

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 2025 comprising the statement of financial position as at 31 December 2025 and the statement of financial performance and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information 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, and the Section 31(f)(2) of the Coast Conservation and Coastal Resource Management Act No. 57 of 1981, as amended by Act No. 64 of 1988 and Act No. 49 of 2011. My comments and observations which I consider should be reported 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 2025, 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 a 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 determines 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 ability 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 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, 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.

Audit scope 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 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
Although, under the accrual basis of accounting, all income and expenditure attributable to a particular financial year are required to be recognized and included in the financial statements, income amounting to Rs. 5,675,549 and expenditure amounting to Rs. 5,519,212 relating to the year under review had been recognized in the Statement of Financial Performance of the Fund based only on information obtainable from courts and police stations. Furthermore, no disclosure had been made in the financial statements regarding the non-identification of the total income and expenditure relating to the year under review.	The Ministry of Justice has informed all Magistrates' Courts to take necessary action to remit the relevant fines to this Department. An application form to be submitted by police officers for claiming the rewards payable to them has also been provided. Accordingly, although a mechanism has been established for obtaining the relevant funds and making payments, it is informed that the payment of rewards could not be made due to not duly remitting the fund and not submitting the applications for claiming the rewards by the relevant courts and police officers.	Formal accounting and reporting system should be established to ensure the timely and complete recognition and reporting of all income and expenditure relating to the Fund and necessary control actions should be implemented to ensure the completeness of 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)	Financial Regulation 264 of the Democratic Socialist Republic of Sri Lanka	No mechanism had been established from the beginning to obtain verification of receipt of the reward money from the any officer who awards it.	Payments of reward funds are made based on the information submitted by the officers. Although the relevant police stations have been instructed to submit confirmation of receipt of the respective payments, no response has been received to date. It is informed that the relevant officers will be reminded in this regard and necessary action will be taken accordingly.	A mechanism for obtaining signed acknowledgements from the beneficiaries confirming receipt of reward payments, or another formal method of payment confirmation, should be introduced.
(b)	Financial Regulation 395(c) of Democratic Socialist Republic of Sri Lanka	Bank reconciliations relating to the Fund's current bank account had not been prepared for the period from January to November 2025.	The answer had not been provided to the audit observation.	Monthly bank reconciliations should be prepared in accordance with the Financial Regulations, and any discrepancies identified should be promptly investigated and corrected.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 156,337 and there was no corresponding surplus or deficit in the preceding year. The non-utilization of funds allocated for administrative activities resulted in a surplus for the year under review.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	In accordance with Paragraph (4) of the Extraordinary Gazette Notification No. 2018/11	According to the Coast Conservation and Coastal Resource Management Act, No. 57 of 1981, legal proceedings are	Action should be taken to promptly identify eligible beneficiaries and ensure that reward payments are

dated 09 May 2017 of the Democratic Socialist Republic of Sri Lanka, although 50 per cent of fines received pursuant to court orders allocated for rewards was required to be paid to persons eligible for such rewards, action had not been taken to identify the relevant persons and make the payments totaling Rs.1,165,405 allocated for rewards for the period from 2021 to 2024 and an amount of Rs. 1,585,275 relating to the year 2025. Consequently, the total balance payable as rewards to eligible persons as at 31 December 2025 amounted to Rs. 2,750,680. As a result, It was questionable whether the objectives for which the Reward Fund had been established were being adequately achieved.

instituted by the police in respect of unauthorized development activities. Accordingly, Police Stations have been informed to submit the relevant applications at the end of each month to claim rewards in respect of cases they have filed. Further, the relevant Magistrates' Courts have been informed to remit the applicable fines to this Fund. Accordingly, the payment of rewards is made upon the proper remittance of the relevant fines and the submission of the required information by the Police Stations which instituted the respective cases. Accordingly, the objectives are being duly achieved and where the relevant lists were not submitted by the Police Stations, the rewards cannot be paid, even where sufficient funds are available.

made in accordance with the objectives of the Fund.

- (b) A formal mechanism had not been established among the judicial system, Police Stations and the Department of Coastal Resource Management to enable the fines collected by the Courts in respect of unauthorized development activities in the coastal zone, resulting from interventions by Police Officers and other Government officials, were duly remitted to the Coastal Protection Reward Fund and expeditiously distributed among the relevant officers and to be distributed expeditiously among the

The Ministry of Justice has informed all Magistrates' Courts to take action to remit the relevant fines to this Department, and it is also stated in the Coast Conservation and Coastal Resource Management Act that the relevant fines should be credited to this Department. Furthermore, an application form to be submitted by Police Officers for obtaining the relevant reward payments has been provided. Accordingly, although a mechanism had been established to obtain and make payments of the relevant funds, it is informed that the reward payments could not be made due to the failure of

A formal coordination and reporting mechanism should be established among the institutions in respect of information sharing, collection of fines, and payment of rewards.

relevant parties. The internal controls established within the Fund for obtaining, verifying and updating the information from these institutions were not satisfactory.

the relevant Courts and Police Officers to properly remit the funds and submit the applications for obtaining the rewards.

4. Accountability and Good Governance

4.1 Tabling of Annual Performance Report in Parliament

Audit Observation	Management Comment	Recommendation
Although, in terms of Financial Regulation 877(2)(e), as amended by Public Finance Circular No. 1/2020 dated 28 August 2020, the Annual Performance Report is required to be tabled in Parliament within 150 days after the end of the financial year, action had not been taken to table the said report in Parliament since its establishment.	The Annual Performance Report had not been prepared in previous years, and the preparation of the report was commenced in 2024. Accordingly, it is informed that necessary action will be taken to table the Annual Performance Report in Parliament in future.	Action should be taken to table the Annual Performance Report in Parliament within the prescribed period in accordance with the Circular.