

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

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Merchant Shipping Secretariat for the year ended 31 December 2022 comprising the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance for the year then ended and Cash Flow Statement 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 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 was issued to the Accounting Officer on 23 May 2023. Annual Detailed Management Audit Report related to the Secretariat in terms of Section 11 (2) of the Audit Act was issued to the Accounting Officer on 30 May 2023. This Report is presented to the 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, except for the effects of the matters described in Paragraph 1.6 of this report the accompanying financial statements give a true and fair view of the financial position of the Merchant Shipping Secretariat as at 31 December 2022, and of its financial performance and its cash flows 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, under financial statements are further described in the sentence of Auditor's Responsibilities. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Chief Accounting Officer and Accounting Officer on Financial Statements**

The Accounting Officer is responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Secretariat 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 Secretariat 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.

#### **1.4 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 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 internal control.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by 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.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

#### **1.5 Report on Other Legal Requirements**

I declare the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

Since the Secretariat was established as a project under the Ministry of Ports and Shipping in 2021 and provisions have been allocated under a separate Budget from 2022, financial statements related to the previous year had not been submitted. Therefore, there were no audit observations related to the previous year.

## 1.6 Opinion on Financial Statements

### 1.6.1 Accounting Deficiencies

#### (a) Deposits

<b>Audit Issue</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Although a value of deposit receipts and deposit payments relating to the year were not included in the Deposit Account as per Treasury Accounting Statement 30 (SA-30), a sum of Rs.669,450 as deposit receipts and sum of Rs.669,450 as deposit payments had been shown in the Statement of Financial Performance year ended at 31 December 2022 in the Secretariat.	<p>The general deposit transactions of the year 2022 have been accounted for in General Deposit Account No. 6000-0-0-18-0-118 under Head No. 176 of CIGAS and it should be accounted for under the General Deposit Account No. 6000-0-0-18-0-180 under Head No. 336</p> <p>Although the necessary transfer papers were prepared to correct it, due to non-activation of the TR code at the end of the year, the necessary further works were not done.</p>	The Secretariat should take actions to prepare financial statements in accordance with the provisions of State Accounts Guideline No. 2022/05 dated 13 December 2022.

#### (b) Imprest Balance

<b>Audit Issue</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
<p>(i) An amount of Rs.54,476/- incurred on behalf of the reporting entity by other entities in the ACA-7 of the Statement of Imprest Reconciliation had not been included in ACA-2(ii) of the Statement of Expenditure for the year ended 31 December 2022.</p>	As the expenditure incurred by other entities has been adjusted in the Consolidated Trial Balance, need to be adjusted for Format ACA-2 (ii) had been omitted. The relevant officer in charge of this was informed and advised.	The Secretariat should take actions to prepare the financial statements so as to reflect a true and fair view by entering the data accurately and completely.
<p>(ii) Even though the expenditure incurred by the reporting entity on behalf of other heads in the ACA-7 of the Statement of Imprest Reconciliation had been shown as Rs. 6,978,240, a sum of Rs. 6,976,901 had been shown as the expenditure incurred by the reporting entity on behalf of other heads in the CIGAS Consolidated Trial Balance.</p>	An adjustment made among revenue accounts during the year 2022 has been adjusted twice in pre works on the financial statements, and this difference has occurred due to the effect of the adjustment of the double entry.	The Secretariat should take actions to prepare the financial statements accurately in accordance with the provisions of Paragraph 3.1 of State Accounts Guideline No. 2022/05 dated 13 December 2022.

- (iii) Although it had advised that the cash balance remitted to the Treasury by each reporting entity at the end of the financial period should not be included in the cash and cash equivalents balance in the statement of financial position in accordance with Paragraph 7.9 of the Guidelines for the Preparation of Financial Statements of State Accounts Guideline No. 2022/05 dated 13 December 2022, the amount of Rs.39,670,090 remitted to the Treasury by the Merchant Shipping Secretariat had been included in the balance of cash and cash equivalents in the Statement of Financial Position as at 31 December 2022.
- This situation had occurred due to the financial statement guidelines were not properly understood, and the officer in charge was informed and instructed to prevent such mistakes from happening again.
- The Secretariat should take actions to prepare the financial statements as per circular provisions.

