

## Coastal Protection Reward Fund - 2022

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Coastal Protection Reward Fund for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and income and expenditure account and notes to the financial statements 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

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

I expressed qualified opinion on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's stability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

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

#### **1.4 Auditor's Responsibility 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 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 fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- 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 scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “well plan” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
In accordance with the guidelines of the State Finance Circular No. 01/2020 dated 28 August 2020, the transactions of the statutory funds should be recorded in the primary books and ledger accounts based on the source documents. The Statement of Financial Position, Statement of Financial Performance, Statement of Net Assets and fund flow statement should be prepared in accordance with the Sri Lanka Public Sector Accounting Standards. However, no ledger accounts had been maintained for the fund and an income and expenditure account had been prepared and presented on cash basis without classifying the income and expenditure all receipts and payments had been entered one by one in the cash book.	I wish to inform that the maintenance of ledger accounts of the fund would be maintained properly in the near future enabling the users of the financial statements to obtain information.	Transactions should be recorded in the primary books and ledger accounts with reference to the source documents and the financial statements should be prepared based on the Sri Lanka Public Sector Accounting Standards.

### **1.5.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Out of the 5 percent fines collected by the Court for administrative expenses, a sum of Rs 482,015 had been retained in the general deposit account of the department without taking action to settle the infrastructure,	I wish to inform you that arrangements are currently being taken to purchase office equipment and stationery from the amount	Action should be made to cover the overhead expenses incurred by the Department on the operation of the Fund.

stationery and other expenses incurred by the department on the operation of the Fund.

of Rs.482,015 allocated for administrative expenses.

(b) The fines amounting to Rs.11,656,250 as at 31 December 2022 collected by the Magistrate Courts in connection to 30 Police Stations had not been received to the fund until the audited date of 10 April 2023 and this had not been disclosed in the financial statements.

Even though the reports had been sent from the police stations to collect rewards, the amount had not been received from the respective Magistrate Courts. Letters had been sent in this regard. The rewards could not be paid due to the facts that if list of names sent by the police stations does not contain the initials of the police officers and when the fines are paid in installments the payments could not be made until they are received in full.

Action should be taken to build a proper coordination between the Magistrate Courts and Police Stations to collect the money in full and immediately to pay the rewards and to disclose the payable amount in the financial statements.

#### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Chapter 1 of the Guideline and Guideline for Payment of Rewards from the Coast Guard Reward Fund established in terms of Section 31 (f) of the Coastal Conservation and Coastal Resources Management Act No. 57 of 1981.	A sum of Rs. 6,607,405 has to be paid as rewards from the fines amounting to Rs.13,214,810 credited since 2014 to 2022. However, out of that amount action had not been taken to pay a sum of Rs. 3,232,155.	The relevant payments could not be made until the payment of fines are fully credited to the fund by the accused when the order is given by the Magistrate Courts to make the payments in installment and the names of the police officers should also be received.	Action should be taken to collect the relevant fines from the Magistrate Courts and get the list of names of the Police Officers and pay the rewards.
(b) The Public Finance Circular No 2020/01 dated 28 August 2020			
(i) Paragraph 15(1) (c) and (d)	As per the circular a budget for the fund had not been prepared and submitted to the Treasury for the approval	A budget for the year 2023 has been prepared and submitted to the National Budget Department.	Action should be taken to adhere to the approved budget.

(ii) Paragraphs 3(2) (d) and (f)	A performance report on the Fund should be prepared and sent to the Auditor General with a copy to the Department of Public Finance within 2 months after the end of the accounting year and the annual performance report has to be tabled in the Parliament. This had not been adhered to from the beginning.	That in the future, an annual performance report will be prepared according to the Public Finance Circular.	Action should be taken to submit the draft annual performance report along with the financial statements and table it in the Parliament.
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**2. Operational Review**

**2.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) A proper system for exchanging information with the Magistrate Court and Police Department had not been developed in order to collect all the fines to the Fund that have been recovered from the accused by the Courts and to pay the collected money as rewards to the relevant parties. As a result, it had been difficult to obtain relevant information to identify easily and quickly the fines that are receivable from the courts and the persons those who are entitled for the rewards. The amount of 40 percent of the fines that should have been remitted to the Treasury had also not been remitted on time.	As the prosecution is carried out by the police, under the Coastal Conservation and Coastal Resource Management Act the lists of persons to be rewarded should be sent by the relevant police stations. Even though the fines are sent by the Court itself, due to lack of information on the relevant Police Station a separate investigation should be carried out and the rewards are paid.	Action should be taken to develop a proper system to exchange information between the Magistrate Courts and the Police Department and to pay the rewards and the amounts payable to the Treasury on time.