

Coastal Protection Reward Fund - 2023

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Coastal Protection Reward Fund for the year ended 31 December 2023 comprising the statement of balance sheet as at 31 December 2023 and the Income and Expenditure Account for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters discussed in the paragraph 1.5 of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed on the basis of the matters described in paragraph 1.5 of this report.

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' 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, 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

| Audit Observation | Management Comment | Recommendation |
|--|---|---|
| (a) The statement of changes in Equity, statement of cash flows, and notes including a summary of significant accounting policies and other descriptive notes which should be included in a complete set of financial statements as per Section 21 of the Sri Lanka Public Sector Accounting Standard 1, had not been submitted. Further without maintaining ledger accounts and not following accrual basis, only income and expenditure account and balance sheet had been prepared on cash basis. | Action will be taken to submit the Statement of Net Assets along with the Fund Flow Statement. Accounts had been prepared on cash basis for the Coastal Protection Reward Fund and I inform you that action will be taken to maintain the accounts from 2024 as per the State Finance Circular dated 01/2020. | Ledger accounts related to the assets, liabilities, income and expenses of the Fund should be maintained in accordance with the accounting standards and the financial statements should be prepared and submitted accordingly. |
| (b) According to Section 7 of the Sri Lanka Public Sector Accounting Standard 1, the court fines had not been recognized or accounted for as income at the time they were imposed, nor had the reward money to be paid been identified and accounted for. A sum of Rs. 2,016,922 and Rs. 1,353,000 had been included in the financial statements on cash basis as income and expenditure, respectively, in the year under review. | Action will be taken to collect and maintain the information on cases in the courts. | According to the standards, income from court fines and expenditures on reward money related to the accounting year should be accurately identified and recorded on an accrual basis. |

1.5.2 Accounting Deficiencies

| Audit Observation | Management Comment | Recommendation |
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| Out of the fines credited to the reward fund since 2014 to the year under review, action had not been taken to pay the unpaid reward | Action will be taken to maintain proper books and records on income, | Action should be taken in terms of sub-section 16 (1) of |

of Rs. 2,878,616 remained as at 31 December 2023 and this had not been included in the financial statements as a payable balance. The records of income, expenses, assets, and liabilities had not been maintained as to present the accurate identification and representation of income due and unpaid reward money in the accounts related to court fines.

expenses, assets and liabilities as per the audit observation.

the National Audit Act No. 19 of 2018.

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

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
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| (a) Guidelines and direction for the payment of rewards from the Coastal Conservations Reward Fund established in terms of Section 31 (f) of the Coastal Conservation and Coastal Resource Management Act No. 57 of 1981, as amended by Acts No. 64 of 1988 and No. 49 of 2011 published by Extraordinary Gazette No. 2018/11 dated 09 May 2017 of the Democratic Socialist Republic of Sri Lanka. | | | |
| (i) Guideline 1 | Out of the amount of Rs.15,231,732 of fine credited to the reward fund since 2014 to 2023, the amount to be paid as rewards was Rs.7,615,866. However, a sum of Rs. 2,878,616 remained unpaid. The reason for this outstanding amount was the lack of details regarding the relevant cases and the amounts to be disbursed. | In order to give rewards, the police stations must send the details of the officers and it is not possible to pay the rewards that have not been sent. This Rs. 2.8 million contains only reward money payable to police officers and the departmental officers. | Arrangements should be made to get the names of the police officers on time and arrangements should be made to pay the reward money without delay. |

