

Head 283 - Department of Forests

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Forest for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Forests was issued to the Accounting Officer on 31 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 in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 31 May 2019. 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, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the Department of Forests as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for qualified opinion

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 Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer or 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 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 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 or the Accounting Officer shall ensure that effective internal control system for the financial control of the Department 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

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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Department, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief 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 express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Financial Statements correspond with year.
- (b) My recommendations on financial statements for the preceding year, had been implemented.

1.6 Comments on Financial Statements

1.6.1 Presentation of Accounts

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Reconciliation Statement of the Public Officers Advance Account ----- In terms of State Accounts Circular No.271/2019 of 03 December 2019, the reconciliation statement of the advances to public officer's account bearing item No.283011 needs to be presented to audit on or before 28 February 2020, but it had been presented to audit on 03 July 2020, after a delay of 4 months.	Action needs to be taken to present reconciliation statement in terms of State Account Circular No.271/2019 of 03 December 2019.	Comments had not been made.

1.6.2 Non – maintenance of Books and Records

Audit sample check observed that the Department did not maintained following registers.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Register of Fixed Assets -----		
In terms of Treasury Circular No.842 of 19 December 1978 and appendix 11 of Financial Regulation 502(2) a register of fixed assets had not been maintained.	The fixed assets register needs to be maintained, in terms of Treasury circular No.842 of 19 December 1978 and appendix 11 of F.R.502(2) in concurrence with the Auditor General.	According to the general instructions given by the State Account Circular No.267/2018 it is informed that the maintenance of a fixed asset register is not compulsory.
(b) Liability Register -----		
A liability register had not been maintained in terms of Financial Regulation 214.	Liabilities need to be recorded in a liability register, enabling to examine liabilities regularly in terms of F.R.214.	As sufficient imprest is available in the Department there was no need of maintaining a liability register.

1.6.3 Assurance of the Accounting Officer

Audit Observation	Recommendation	Comment of the Accounting Officer
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In accordance with Section 38 of the National Audit Act No.19 of 2018, the Chief Accounting Officer or the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the	Action needs to be taken in accordance with Section 38 of the National Audit Act No.19 of 2018.	Comments had not been made.

Department 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 such reviews shall be carried out in writing and copies of the same need to be made available to the Auditor General. Nevertheless, copies of such reviews were not made available to audit ensuring such reviews were carried out.

1.6.4 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules, regulations observed at audit test checks are given below.

Observation -----		Recommendation -----	Comment of the Accounting Officer -----
Reference to laws, regulations etc. -----	Non-compliance -----		
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 104(3) and 104(4)	Nine losses for which preliminary reports and full reports not presented had not been reported in the year under review.	A full report and a preliminary report needs to be presented in terms of regulations.	Comments had not been made.
(ii) Financial Regulations 396(d)	Action in respect of value at Rs.175,323 of 7 cheques issued but not presented to the bank, lapsed for more than 6 months had not been taken.	Action needs to be taken in terms of Financial Regulations.	Relevant cheques had been done with in accordance with Financial Regulations 396

			(c)
(iii)	Financial Regulation 507 and Financial Regulation 756	According to the Financial Regulation the Board of survey be appointed before 15 December each year and the board of survey should be done under Financial Regulation 128, within the relevant time frame, board of survey for the year had not been carried out reports had not been submitted until 31 May 2020.	Under the Financial Regulation 128, board of survey should be carried out within the relevant time frame.
			Due to the prevailing situation in the country, all the District Forest office, Nuwara Eliya Zone and Nuwara Eliya Forest Institute had not been done Board of Survey and it had been done so in this regard.
(iv)	Financial Regulations 570 and 571(2)	Action had not been taken in respect of security deposits and deposits temporary retained until they would be refunded to the 3 rd parties.	Action needs to be taken in respect of lapsed deposits. Comments had not been made.

2. Financial Review

2.1 Imprest Management

Audit Observation

The outstanding Imprest balance was Rs.3,067,449 as at end of the year under review. Out of the outstanding balance Rs.2,817,188 had been settled on 29 May 2020 and outstanding balance remained Rs.250,260.

Recommendation

The balance of the cash book should be settled by 6 January 2020, in accordance with Financial Regulation 373(1) and Circular No.5/2019 dated 11 November 2019

Comment of the Accounting Officer

Due to non – receipt of checks from the Election office in the year 2019 to settle the allowance advance paid to officers who were engaged in election activities in the year 2019 Rs.3,067,449 allocation has been saving.

2.2 Income Management

The following Audit Observations are made in relation to the preparation of revenue estimates, collection of to the preparation of revenue estimates, collection of arrears, omission and write off of revenue.

