

## **Head 325 Department of Sri Lanka Coast Guard**

---

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Head 325- Department of Sri Lanka Coast Guard for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance and cash flow statement 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No.19 of 2018. Pursuant to Section 11(1) of the National Audit Act No. 19 of 2018, the summary report containing my comments and observations on the financial statements of the Department of Sri Lanka Coast Guard was issued to the Accounting Officer on 31 May 2024. The Annual Detailed Management Audit Report relating to the the Department of Sri Lanka Coast Guard was issued to the Accounting Officer on 02 June 2023 in terms of Section 11(2) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relating to the Department of Sri Lanka Coast Guard was issued to the Accounting Officer on 24 June 2024 in terms of Section 11(2) of the National Audit Act No.19 of 2018. The report to 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 will be tabled in due course.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Sri Lanka Coast Guard as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibility of the Chief Accounting Officer and the Accounting Officer on the Financial Statements**

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 the provisions in Section 38 of the National Audit Act, No 19 of 2018 and for the determination of the internal control that 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 Accounting Officer shall ensure that an effective internal control system for the financial control exists in the 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.

#### **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 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether 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

I declare the following matters in accordance with Section 6 (1) (d) of National Audit Act, No 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year.
- (b) The recommendations I had made regarding the financial statements related to the previous year had been implemented.

## 1.6 Comments on the Preparation of Financial Statements

### 1.6.1 Non-compliance of the financial statements with the circular provisions

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
Although the format specified in Section 06 of State Accounts Circular No. 05/2023 dated 30 November 2020 was used by the Department in preparing the Cash Flow Statement, the expense of Rs. 12,455,733 incurred for another expenditure head and the imprests of Rs. 91,162 settled to the Treasury were not separately shown under the cash flow generated from operating activities.	Owing to an oversight, the relevant amounts were not separately indicated in the Cash Flow Statement for the year ending 31 December 2023. Steps will be taken to ensure that such oversights do not occur in the preparation of future financial statements.	Financial statements should be prepared as per the circular.

### 1.6.2 Accounting Deficiencies

#### (b) Recurrent Expenditure

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
(i) The estimated provision for fuel for the year under review amounted to Rs. 2,400,000 and the actual total expenditure amounted to Rs. 532,118,353. Accordingly, the fuel expenditure had increased by Rs. 529,718,353, which is 22.071 percent more than the estimate, and upon the inadequacy of the estimates, fuel had been obtained from the Navy	Prior to the year 2023, the fuel required by this Department was obtained from the Sri Lanka Navy based on the reimbursement basis; however, due to the continuous inadequacy of the provisions made by the National Budget Department for fuel, it has not been possible to reimburse the value of that fuel back to the Navy. By the letter No. MOD/FIN/06/02/05/(15) dated 12 October 2022, the Secretary of Defense has granted necessary approval to provide the fuel	Actions should be taken to obtain necessary provisions for the Object after accurately predicting the expenses.

without any additional reimbursement for fuel. This expense had not been stated as an expenditure in the statement of expenditure or imprests reconciliation statement of the Department

requirement of the Department of Sri Lanka Coast Guard for the year 2023 from the Sri Lanka Navy without reimbursement. Measures were taken upon that approval and the estimated provisions were utilized only for the requirement of lubricants for vehicles and machinery.

- (ii) The officers and sailors performing duties in the department had been paid their salaries under the expenditure head of the Sri Lanka Navy. This expense was not stated in the department's expenditure statement or the imprest reconciliation statement as an expenditure.

Since the staffs belonging to this department have been attached from the Sri Lanka Navy on a secondary basis, their salaries and wages have been paid by the Navy from the inception of this department up to the present. Furthermore, it has been noted that the salaries and wages of Coast Guard personnel will be included as an expense in the department's expenditure statement/ imprests reconciliation statement when preparing future financial statements.

Expenses should be properly projected, and necessary provisions for the Object should be secured accordingly.

## 2. Financial Review

### 2.1 Imprests Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The net provision for machinery and equipment Object was Rs. 250,000,000, and the remaining balance as at the end of the year under review was Rs. 78,715,023, which represents 32 percent of the net provision. The main factors contributing to these savings were the failure to carry out planned maintenance activities for vessels and the non-purchase of items of capital nature.	The limitations on foreign purchases for vessels maintenance (e.g., the inability to open LC and TT due to foreign currency shortages), the restriction on the number of sailing hours for the purpose of controlling expenses, and the suppliers' inability to provide spare parts for vessels have led to the failure to properly carry out maintenance activities for vessels during the third and fourth quarters of 2023. This has resulted in a significant annual savings.	Provisions should be utilized with maximum efficiency.

