

## Head 325 – Department Sri Lanka Cost Guard

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### 1. Financial Statements

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#### 1.1 Unqualified Opinion

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The audit of the financial statement of the Department of Sri Lanka Cost Guard for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 Department of Sri Lanka Cost Guard was issued to the Accounting Officer on 27 May 2019 in terms of Sub – section 11(1) of the National Audit Act, No 19 of 2018 and the Detailed Annual Management Audit Report of the Department of Sri Lanka Cost Guard in terms of section 11(2) of the National Audit Act was issued to the Accounting Officer on 29 April 2019. This report will be tabled in parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 fair view of the financial position of the Department of Sri Lanka Cost Guard as at 31 December 2018, and of its financial performance and cash flow statement for the year then ended in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Unqualified Opinion

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I Conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities 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 Accounting Officer for the Financial Statements

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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 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 Department of Sri Lanka Cost Guard 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) © of the National Audit Act, the Accounting Officer shall ensure that effective internal control of the Department of Sri Lanka Cost Guard 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 misstatement, whether due to fraud or error, and 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 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, misrepresentation, or the override of internal control.
- Obtain an understanding of internal control relevant of 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 Department’s Sri Lanka Cost Guard 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 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

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

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the department of Sri Lanka Cost Guard to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non- compliance with provisions in circulars of Financial Statements

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Even though financial statements should be prepared in terms of State Accounts Circular NO 267/ 2018 of 21 November 2018, the instances of deviation from the said requirements are given below.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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It was observed Rs.288,600 difference between total assets and total liabilities in statement of financial position although the manner in which the net assets are calculated in accordance with paragraph 7 (v) of the Circular had not calculated.	It is necessary to verify the accuracy of the financial statement by following the Instructions in the circular.	Difference had been made due to the recording of the amount in one place only even though Rs.288,600 (5% retention of construction) as liability should be shown in two places on the same form, further informed that the correct Calculations will be carried out in the future.

## 1.6.2 Capital expenditure

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Even though the acquisition by purchasing amounted to Rs.17,313,411 as per the statement of Non-financial assets presented to the audit, it was shown as Rs.17,189,254 in the format ACA6 – 2(I) statement of expenditure by programme attached to the financial statements, thus a difference of Rs.124,157 was observed.	----- Steps need to be taken to reconcile the figures contained in financial statements and other reports.	----- In case of defects in the purchased subjects to be returned during the warranty period, the calculation error had been corrected in the expenditure ledger and this change had been made due to the value of such canceled items had not been removed under the CIGAS programme and that will be corrected in future connecting with the CIGAS programme of the state accounts department.

## 2. Financial Review

### 2.1. Utilization of Assets of Other Institutions.

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- (i) It was observed that the land at the headquarters of the department of coast guard which was used by the department had been spent Rs.1,310,000 for renovation of 29 old buildings and Rs.399,500,000 for construction of new buildings in a land which had not been properly taken over by 31 <sup>st</sup> December 2018.	----- According to the letter dated 01 <sup>st</sup> June 2016 of divisional secretary of weligama since the 14th appendix had not yet been vested, the building constructions cannot be carried out.	----- Duties were carried out after repairing of the destroyed buildings and buildings were constructed for upgrade facilities in terms of nature and development of assign duties.

(ii) It was observed that 0.9482 hectares of land in the chilaw area belonging to the Sri Lanka navy were being used by department without proper acquisition.

Steps need to be taken to expedite the acquisition of relevant assets.

Since the Sri Lanka coast guard is now performing some of the duties carried by the navy during the humanitarian operation, it had been approved by Navy commander, to hand over these property to be continued duties efficiently and steps had been taken to inform relevant government institutions to take over the ownership.

(iii) It was observed that the department had used 2.1374 hectares of land belonging to various public and private institutions without any formal acquisition and by the end of the year under review the land and buildings had been developed at a total cost of Rs.52,327,020.

Steps need to be taken to expedite the acquisition of relevant assets.

It had been informed that the measurement and clearance work to be taken over by the department had been completed but had not been handed over properly.

### 3. Operating Review

#### 3.1 Procurements

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) It was observed that assets and bulk items of Rs.6,031,034 had been purchased on 09 occasions without making total cost estimates as per section 4.3.1(a) of the Procurement guideline.	In terms of 4.3.1(a) of National procurement guideline, purchasing of goods is required after making a total cost estimates for purchases.	Subject sailors in the supply department and relevant institutes, sub divisions ships/boats were briefed to ensure that the total estimated cost of applying for the subject matter was as specified by the audit.