## 2. Financial Review

### 2.1 Revenue Management

Audit Issue	Comments of the Accounting Officer	Recommendation
Although the revenue estimates should be continuously revised based on changing economic conditions and actual revenue performance as per Paragraph 3 of the Fiscal Policy Circular No. 01/2015 dated 22 July 2015, due to non-compliance with it, the actual revenue of the year under review of the Secretariat had been increased by 66 per cent as a percentage of the revised revenue estimate.	The revenue collected by the Merchant Shipping Secretariat has been collected under a new Revenue Head from 8 September 2022 in the name of the Director General. Therefore, in preparing the annual accounts, only the revenue collected after 8 September has been accounted for in the name of the Director General. Also, the collected revenue in the last quarter has increased due to the increase in the number of people arrive to renew their licenses in the months of November and December. The revenue estimate for the year 2023 has been prepared more accurately in terms of Financial Regulation 85(I) (c).	The Secretariat should take actions to prepare revenue estimate as per circular provisions.

## 2.2 Expenditure Management

Audit Issue	Comments of the Accounting Officer	Recommendation
<p>(a) During the checking of the Vote Ledgers of the Secretariat in the year 2022, due to the inclusion of expenses that were not related to the expenditure objects, the expenses in those objects had been under/overstated. Details are given below.</p>	<p>(i) Although the value of expenses in 4 cases should be included in the expenditure object 1409 was Rs.268,448, thus the saving of that expenditure object was Rs.40,960, a sum of Rs. 227,488 had been incurred exceeding the provisions of that expenditure object.</p>	<p>The Secretariat should take actions to prepare the estimates properly as stipulated in F.R.50.</p>
<p>(ii) Although Rs.153,489 should have been accounted under for electricity and water expenditure object-1403, thus the saving of those expenditure object was Rs.2,272, a sum of Rs.151,217 had been spent exceeding the provisions of the expenditure object.</p>	<p>Due to the increase in government water bill charges during the year 2022, the approved provisions for the expenditure object 336-2-1-1403 has been exceeded.</p>	<p>The Secretariat should take actions to prepare the estimates properly as stipulated in F.R.50.</p>
<p>(b) According to the allocations transferred under F.R 66, the value of Rs.1,430,062 in 04 expenditure objects had remained unutilized even by the end of the year, and the savings had ranged from 25 per cent to 151 per cent as a percentage of the revised provisions.</p>	<p>At the beginning of the year, allocations were given on a quarterly basis and although the Revised Budget of 2022 had introduced the budget with additional provisions for the year 2022 by the last quarter, as the expenditures of first, second and third quarters had been incurred even by at that time, excess of</p>	<p>The Secretariat should take actions to prepare cost estimates rationally and accurately as stipulated in F.R.50.</p>

provisions had remained in those expenditure objects.

- (c) A value of Rs.1,678,360 in 08 recurrent objects with a saving from 25 per cent to 74 per cent of the net provision had not been utilized. These savings had occurred due to the limitation of expenditures as per Budget Circulars 3/2021 and 3/2022. The Secretariat should take actions to prepare the estimates properly as stipulated in F.R.50.

### 2.3 Entered into Commitments and Liabilities

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) Liabilities amounting to Rs.257,759 that had exceeded the savings of 02 objects had been entered into as per the Statement of Commitments and Liabilities of the Secretariat as at 31 December 2022 (Annexure-iii) and the Statement of Expenditure ACA-2 (ii) for the year then ended.	During the preparation of the financial statements related to the year 2022, the relevant liabilities were identified from the analysis of the vouchers received by the Accounting Division, and the vouchers related to the expenses mentioned in the audit queries were received after the preparation of the financial statements.	The Secretariat should not enter into liabilities without having estimated provisions in terms of F.R. 94.
(b) According to the audit test check, the liabilities amounting to Rs. 374,042 related to 07 cases for the year 2022 had been settled in the first 3 months of 2023, and these expenses had not been included as liabilities in the Statement of Commitments and Liabilities as at 31 December 2022 and out of which a sum of Rs. 51,542 related to 2 objects had exceeded the savings.	During the preparation of the financial statements related to the year 2022, the relevant liabilities were identified from the analysis of the vouchers received by the Accounting Division, and the vouchers related to the expenses mentioned in the audit queries were received after the preparation of the financial statements.	All liabilities should be disclosed in the financial statements and the Secretariat should not enter into liabilities without having estimated provisions in terms of F.R. 94.