(b)	<p>Although a net provision of Rs. 82,700,000 was allocated for the construction of two proposed new buildings, the abandonment of the construction activities resulted in a remaining balance of Rs. 68,989,858 in the buildings and construction Object by the end of the year under review, which represents 83 percent of the net provision.</p>	<p>Due to ongoing disputes over the ownership of the construction land, it has not been possible to commence construction activities of the approved building of the Sri Lanka Coast Guard Varuna Institute. However, out of the Rs. 38 million provisions, building materials worth Rs. 13,710,142 have been purchased for the construction of the building. The proposed five-story building for the Sri Lanka Coast Guard's Rohana institution has been temporarily halted based on verbal instructions from the Ministry, and the Rs. 51 million provision allocated for it has not been utilized. After transferring Rs. 6,300,000 for training activities from these savings, the total remaining balance is shown as Rs. 68,989,858.</p>	<p>Provisions should be utilized with maximum efficiency.</p>
-----	--	---	---

## 2.2 Non-compliance with laws, rules and regulations

Reference to laws, rules and regulations	Observation Value Non-compliance Rs.	Comment of the Accounting Officer	Recommendation
Financial Regulations - 371 (2) (b)	<p>According to Financial Regulations 371 (2) (a), the staff officer obtaining the ad hoc sub-impressts should have settled the advance immediately after completing the task for which the</p>	<p>Due to various unavoidable administrative reasons, the ships and institutions that obtained the ad hoc sub-impressts have delayed the submission of related bills, which in turn caused a delay in settling the advances. However, it has been noted that future sub-impresst advances will be settled within the prescribed time frame. Furthermore, actions will be taken to inform the ships and</p>	<p>Action should be taken according to Financial Regulations.</p>

advance was given. However, there was a delay ranging from 11 to 115 days in settling the advance after completing the task in relation to 5 sub-imprestis during the year under review.

institutions in writing regarding this matter.

### 3. Operating Review

#### 3.1 Planning

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
<p>The action plan prepared for the year under review and for the year 2024 included only financial targets, and did not include physical targets.</p>	<p>The action plan is prepared according to the format issued by the Ministry of Defence. During the preparation of the action plan for the year 2025, as pointed out by the audit, steps will be taken to coordinate with the Ministry of Defence and properly incorporate the 'anticipated physical targets for the department within the year' into the action plan.</p>	<p>In the process of preparing the action plan, the targets that should be met must be appropriately projected.</p>

#### 3.2 Failure to Discharge Functions

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
<p>(a) Utilization of technical systems for the surveillance of fishing vessels.</p> <p>The department does not possess VMS systems capable of monitoring the locations and routes of fishing vessels. However, monitoring of suspicious vessels is carried out using information provided with the assistance of the Navy. The department has not yet taken steps to obtain legal authority for using the VMS system for vessel monitoring,</p>	<p>The Department of Coastal Guard does not possess the VMS system for monitoring the specific locations of fishing vessels, and neither the Department of Coastal Guard nor the Navy holds legal authority to take action in this regard. The Department of Fisheries</p>	<p>Legal provisions should be established to use the VMS system for vessel monitoring.</p>

and thereby contribute to achieving the department's objectives.

and Aquatic Resources is taking steps in relation to this matter

- |     |      |  |   |  |
|-----|------|--|---|--|
| (b) | (i)  | Having coordinated with the Department of Fisheries and Aquatic Resources, the technical facility for inspecting fishing vessels through the Blue Tracker AIS system was not obtained.   | A request was made to the Department of Fisheries and Aquatic Resources on 20 November 2023, to provide the Blue Tracker AIS system to the Sri Lanka Coast Guard Department, and it has been informed that the necessary actions are being taken to provide it.   | Follow-up actions should be taken regarding the acquisition of technical facilities. |
|     | (ii) | Although the multi-day fishing vessels and single-day fishing vessels operating along the Sri Lankan coastline had been documented by the Department at the respective fishing harbors, steps were not taken to establish a centralized database system containing information related to those vessels. | Regional directors of the Department have established fisheries offices to input information regarding fishing vessels; however, there are no financial provisions to create a centralized system. Nevertheless, efforts are underway to store all data in a single database system, relying on the expertise of individuals with specialized knowledge serving within the institution. | A centralized database system should be established.                                 |

### 3.3 Abandonment of Projects without Completion

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
A budget allocation of Rs. 40,000,000 had been made for the first phase of constructing a new four-story building with residential and administrative facilities for the Waruna Coast Guard Institution located in Wellawatte for the years 2022 and 2023. Of these funds, construction materials worth	The materials have been stored securely and properly at the Sri Lanka Waeuna Coast Guard Institution. However, there is a risk of deterioration of the timber types (plywood and second-grade timber) due to pests and environmental conditions caused by the	Proper steps should be taken to safeguard and make use of the construction materials.