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| (ii) Section 3(iii) | Before paying the reward, the list of the relevant officials should be confirmed by the Officer in Charge of the relevant Police Station and the Director General of Coast Conservation and Coastal Resource Management. However, the reward payments had been made based only on the information received from the OIC of the Police Station. | Officers have been instructed to forward the list of awardees, signed by the Police OICs, to me for certification in the future. The paid vouchers are filed in the Accounts Department along with the names of the officers receiving the payments. | According to the guidelines and directions, before paying the rewards, the list of the relevant officials should be verified by the OIC of the relevant Police Station and the Director General of Coast Conservation and Coastal Resource Management. |
| (iii) Section 5(i) | Although payments for rewards should be made semi-annually, reward payments of Rs.1,353,000 had been made on 07 occasions during the year under review and no reasons had been given. | Relevant information should be collected from courts and police stations. In the future, action will be taken to collect and maintain information about the cases held in the courts and the officers who had participated in those cases in accordance with the Coast Conservation Act. | Collecting and maintaining information about the officials who participated in the cases should be done in accordance with the Act. |
| (b) Paragraphs 877(2) (d) and (e) of the Financial Regulations as amended by Public Finance Circular No. 01/2020 dated 28 August 2020 | Action had not been taken to prepare and forward a performance report of the Fund to the Auditor General, with a copy to the Public Finance Department, within two months from the end of the accounting year. Additionally, the annual performance report had been tabled in the Parliament since the beginning. | It is informed that the performance report for the year 2023 prepared for the Coast Conservation Reward Fund had been forwarded to the Public Finance Department on 02 April 2024. However, a copy was inadvertently not sent to the Auditor General. | Annual performance reports should be prepared and submitted to the relevant departments as per the Financial Regulations. |

2. Financial Review
2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs.337,081 and the corresponding deficit in the preceding year amounted to Rs.346,095. Therefore an improvement amounting to Rs. 9,014 of the financial result was observed. The reason for the improvement

is decrease of 12 per cent in the percentage of payment of rewards paid from the fines collected by the courts.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation | Management Comment | Recommendation |
|---|--|---|
| (a) According to the details obtained from 31 police stations, since 2014 to 2023 action had not been taken to recover a sum of Rs. 10,062,500 which should have been received from the courts. Therefore, out of the rewards, incentive amounted to Rs.5,031,250 and 40 percent of which should be credited to the consolidated fund amounted to Rs.4,025,000 had not been credited even as at 31 December of the year under review. | Based on the information received from the police officers, the legal department has sent letters to the courts to arrange for the transfer of funds in cases where payments have not yet been made by the respective courts. The courts have informed us that the fines had already been forwarded to the Provincial Council and they will collect and send it to us. The Samanthurai court has forwarded a portion of the fines to be paid in installments to this department. However, since the remaining amounts had not been sent, payments cannot be made until all fines are settled. The court in Samanthurai had also stated that the associated funds had been forwarded to the Provincial Council and are to be sent back from there to this department. | A proper system should be developed for exchanging information between the Magistrate Court and the Police Department. |
| (b) According to the bank current account maintained by the reward fund, the remaining cash balance as of 31 December 2023 was over Rs.2.8 million due to non-payment of funds on due date during the period from 2016 to 31 December 2023. | The balance of the reward fund amounting to Rs.2.8 million as at 31.12.2023 is only the reward money payable to police officers and departmental officers. | Arrangements should be made to pay the reward money due in consultation with the police department. |
| (c) Internal control over receipts and payments was inadequate due to several errors. These included the failure to reconcile the receipts and payments accounts presented with the financial statements, | I would like to inform you that necessary arrangements are being made to record the names of the officers nominated for the Coastal Protection Reward Fund payments in the appropriate register, as well as in the police officers' information register. | Correct information should be entered and updated in the documents, details of payments should be recorded in the General Deposit Register, |

inconsistencies in documents related to fines sent by courts and reward money sent by police stations, outdated documentation, and the failure to record and update payment details in the general deposit register.

- (d) A proper system for exchanging information with the Magistrate Court and Police Department had not been developed to collect all the fines recovered from the accused by the courts and to distribute the collected money as rewards to the relevant parties. As a result, it has been difficult to obtain the necessary information to easily and quickly identify the fines receivable from the courts and the individuals entitled to the rewards. Additionally, 40 percent of the fines that should have been remitted to the Treasury had not been submitted on time.

information recorded in the General Deposit Register should be included in the receipts and payments register and arrangements should be made to establish an internal control related to receipts and payments.

Based on the information received from the police officers, letters have been sent to collect the money from the respective courts. The courts have informed us that since the fines have been forwarded to the Provincial Council, they will be returned and sent back to us.

A system for proper information exchange between the provincial council and the department heads should be established to ensure timely receipt and payment of fines.