

Forest Department Fund - 2015

The audit of financial statements of the Forest Department Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the statement of income and expenditure and cash flow statement for the year then ended and a summary of other explanatory 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 Order No. 10-E made under Section 64 of the Forests Ordinance, (Cap.451.) My comments and observations on these financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. Audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Forest Department Fund as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though fines imposed by Courts had been remitted to the Forest Fund by Courts after finalizing the forest offence, action had not been taken to compute and allocate the rewards payable to officers.
- (b) Court fines receivable for the year under review had been understated by Rs.1,130,600 and arrears of revenue of Rs. 36,335 receivable from the Nuwara Eliya High Court had been brought to account twice.
- (c) Employees' wages of Rs. 409,569 paid for three employees of the Department of Forest Conservation had been brought to account as an expenditure of the Forest Fund.

2.2.2 Non- compliance with Laws, Rules, Regulations and Management Decisions

Even though subsistence allowances should have been paid to officers when deploying them outside the permanent station on official duty according to sections 4.5 and 4.6 of Chapter XIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, contrary to it, an expenditure of Rs.80,720 had been incurred for food and accommodation.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the operation of the Fund for the year under review had resulted in a surplus of Rs.19,583,876 as compared with the surplus of Rs.19,286,799 for the preceding year thus indicating an increase in the financial result by Rs.297,077 as compared with the preceding year. Receipt of court fines had increased by Rs. 1,415,381 in the year under review as compared with the preceding year. Nevertheless, increase in security expenses, other payments and training expenses by Rs. 1,259,801, Rs.302,734 and Rs.112,294 respectively had been attributed to non-improvement of the surplus as compared with the improvement of the income.

4. Operating Review

4.1 Performance

Incurring expenditure for forest conservation activities such as awarding cash prizes to officers of the Department of Forest Conservation who produce forest crimes in Court and informants, payment of expenses for witnesses and forest officers in travelling to Court and conducting training programmes for forest officers to carry out their functions efficiently are the main objectives of the Fund.

In consideration of the income and expenditure of the Fund, the amount spent from the income of the preceding year was 38 per cent and the amount spent in the year under review was only 40 per cent. It was observed in further examination thereon that the said amount had been remitted to the General Treasury due to non-incurring a higher amount from the income every year.

4.2 Management Activities

The following observations are made.

- (a) There was a delay in crediting the fines recovered by Courts to the Forest Department Fund. Accurate computation of the Court fines revenue receivable for each month of the year or adaptation of a follow up procedure thereon had not been made.
- (b) Even though Court cases had been finalized, proper procedures had not been followed to prevent delays in making claims for rewards and payment of rewards to officers who had contributed to prevent forest crimes.

4.3 Idle and Underutilized Assets

- (a) A sum of Rs.2,300,000 invested in long term rupee loan securities of the Central Bank of Sri Lanka had been matured as at 01 July 2015. Even though the Central Bank had cancelled the deposit, action had not been taken to reinvest this amount even up to 31 March 2016.
- (b) A balance of Rs.132,276,277 had existed by the end of the year 2015 by aggregation of savings at the end of every year and these savings had not been utilized optimally.

5. Accountability and Good Governance

5.1 Annual Action Plan

An Annual Action Plan had not been prepared for the year 2015.

5.2 **Budgetary Control**

Even though the financial rewards awarded from the Forest Fund established for the purpose of granting benefits to the Forest Officers in appreciation of the service rendered by them in the enforcement of the law while on duty, is not an expenditure that can be controlled through the control of expenditure, the estimated expenditure of 04 Objects had been saved ranging from 20 per cent to 61 per cent in the year under review. Even though the management had stated that the reason for the saving was due to systematic control of expenditure, it was observed that the budgetary estimates had not been prepared on a realistic basis as a considerable savings had existed every year.

6. **Systems and Controls**

Deficiencies in systems and control observed during the course of audit were brought to the notice of the Conservator General of Forests from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting Accurate identifying and accounting the income and expenditure relating to the year
- (b) Revenue Control Taking action to obtain court fines recovered by Courts to the Department without delay
- (c) Financial Control Incurring expenditure from the Fund in accordance with the provisions mentioned in the Ordinance