

## **Head 291- Department of Coast Conservation and Coastal Resource Management**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Coast Conservation and Coastal Resource Management for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of financial performance and cash flow statement for the year then ended 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 read in conjunction with provisions of the National Audit Act, No. 19 of 2018. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department was issued to the Accounting Officer on 06 June 2019. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 31 May 2019 to the Accounting Officer. This report read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

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 as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility 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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statement**

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The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine 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 of the Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer and 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 system and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibility for the Financial Statements**

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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 summary 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

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

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As required by Sub-section 6 (d) of the National Audit Act, No.19 of 2018, I state the followings:

- (a) As there was no requirement of preparation of financial statements by the Department of Coast Conservation and Coastal Resources Management for the preceding year, I could not state that the financial statements of the year under review are consistent with the preceding year.
- (b) As there was no requirement of preparation of financial statements by the Department of Coast Conservation and Coastal Resources Management for the preceding year, recommendations on financial statements had not been made by the Department.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Performance

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The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) In terms of paragraph 3.1 of the State Accounts Circular No.267/2017 dated 21 November 2018, figures which should be included in the statement of financial statement should be tallied with figures of Final Treasury Accounting Statement. However, The total receipts of advances to public officers and receipts of <b>rental and works advances</b> had been shown as Rs.19,876,260. According to the Final Treasury Accounting Summary, the said value had been Rs.14,028,679. Accordingly, it had been overstated by Rs.5,847,581.	Action should be taken in terms of provisions of the State Accounts Circular.	According to Formats given by the Department of State Accounts, financial statements for the year 2018 had been prepared and details on formats from which figures should be obtained had been indicated clearly in each format. Accordingly, balance of assets amounting to Rs.8,644,740.00 as at 31.12.2018 in the Rental and Works Advances Account had been indicated as financial assets in the statement of financial position. Moreover, according to instructions of formats given by the Department of State Accounts, I further inform that the said value (A.C.A.S(A)) had been shown as non-revenue receipts and non-revenue payments in the statement of financial performance. The construction of Negombo

New Office which was commenced by Object 2104 on provisions of the current year could not be completed due to failure in making payments properly therefor. However, work rental advances therefor should be recovered in the same year.

(b) According to provisions of the said circular, a sum of Rs.26,118,292 should be indicated as payment of advances, However, it had been shown as Rs.24,021,132 understating by Rs.2,797,160. -Do-

(c) Recurrent expenditure totalling Rs.17,904,579 comprising Rs.11,741,093 as travelling expenses and Rs.6,163,486 as overtime had been indicated as capital expenditure in the statement of financial performance. Expenses should be classified accurately and included in the financial statements.

In deploying officers and employees by the Department in development activities of the coastal line of the island, a considerable amount (Rs.20 - 25 million) has to be incurred annually as overtime and local travelling expenses. However, provisions in Objects of overtime and local travelling expenses are not at all to cover the said cost.

In considering the location of sites and nature of development activities, action has been taken to pay these overtime and travelling expenses from the Capital Object No. 2509 due to fair reasons such as failure in preventing the deployment of officers and employees in duties outside the normal working hours (overtime) and due to incurring expenses therefor by development activities which were in capital nature.

## 1.6.2 Cash Flow Statement

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) Total deposit receipts and payments had not been shown under the net cash flow generated from operating activities.	Action should be taken in terms of provisions of the State Accounts Circular No.267/2018 of 21 November 2018.	
(b) Receipts and payments of advances had not been included in the net cash flow generated from investment activities.	-Do-	
(c) Even though the Department had not operated financial activities in the year under review, a sum of Rs.41,122,025 had been indicated as deposit accounts and differences of other liabilities	-Do-	

## 2. Financial Review

### 2.1 Entering into Liabilities and Commitments

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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The value of liabilities entered into by the Department as at 31 December 2018 had been Rs.60,306,419. However, the said value had been shown as Rs.52,278,669 in the financial statements understating by Rs.8,027,750.	The value of liabilities entered into by the end of the year should be mentioned in financial statements accurately.	Liabilities (bills received) as at 31.12.2018 totalled Rs. 52,278,669 and payments made in the first quarter of 2019 comprised of payments of approximately Rs.8,027,750 out of the balance of commitments amounting to Rs.65,771,281.79 as at 31.12.2018 in addition to

those liabilities. As bills for the said Rs.8,027,750 had not been received as at 31.12.2018, those had been indicated as commitments but not as liabilities.

## 2.2 Deposit Balances

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Deposit balances totalling Rs.3,719,010 had remained in deposit accounts of the Department over a period ranging from 2 years to 5 years. Action in terms of Financial Regulation 571 had not been taken even by 31 May 2019 to credit those deposit balances to revenue or settle them.	----- Action should be taken in terms of Financial Regulation 571.	----- Action is being taken to settle by making payments.