Rs. 17,781,033 were purchased, including Rs. 4,728,914 in 2022 and Rs. 13,052,119 in 2023, and were stored at the Wellawatte regional headquarters. However, construction was halted due to a dispute over the land's ownership, and the materials purchased were at risk of deterioration due to pests and the proximity to the sea.

proximity to the sea. The timber imported for this project in 2022 is already at risk of damage. Therefore, it has been proposed to provide the materials related to this project to another project or to find another suitable solution.

### 3.4 Assets Management

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) The Department operates seven sub-divisions on a total land area of 478.09 perches situated at different locations owned by other government ministries and departments, but the transfer of these lands to the Department has not taken place.	The Department is utilizing lands that are not owned by it for the maintenance of its sub-divisions, and efforts are underway to transfer the ownership of these lands from the respective parties to the Sri Lanka Coast Guard Department.	The activities related to the transfer of lands should be finalized swiftly.
(b) Despite the lease agreement for the 17.9 perch land at the Mount Lavinia Lifeguard Station belonging to the Department expiring on 30 September 2022, no actions have been taken to renew it until December 2023.	It has been informed that the renewal of the lease agreement for the land at the Mount Lavinia Lifeguard Station is being delayed as the landowner is currently residing abroad.	The lease agreement should be renewed to obtain legal ownership.
(c) The Department possesses 04 ships and 27 vessels to cover a distance of 148,721 nautical miles surrounding Sri Lanka, of which 22 ships and vessels were operational in 2023. It was observed that 06 out of the 09 inactive vessels had not been used for more than three years due to the lack of funding for repairs and the unavailability of requested spare parts.	Reasons such as the absence of funding for maintenance, the request for spare parts, the ongoing condition for bringing them back to operational status, and the high cost of repairs have impacted the situation.	Measures should be taken to restore the vessels to operational status, and proper maintenance should be conducted on the vessels that are already operational.



### 3.5 Management Weaknesses

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) In the year 2023, 13 officers and sailors who completed local and foreign training courses related to Coast Guard duties were re-attached to the Navy within a period ranging from less than a month to 09 months after completing the relevant training. As a result, the services that could have been obtained from these officers and sailors for the department were minimized. Additionally, it was observed in the audit that there were instances where individuals left the department before completing the minimum periods stipulated in the bonds of the foreign training courses.	Coast Guard personnel who have completed training courses are retained for Coast Guard duties for a period of nearly two years following the completion of the courses. However, in certain instances, they are transferred to the Navy due to unavoidable circumstances.	Actions must be taken according to the agreements related to the training courses.
(b) Although Cabinet approval was granted in 2016 to repeal the Coast Guard Department Act and draft a new Act, it had not been possible to draft the new legislation even by the end of the year under review.	A new Act has been prepared after repealing the Coast Guard Department Act and has been forwarded to the Ministry of Defense for further steps.	The preparation of the new Act should be finalized without delay.
(c) Although there was an error in updating the stock due to issues with the computer system in operation within the department during the issuance of uniforms, the task of organizing that computer system had not yet been completed.	Steps have been taken to notify the Information Technology Department to properly and systematically update the computer system, and a request was made by letter dated 09 April 2024, to configure it according to the existing procedures of the Sri Lanka Navy. Appropriate action is currently being taken in this regard.	The computer system should be updated and maintained regularly.

- |     |   |  |                                   |
|-----|---|--|-----------------------------------|
| (d) | Although steps were being taken to take over the land, measuring 132.64 perches, located in Wellawatta where the Department's Western Regional Office is situated, to the Colombo Municipal Council for the Greater Colombo Water and Wastewater Management Improvement Investment Project, the Department was unable to find a suitable land to establish the Regional Office. | Requests have been made through the Ministry of Defense to ensure that, If the Coast Guard Department's Western Region has to be removed from the land located in Wellawatta, suitable land is provided from either the Wellawatta area or the nearest location. | Suitable land should be obtained. |
|-----|---|--|-----------------------------------|

**4. Human Resource Management**

<b>Audit Observation</b>	<b>Comment of the Accounting Officer</b>	<b>Recommendation</b>
The coastal zone surrounding Sri Lanka has been divided into four regions according to the operational needs of the Department, which has assigned a total of 573 personnel by the end of the year under review and it has been recognized that an additional 106 personnel are required. However, due to the failure to precisely identify the approved staff allocations for each zone, it was impossible to definitively determine whether there is a staff shortage or surplus.	The operational shortfall of coastal security personnel for each region is detailed below, and arrangements are being made to coordinate with the Navy to allocate this personnel.  (1) Regional Southern Coastal Area - 38 (2) Regional Western Coastal Area - 39 (3) Regional Eastern Coastal Area - 23 (4) Regional Northern Coastal Area - 25  Furthermore, the coastal security ships/vessels are stationed in four regions: Northern, Eastern, Western, and Southern. These vessels are exchanged among the regions for operational requirements, services, and maintenance, resulting in the inability to maintain a fixed number of personnel in a single region.	Actions must be taken to approve and attach sufficient staff for each zone.