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) According to the annual revised budget estimate, under the revenue code of private timber transport was expected to collect Rs.125 million in license fee revenue, but had collected a net income of Rs.108.93 million for the year under review. Therefore the non-revenue threshold was Rs.16.07 million, a decrease of Rs.12.85 percent.	In terms of Financial Regulations 128(2) as the Revenue Accounting Officer, the revenue estimates should be prepared and amended accordingly, and the revenue administration should be carried out more efficiently in accordance with the provisions of Government Monelory Policy circular No 01/2015 dated 20 July 2015.	It is difficult to 100 % accurately income forecast.
(b) In relation to the revenue code from the government forests, had estimated to collect an annual revenue of Rs.2,620 million and it had collected a net income of Rs.1,846.74 million in the year under review. Therefore, the non – arrival of the income limit was Rs.773.20 million which was a decrease of 29.51 percent.	-do -	The revenue estimate has been increased from Rs.1,800 million to Rs.2,620 million.

(c) During the last 3 year, total arrears income related to the above 2 income code was agreeing Rs.1.21 million and Rs.52.53 million Further arrears income amounted to Rs.0.98 million and Rs.52.87 million as at end of the year under review.	The revenue collector officer should be act. Accordingly the Financial Regulation –175(2). Should act in accordance with section 8.1, 8.2 of chapter XIVII of the Establishments Code regarding officers who have failed to comply with Financial Regulation.	Comments had not been made.
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2.3 Expenditure Management

The following audit observation are made regarding the preparation of annual budget estimates, transfer of funds, receipt and utilization of funds through supplementary budget estimates, utilization of provisions and savings.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The variance between no allocation and actual expenditure ranged from 10 per cent to 51 per cent.	Accurate Expenditure Estimate should be prepared in accordance with Financial Regulations.	Comments had not been made.
(b) Although the allocations of Rs.60,000,000 had been transferred under the Financial Regulation 66 to Expenditure subject No 2105 Land and Land improvement, the savings under that expenditure at end of the year was Rs.68,363,232 prior to the transfer of funds there was a savings of 8.55 per cent of the total Provisions and a change of the one hundred per cent in the provisions transferred under Financial Regulations No.66.	The need for funding should be properly identified and only adequate funding should be transferred	According to the Budget Department Letter No BE/EE/160/09/ Gen – 2017 the cuts in allocations reason for the saving of these provision.

(c) The subject of food and beverage uniform expenditure (1203) due to improper procurement by the management 51 of Rs.7,693,558 was saved out of the allocation Rs.15,000,000	Accurate expenditure estimates should be prepared in accordance with financial Regulation.	Comments had not been made.
(d) Although a sum of Rs.300,000,000 had been transferred under Financial Regulation 66 in addition to the allocations made Expenditure items No.2507 Research and Development, it was observed that the balance of Rs.5,055,355 had been exceeded at the end of the year.	Accurate expenditure estimates should be prepared in accordance with financial Regulation.	Comments had not been made.
(e) According to the National Budget Circulars No. 3/2019 dated 8 April 2019 and Circular No. 5/2019 dated 24 September 2019, a provision of 25 per cent of the provisions had to be saved compulsory, but it had not been done in respect of Expenditure Nos. 2002, 2102, 2104, 2106, 2003, 2103, 2105 and 2401.	According to the National Budget Circulars No. 3/2019 dated 8 April 2019 and Circular No. 5/2019 dated 24 September 2019 a provision of 25 per cent of provision should be saved compulsory.	Comments had not been made.

2.4 Deposit Balances

The following observations are made.

Audit Observation

Recommendation

Comment of the Accounting Officer

(a) Security Deposit Balance was Rs.402.16 million as at end of the year under review, out of that Rs.110.43 million deposit for more than 5 years and	Expired deposits in accordance with Financial Regulation 571 (2), should be inquired from the relevant depositors	That the balance will be maintained in the account for unfinished projects for more than 2 years.
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<p>Rs.199.95 million deposits for more than 2 years were observed.</p>	<p>and acted upon accordingly.</p>	
<p>(b) Temporary holding deposit balance for repayment to a third party is Rs.53.5 million, out of which Rs.3.97 million for 5 years and Rs.6.31 million for 2 year had been exceeded.</p>	<p>-do-</p>	<p>That the balance will be maintained in the account for unfinished projects for more than 2 years.</p>
<p>(c) Temporary withholding deposit income for repayment to a third party is Rs.391.35 million, it was 73.66 percent of the total deposits.</p>	<p>If the relevant work is completed after informing the third party, action should be taken to repay the deposit.</p>	<p>security deposit will be credited to the state revenue in the future.</p>
<p>(d) Out of the total security deposit of Rs.3.84 million by the Polonnaruwa District, Rs.1.68 million had not been credited to government revenue.</p>	<p>According to the Financial Regulation 571, security deposits of more than 2 years should be credited to the government revenue.</p>	<p>Comments had not been made.</p>

3. Operating Review

3.1 Losses and Damages

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
<p>(a) A sum of Rs.222,414 relating to 25 events, less than the value of loss amounting to Rs.25,000, Rs.21,460,949 relating to 60 events more than the loss of Rs.25,000 had not been settled even by 31</p>	<p>Recover the loss being identified responsible officers and to take disciplinary action or to write off.</p>	<p>Comments had not been made.</p>

December 2019. Out of these, 36 events, the loss value of which amounted to Rs.6,156,071 had remained unsettled for more than 10 years.