## 2.4 Responsibilities of the Accounting Officers

<b>Audit Issue</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
According to provisions of Section 38 of the National Audit Act No. 19 of 2018, although the Accounting Officer should ensure that an effective internal control system for the financial control exists in each such entity 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 and also the reviews should be made in writing and a copy thereof should be made available to the Auditor-General, statements had not been submitted to the audit that such reviews.	The Chief Internal Auditor of the Ministry of Ports, Shipping and Aviation conducts the internal audit in related to maintaining an internal control system in the Merchant Shipping Secretariat.	The Secretariat shall act in accordance with the provisions of Section 38 of the National Audit Act No. 19 of 2018.

## 2.5 Non-compliance with Laws, Rules and Regulations

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a)	Public Administration Circular No. 30/2016 dated 29 December 2016 – Paragraph 3.3	Although a chart of the fuel usage and the amount of fuel burnt in the vehicles of the Secretariat should be maintained, it had not been so done.	Arrangements are being made to carry out the test on the usage of fuel in the vehicles of the Secretariat and the amount of burning of fuel and maintain a register pertaining to that.	The Secretariat should act according to the circular provisions.
(b)	Asset Management Circular No. 01/2017 dated 28 June 2017	Although it should be reported to the Comptroller General as per the information provided in respect of the documentation of non-financial assets at the end of the relevant quarter , the details pertaining to property, plant and equipment valued at Rs.94,915,801 in the format SA-82 in the Statement of Financial Position of the Secretariat as at 31 December 2022 had not been reported to the Comptroller General.	The documentation of non-financial assets is already being done and arrangements are being made to send all relevant details to the Comptroller General in the future.	The Secretariat should act according to the circular provisions.
(c)	Public Finance Circular No.	Although the Accounting Officers	An Action Plan pertaining to tasks of the Merchant Shipping	The Secretariat should act according to the circular



02/2020 dated should prepare the Secretariat is being prepared by provisions.  
 28 August 2020- Annual Procurement now.  
 Paragraph 04 Plan and get the approval of the Chief Accounting Officer to implement the capital and recurrent programs of the following year according to the subjects and tasks assigned to their entity, the Secretariat had not prepared an Annual Procurement Plan for the year 2022.

### 3. Operational Review

#### 3.1 Planning

Audit Issue	Comments of the Accounting Officer	Recommendation
(a) Although the Imprest Requirements Plan for the annual activities and the Internal Audit Plan should be included in the Action Plan as per the Guideline No. 12 on the Preparation of the Annual Action Plan in terms of Paragraph 03 of the Public Finance Circular No. 02/2020 dated 28 August 2020, those details had not been included in the Action Plan. Further, although the Activity Plan prepared according to the priorities based on the approved budget for the relevant year,	The Action Plan 2022 was prepared by including the imprest requirement for key organizational functions and expected output/outcome according to the time line. A copy of that Action Plan is attached hereto.	The Annual Action Plan should be prepared in a formal manner as per the Public Finance Circular instructions.

Time Line and the expected output/outcome of those activities should be included, the Secretariat had not prepared a formal Action Plan accordingly.

- (b) Although the Action Plan should be properly prepared by including the activities related to accomplish the main functions of the organization in order to fulfill the Vision, Mission and Objectives of the Secretariat, one of the projects implemented by the Secretariat is in relation with activity " Issuance of Identity Documents (SID) to all Sri Lankan seafarers in line with ILO convention Adding biometric features." was only included in the relevant Action Plan, and any other activities related to the year 2022 had not been included in the Action Plan.
- An Action Plan was prepared only for the projects for which provision has been made in the Budget of the year 2022. An Action Plan for the main functions of the entity is currently being prepared.
- Actions should be taken to prepare a formal Action Plan in accordance with the instructions of the Public Finance Circular, including the activities related to accomplishing of the main functions of the Secretariat in order to achieve the Vision, Mission and Objectives.
- (c) Even though 12 main functions and 4 short-term plans had been stated as expected goals, according to the Draft Annual Report of the Merchant Shipping Secretariat in 2022, due to the fact that those main functions and goals were not included in the Action Plan, it was impossible to check the performance of the Secretariat.
- An Action Plan was prepared only for the projects for which provision has been made in the Budget of the year 2022. An Action Plan for the main functions of the entity is currently being prepared.
- Actions should be taken to prepare a formal Action Plan in accordance with the instructions of the Public Finance Circular so that the main functions and desired goals of the Secretariat can be achieved.

