

Forest Department Fund - 2016

The audit of financial statements of the Forest Department Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the income and expenditure account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Order No.10-f of the Regulations made under Section 64 of the Forest Ordinance (Cap.451). My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Public Sector Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Forest Department Fund as at 31 December 2016 and its financial performance and cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The fines income receivable as at the end of the year under review had been overstated by a sum of Rs.69,500 in the financial statements.
- (b) The sum of Rs.719,045 paid as salaries and allowances of three employees and the trainee employees of the Department of Forests a sum of Rs.15,379 paid as other expenses had been brought to account as expenditure of the Fund.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

Expenditure relating to the Department had been paid out of the Fund contrary to the provisions in Section 64 of the Forests Ordination (Cap.451) as amended by the Amendment Act, No.13 of 1966 and the Amendment Act, No.56 of 1979.

3. Financial Review

Financial Results

According to the financial statements presented, the operating result for the year under review had been a surplus of Rs.17,414,389 as compared with the corresponding surplus of Rs.19,583,876 for the preceding year thus indicating an deterioration of Rs.2,169,487 in the financial result as compared with the preceding year. The increase of the expenditure on security and training by sums of Rs.7,517,524 and Rs.423,914 respectively over the preceding year had been the main reason for the above deterioration.

The income of the Fund for the preceding year amounted to Rs.32,624,176 and the income of the year under review amounted to Rs.37,163,263 and as such the income had increased by a sum of Rs.4,539,087 or 13.91 per cent. Similarly, the expenditure of the Fund for the preceding year amounted to Rs.13,040,299 and that for the year under review had increased by a sum of Rs.6,708,575 or 51.44 per cent. That increase had been due to the 100 per cent increase in the security expenditure.

4. Operating Review

4.1 Performance

The primary objective of the Fund comprise the payment of rewards to the officers of the Department of Forests who take action according to the law on forest offences and those who supply information, payment of travelling expenses to the officers and witnesses for attending Courts, and provide training to the Forest Officers to enable them to performance of their functions efficiently with regard to the conservation of forests.

Taking into consideration the income and the expenditure of the Fund, only 40 per cent of the income of the preceding year had been spent whilst only 53 per cent of the income for the year under review had been spent. As such, it was observed in audit that a larger portion of the income of every year had not been spent.

4.2 Management Activities

The following observations are made.

- (a) There had been delays in crediting the fines collected by the Courts to the Forest Fund. Formal methodologies had not been followed for the accurate computation of the Court fines income receivable for each month of the year or for following of a course of follow-up action thereon.
- (b) Despite the finalization of the cases on forest offences, a formal course of action had not been taken for the prevention of delays relating to the submission of claims for rewards by the officers who intervene in the prevention of forest offences as well as the payment of rewards claimed.

5. Accountability and Good Governance

5.1 Annual Action Plan

An Annual Action Plan for the year in terms of the Public Finance Circular No.PFD/RED/01/04/2014/01 dated 17 February 2014 had not been prepared.

5.2 Budgetary Control

The savings under the estimated expenditure under 4 items of the year under review ranged between 10 per cent to 74 per cent. Even though the management stated that the savings were due to the systematic expenditure control, in view of the substantial savings indicated annually, it was observed that the budget had not been prepared on a realistic basis. Accordingly, the budget had not been made use of as an instrument of financial control.

6. Systems and Controls

Deficiencies in system and controls observed during the course of audit were brought to the notice of Conservator General of Forests from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observation

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| (a) Accounting | Failure to correctly identify and account for the income and expenditure relevant to the year. |
| (b) Financial Control | Payment of expenditure contrary to the matters specified in the Ordinance. |
| (c) Income Control | Failure to take prompt action to credit to the Fund the fines collected by the Courts. |
| (d) Budgetary Control | Failure to prepare accurate budget estimates. |