<b>Non-compliance and regulations</b>			
(a)	Financial Regulation 104	It was observed that an investigation on 05 vehicle accidents had not been conducted as per F.R.104.	As there was no damage to external parties or payment to a third party and no payment was made by the Ministry to repair the vehicles, inspections as per the F.R.104 had not been carried out. However, it is informed that arrangements will be made to conduct formal investigations as per F.R 104 for the vehicle accidents in the future	Action should be taken in accordance with the Financial Regulations regarding the vehicle accidents.
(b)	Financial Regulations 136, 137	Recommendation, authorization and approval had been done by the same officer to make payments for 02 vouchers worth Rs. 387,815.	Due to the Covid epidemic period, limited number of staff officers could report for duty and therefore, it was unable to complete the task of recommending, authorizing and approving vouchers. Accordingly, payments were made with the consent of the officer obtained via telephone to complete the requirements after his reporting for the duty.	Action should be taken in accordance with the Financial Regulations in making payments.
(c)	Financial Regulation 139 (10) (ii)	Wrong cheque numbers had been entered on two occasions when the cheque number was entered in the voucher.	The cheque numbers on the two vouchers No. 64,65 in June have been exchanged and action was taken to correct the error.	The Paying Officer should confirm that the numbers appeared on the cheques match with the numbers on the voucher.

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| (d) | Financial Regulation 261(1)   | Payment vouchers that were not followed consecutive order of the numbers were recorded in the cash book.   | I will make sure to enter the consecutively numbered vouchers in the book in future.   | Vouchers should be consecutively numbered in the cash book.  |
| (e) | Financial Regulation 272(3)   | Five Payment vouchers worth Rs. 800,983 of the year 2020 had not been submitted for audit up to 31 March 2021.   | Relevant officers were advised to prevent these shortcomings.  | Vouchers should be furnished to audit before lapse of 06 weeks from the relevant month.                                  |
| (f) | Financial Regulation 371(2) (Section b)   | Although an Accounting Officer is able to provide an ad hoc imprest up to a maximum of Rs. 100,000 at a time to staff level officers only for a specific purpose, it was observed that imprests at Rs. 100,000 and Rs.50,000 had been paid to the non-staff grade officers on two occasions. | Approval was given by the Chief Accounting Officer to the Supply Services Officer of the Ministry, to make purchase and pay for the activities of the Ministry and the Merchant Shipping Secretariat under the supervision of the Chief Financial Officer and the Chief Accountant following proper health guidelines. | Financial Regulations and existing circulars should be followed in providing ad hoc sub-imprests.                        |
| (g) | Financial Regulation 371 (5)and Public Finance Circular No. 03/2015 dated 14 July 2015. | It was observed that delays from 24 days to 327 days had occurred in settling sub imprests of Rs. 344,517 given on 12 occasions.   | Imprests had been issued to several officers to incur various expenses, in order to carry out the necessary activities of the various divisions of the Ministry including the office of the Hon. Minister and the Merchant Shipping Secretariat without any obstacle.  | In granting sub-imprests, action should be taken in accordance with Financial Regulations and Public Finance Circulars . |

- (h) Public Finance Circular No.01/2018 dated 17 January 2018. Tariff Revision Draft, which includes 16 category of revisions to the tariffs that recovered for services provided by the Merchant Shipping Secretariat, such as registration, transfer, and mortgage of ships, freight and passenger ship tariff, deployment and release from the service of sailors and service charges for shipping had been submitted to the Ministry of Finance for approval on the 5 August 2019. But those remained still under observation level even by 31 March 2021. As these charges had not been revised for more than 15 years, it had resulted in a significant loss of government revenue.
- The draft tariff revision prepared by increasing the charges recovered on services by 15 per cent was submitted to the Department of Public Finance on 12.02.2018.
- Action should be taken in accordance with the Public Finance Circular No.01/2018 dated 17 January 2018.
- Approval of the Department of Public Finance was not received for the above draft tariff revision.
- However, since the registration of ships and related charges levied by the Merchant Shipping Secretariat have to be adjusted in comparison with the charges levied in other countries close to Sri Lanka, some charges may not have to be increased, and since there is a possibility of an increase of charges exceeding 15 per cent due to not revising the charges levied for 10 years, we were verbally instructed by the Department of Public Finance to prepare and submit a draft tariff revision as appropriate.
- Accordingly, a committee appointed with the approval of the Secretary prepared the draft tariff revision again and submitted it to the Department of Public Finance for approval on 30.02.2019. Subsequently, a discussion on the tariff revision draft was held under the chairmanship of the Deputy Secretary to the Treasury. At the above discussion, the Deputy Secretary to the Treasury instructed to obtain the views and suggestions of the relevant institutions in the shipping industry and resubmit the draft revision.
- Accordingly, discussions were held with the relevant institutions in the field of shipping under the chairmanship of the Secretary to the Ministry and action was taken to obtain the views and suggestions of those institutions.

The revised charges for issuance, update and duplicate issuance of Certificate of Release and Certificate of Proficiency are included in the above draft tariff revision. Accordingly, the gazette notification is expected to be published after obtaining the approval of the above draft tariff revision.

### 3. Operatig Review

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#### 3.1 Assets Management

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##### **Audit Observation**

##### **Comment of the Chief Accounting Officer**

##### **Recommendation**

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| <p>(a) As stated in the Register of Non-Financial Assets, the Ministry of Ports and Shipping had provided 04 cars and 02 cabs worth totalled Rs. 15 million as at 31 December 2020 to the State Ministry of Container Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development in September and October 2020. However, no action had been taken to formally transfer their ownership even by 19 April 2021. According to the Board of Survey Reports, the State Ministry is presently using those vehicles.</p> | <p>Since 06 vehicles have been attached to the State Ministry of Container Warehouse Facilities, Container Yards, Port Supply Facilities and Boats and Shipping Industry Development on a temporary basis until the Ministry meets its vehicle requirements, the ownership of those vehicles has not been transferred to that Ministry.</p> | <p>Action should be taken in accordance with provisions in the State Accounts Circular No. 259/2017 dated 13 December 2017.</p>           |
| <p>(b) A motor vehicle valued at Rs.60,000,000 belonging to the Ministry had not been stated under non-financial assets and A motor vehicle worth Rs. 10,500,000 belonging to the Presidential Secretariat had been stated as a non-financial asset. Accordingly, non-financial assets had been understated by Rs. 49,500,000 in the Statement of Financial Position.</p>  | <p>As one vehicle had been taken by the present Secretary to the Ministry of Justice on official tours, it was not stated as a non-financial asset and action is being taken to take over the other jeep to the Ministry.</p>   | <p>Action should be taken to take over and transfer assets in accordance with formal procedures and to maintain proper asset records.</p> |