(ii)	It was observed that assets and stocks were purchased on two occasions on contracts entered into without due date.	It was necessary to purchase bulk subjects once a formal agreement was reached. As per the accounts officer comments, although corrections can be made by applying the dates in the corporate copy of the relevant agreements but supplier's copy will not be corrected.	Actions were taken to write down correct dates on the relevant agreements as shown by the audit and subject sailors were briefed to avoid such mistakes further.
(iii)	The sample audit revealed that department had been purchased paints amounted Rs.1,236,044 in two cases except not rejecting bids at the time of bid evaluation as the offer is not signed.	Unsigned bid must be rejected because they are a major defect as per the National procurement gridlines.	Actions were taken to notify the suppliers and the subject sailors of the matters indicated by the audit and they are advised to reject any unsigned bids further.

### 3.2 Asset Management

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) Even though department had taken approval for establishing two buildings for the purpose of hostel & administration, it had been suspended due to decision which is taken from Economic Management Cabinet Meeting. Value of Rs.14,645,183 of construction items had been used & foundation of building had been made only while storing amount of Rs.22,173,438 of construction items in unsafe manner in relevant location.	Since it had been almost 02 years, steps must be taken to use or dispose of the procured building materials.	As shown by the audit, constructions of the two buildings were suspended at the Cabinet Committee meeting of Economic Management and a survey board was appointed to identify, list and assess warehouse items after consulting Secretary of MOD with regard to action to be taken for the procured materials for constructions. Accordingly

actions will be taken for the remaining storage subjects.

(ii) The sea vessel no: CG410 was idle for 02 years and 02 months by 31<sup>st</sup> December 2018

Vessels must be repaired immediately and should be utilized.

As per the signal provided by No 281543 there are some repair and maintenance functions and then ship will be prepared for sea run checks.

### 3.3 Losses & damages

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Payments had been made in 04 times for late deliveries without being charged Rs.327,720 as liquidity damages.</p>	<p>During the procurement process charging liquidity damages is essential for late deliveries of goods.</p>	<p>Suppliers had been informed by letters for paying liquidated damages immediately. Relevant branches were informed to take actions to issue remittances after collecting liquidated damages that should be levied for delayed subjects.</p>

### 3.4 Management inefficiencies

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(i) It was observed that department had not been prepared feasibility study report about technical &amp; financial factors of sewage treatment plant located in Merissa which was incurred of cost of 8.4 Mn.</p>	<p>Project should be started after making feasibility study. If feasibility study is done it should be attached to the file.</p>	<p>Although there was not available feasibility study report about financial &amp; technical factors in the file, it had been done by engineering officer at that time, as per the included technical committee report.</p>
<p>(ii) Technical proposal included in quotation which is submitted as per the letter</p>	<p>Actions are needed expeditiously against supplier due to it was</p>	<p>Since the agency were notified regarding subject matter but had</p>

provided by director engineer on 3 August 2016 subject to that treatment plant has mentioned 25 kwh is the appropriate level of units of electricity consumption for operating it on fully capacity. But it was observed that actual consumption was 50 kwh.

nearly 03 years since the director engineer's report was issued.

not been taken any actions, the relevant file is referred to the coast guard legal officer for actions against supplier.

(iii) Water which was out by that plant should be issued after laboratory test in each and every 3 months. However, action had not been taken even by 31<sup>st</sup> December 2018 since established date of plant 12<sup>th</sup> May 2016.

When implementing projects, relevant standards must be complied.

As shown by audit Central Environment Authority will be coordinated and steps will be taken to check the quality of water discharged from the Plant.

(iv) It had been observed that 19 occasions when the Gully bowser was used for waste disposal in 2018 had been paid Rs.165,300 and it was observed that this expenditure could increase further in future due to conflicts arose with the supplier.

Minimizing uneconomical expenditure is essential by operating the plant properly.

Gully bowser service will be utilized for this purpose as it is impossible to resolve the issues arising with this service provider in a coordinated manner. However, further action will be taken to inform the parties concerned about obtaining maximum service at minimum frequency when using the Gully bowser for disposal of waste.