### 3.2 Assets Management

<b>Audit Issue</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) There are 03 vehicles assigned to the Merchant Shipping Secretariat by the Ministry of Ports, Shipping and Aviation and these vehicles had not been transferred in the name of the Secretariat and had not been taken to accounts even by the end of the year under review.	Three vehicles have been temporarily assigned by the Ministry of Ports, Shipping and Aviation to the Merchant Shipping Secretariat and the necessary arrangements are being made to transfer those vehicles in the name of this office.	The Secretariat should take actions to transfer the assets according to formal procedures and accurately bring those assets to accounts.
(b) Although, if there are non-financial assets which are yet to be reported, they should be properly identified and accounted for at cost or in the absence of costs, they should be accounted for at estimated value as per Paragraph 8.2 of the Guidelines for the Preparation of Financial Statements of State Accounts Guideline No. 2022/05 dated 13 December 2022, it was observed that the value of property, plant & equipment in the Statement of Financial Position as at 31 December of the year under review was under-calculated by the same amount due to the value of 2 lands belonging to the Secretariat were not assessed and entered in the financial statements. Further, the deeds of these lands were not submitted for audit.	Since the lands were the Jaffna sub-office of the Merchant Shipping Secretariat and the Slipway were established were handed over to the Merchant Shipping Secretariat on 14.11.2022, due to insufficient time to assess the value of those two lands, it has not been possible to include them in the Statement of Financial Position on 31 December 2022 and the necessary activities are being carried out to assess the value of those two lands by now.	The Secretariat should take actions to account for assets at assessed value in accordance with the guidelines for the preparation of financial statements.

### 3.3 Management Inefficiencies

<b>Audit Issue</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Although the Jaffna circuit bungalow was situated on the 2 nd floor with 277 square meters, it had remained as an idle asset due to failure of taking formal actions to	At present, the duties of the Jaffna sub-office are being carried out by an Assistant Government Ship Surveyor and a Development Officer, and any	The Secretariat should take actions to fulfill the relevant human resources and earn income by provide the Jaffna circuit bungalow to the

allocate it to the applicants from the year 2020 and as a result an income receivable had lost to the government.

primary service category applicants. employee has not been assigned to that office. Requests have been made to make necessary arrangements to get approvals of the Department of Management Services to assign 01 post of primary service category Bungalow Keeper and 01 post of Bungalow Assistant to the cadre and assign 02 trainees in primary service category from the Department of Multipurpose Development Task Force considering the service requirement for earning income through maintaining the circuit bungalow in sub office.

#### 4. Human Resources Management

##### Audit Issue

Details of approved, actual and vacant staff as at 31 December of the year under review are given below.

Employee Type	Approved Cadre	Actual Cadre	vacancies
Senior Level	24	10	14
Tertiary Level	04	01	03
Secondary level	56	53	03
Primary Level	30	03	27
	<b>114</b>	<b>67</b>	<b>47</b>

##### Comments of the Accounting Officer

Notices were published in the gazette dated 02.09.2022 to recruit officers for 05 vacant posts of naval professionals in the approved senior level posts. The officer who served in the post of Assistant Government Ship Surveyor (Deck) was appointed to the post of Director (Navigation) and the officer who served in the post of Assistant Government Ship Surveyor to the post of Director (Engineering) with effect from 15.02.2023 on internal promotions.

Recruitment cannot be done as of now according to the National Budget Circular No. 03/2022.

##### Recommendation

The human resource should be maintained adequately and efficiently to perform the desired functions and tasks of the Secretariat more efficiently.

Accordingly, there had been vacancies of 58 per cent in Senior Level employees and 90 per cent in Primary Level employees in the Secretariat as at 31 December 2022

Requests have been made through the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government to assign officers to the relevant posts and the approval of the Department of Management Services has been requested to increase the approved number for certain posts.