## 3. Operating Review

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### 3.1 Planning

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- The following requirements had not been included in the Action Plan prepared by the Department in terms of the Public Finance Circular No.2014/01 of 17 February 2014. (i) Updated organizational structure (ii) Approved and actual cadre	----- Action should be taken in terms of the Public Finance Circular No.2014/01 of 17 February 2014.	----- Organizational structure and cadre information have been submitted.

information

### 3.1 Non-achievement of the expected Output

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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The Department had made provisions of Rs.1,024.5 million in the year under review for implementation of 13 projects. Out of those 13 projects, one project had not been implemented even by the end of the year under review. The physical progress of the remaining 12 projects which were implemented had been ranging from 12 per cent to 90 per cent. The financial progress of the said 12 projects had been ranging from 29 per cent to 99 per cent. A sum of Rs.890.29 million or 86 per cent of the total provisions had not been utilized during the year under review.	The provisions made for projects should be utilized to the maximum and thereby achieve maximum physical progress.	Action could not be taken as expected due to external factors.

### 3.2 Delays in Execution of Projects

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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The Department should have taken action so as to avoid unauthorized constructions while implementing coastal conservation programmes.	It should be planned to demolish the constructions that could be categorized according to the nature of unauthorized constructions identified and then to carry out	The demolitions had been delayed in this way due to inability of providing alternative places as well as due to social and political influence.

However, the number of demolitions. unauthorized constructions identified from the year 2012 to the year 2018 had been 1,764. A number of 1,615 directives had been obtained for demolishing the said unauthorized constructions.

Nevertheless, the number of demolitions had been 215 and it had been in a level of performance as low as 13 per cent out of the number to be demolished.

### 3.3 Procurements

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 The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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(a) The expenditure had been Rs.35.5 million according to the Total Cost Estimate of construction of the Norochcholai – Ilanthadiya <b>Groyina</b> Class. The Departmental Head had not approved the Total Cost Estimate in terms of Guideline 4.3.2 of the Government Procurement Guidelines.	Action should be taken in terms of provisions in Government Procurement Guidelines.	The Total Cost Estimate relating to the constructions of the Norochcholai – Ilanthadiya <b>Groyina</b> work site had been prepared and the relevant estimate had not been signed by the Departmental Head due to delay. Moreover, a revised cost estimate had been prepared subsequently and it had been approved by the Departmental Head.
(b) In terms of Guideline 5.4.6 (b) of the Government Procurement Guidelines, half the	Action should be taken in terms of Government Procurement Guidelines.	The supplier is released from the responsibility of the relevant supply once the Department had properly taken over the supplies from



total amount retained from the payment due to the contractor, on the completion of the works shall be re-paid to the contractor and the balance half shall be retained until the expiry of the defects liability period. However, the total amount retained so had been paid in full after completion of the contract.

the supplier. As such, the relevant retention fees had been paid to the supplier after completion of the supply.

(c) Even though the Department had carried out supplies of Rs.5,116,500, performance securities had not been obtained in terms of Guidelines 5.4.8 (a) and 5.4.9 of the Government Procurement Guidelines therefor. -As above -

In coast conservation constructions, machinery and heavy vehicles are obtained from suppliers on hire basis and the Department had not obtained a performance security from such suppliers. However, necessary steps have been taken from this year to fulfill this purpose in the supply of machinery and heavy vehicles.

(d) A sum of Rs.8.1 million had been spent by the Department for the supply of heavy vehicles and machinery. Contract agreements had not been entered into with the supplier in terms of Guideline 8.9.1 of the Government Procurement Guidelines. -As above -

According to Procurement Guidelines, agreements are entered into for supply of goods and agreements for machinery are not entered into due to practical difficulties arisen and necessary measures have been taken to prepare agreements as well and to enter into them from this year.

### 3.4 Assets Management

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- Action had not been taken in terms of provisions in Public Finance Circular No.2017/04 of 31 May 2017 relating to 70 items of goods to be destroyed, 06 items of goods to be repaired and 258 items of goods recommended for sale revealed by the Board of Survey of the year 2017.	----- Action should be taken in terms of provisions in Public Finance Circular No.2017/04 of 31 May 2017.	----- Action will be taken in future.

## 4. Good Governance

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### 4.1 Rendering Services to the Public

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The following observation is made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
----- The Department had received 2,384 files of application for obtaining licences for coastal constructions carried out in the year under review and out of those files, 1,884 licences had been issued. No action had been taken relating to the remaining 500 files.	----- Necessary steps should be taken speedily.	----- Issuance of licences for applications for which requirements/criteria of issuing licences could not be fulfilled, are rejected. Non-fulfillment of requirements in issuing certain applications and in the examination of applications, location of those constructions away from the coastal region can be indicated as such instances. Accordingly, it is informed that licences are not issued for all registered applications.