(b) Note in financial statements 10 losses included in the statement of losses and omission for the year under review and, in respect of 9 damages which were not included under note (1) final report had not been forwarded in accordance with Financial Regulation 104(4)	Final reports must be submitted for damages that can be identified as damages in accordance with financial regulations 104(4).	Comments had not been made.
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3.2 Unreplied Audit Queries

Particulars of Audit Query	Recommendation	Comment of the Accounting Officer
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Replies to 2 audit queries issued to the Department for the year, had not been replied even by 30 June 2020.

Audit queries should be answered promptly.

Comments had not been made.

3.3 Management Weaknesses

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Four preliminary investigation teams had been appointed from July 2018 to up to date regarding the illegal timber logging in the virakkulicholai reservation in the Puttalam District and any team had not been submitted a report as at 30 June 2020

A preliminary investigation should be conducted and a report submitted promptly.

Comments had not been made.

(b) Due to the non – submission of the

The report of the

Comments had not been

<p>report of the virakkulicholai preliminary Inquiry committee, 1,443 trees such as Palu, Panakka, weera etc. which had been illegal logging by the reservation there was no information as at June 2020 and no legal action had not been taken against the crime of the forest.</p>	<p>preliminary inquiry committee should be submitted expeditiously and further necessary action should be taken</p>	<p>made.</p>
<p>(c) Although the timber volume of 139 trees losing in the reservation was identified as 263,977 decimetres valued at Rs.6.93 million, the timber volume and monetary value of the other 1,304 trees had not been calculated.</p>	<p>Should be calculated the valume of timber and value of financial and the loss to Government should be ascertained.</p>	<p>Comments had not been made.</p>
<p>(d) Although a licensee had obtained a permit for a stone grinder under various permit No H7/911/2016 in the Puttalam District, 525 perches had been used in excess of the approved area since 2013.</p>	<p>Licensee areas license fee should be changed for the extent of land use illegally.</p>	<p>Action will be taken to charge a fixed fee for the area of the Land that has been over used.</p>
<p>(e) The licensees operating the quarry site at the Ampara and Vavuniya District Forest Officers had carried out more quarrying exceded the license limits. The department had not carried out a supervisions of the this quarries site and as a result the government unable to recover the arrears.</p>	<p>To determine the number of granite cubes that the licensees have mostly demolished, arrears should be changed on the report of the Geological Survey and Mines Bureau</p>	<p>The licensees have been informed by letter to pay the arrears for the excess quarries pertaining to the Ampara Divisional Forest Office and the Vavuniya Divisional Forest Office has not yet commented on the audit.</p>
<p>(f) Registration of the timber business from the Ampara District Office of the respective range office had not been charged the outstanding license fee Rs.366,375 in the current year compared to the year 2018</p>	<p>Management should focus on charging arrears to licensees.</p>	<p>Legal action will taken without registration the timber business operationing.</p>
<p>(g) Project of the Garbage Disposal and Recycling in the Tharanagala Mukalana Reservation in Kegalle District, the total</p>	<p>Annual rent should be charged based on a new assessment report.</p>	<p>The Sabaragamuwa Provincial Assessor has estimated the present</p>

	land area is 1.234 hectares (488 perches) According to the Valuation Department, the appraised value of a perch of project Land was Rs.564 a minimum value.		market value of 1.234 hectares at Rs.275,000 by letter dated November 2010.
(h)	During the implementation of the above project, about 725 other trees including pines in the reserve had been completely logging.	The damage to the nature should be minimized during the implementation of the project	Comments had not been made.
(i)	It was observed that there are errors in the new cigars system maintained by the Account Division of the Kegalle District Forest Office.	The system should be smoothly without errors.	According to existing Errors in the cigars system will be informed State Accounts Departments.
(j)	The purchases had not been made from registered suppliers for the purchase of vehicle spare parts and other items during the procurement process at the Kegalle District Forest Office.	According to the procurement Guidelines of the Democratic Republic of Sri Lanka must be flowed.	Action will be taken to obtain this service from registered suppliers.
(k)	Hurulu Uyana National Park did not have a system for issuing tickets to local and foreign tourists using new technology and the facilities in the toilet system of the above park were minimum	The use of new technology to issue tickets and the toilet system need to be improved.	Comments had not been made.
(l)	Tickets charged by local and foreign tourists at Hurulu Uyana National Park, due to the reduction in prices the revenue lost to the department for the period from 16 December 2019. to 31 January 2020 was Rs.13.07 million	Management should be take appropriate action regarding external NGO's	Comments had not been made.
(m)	The Aunuradhapura District Forest Office has provided lands for gravel mining for a period of 13 years from 25 January 2006 to 31 December 2018 out of which apporoximately 138, 608 cubes of gravel had been excavated.	Planting and environment restoration of the relevant land area should be done	Comments had not been made.

5. Human Resources Management

Audit Observation

The Department had failed to fill the vacancies of 590 existed as at the end of the year under review.

Recommendation

Planting and environment restoration had not been taken for 13 years on this Land

Comment of the Accounting Officer

Comments had not been made.