

Head 283 - Department of Forests

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Forest for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the 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. The summary report including my comments and observations on the financial statements of the Department of Forests was issued to the Accounting Officer on 31 May 2019 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018 and the Detailed Annual Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Accounting Officer on 31 May 2019. This report will 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.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Forests 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

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 opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer for the Financial Statements

Chief Accounting Officer or 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as Accounting Officer determines 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 Chief Accounting Officer or the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists 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 to 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 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.
- In order to design audit procedures that are appropriate in the circumstances, I do not express an opinion on the effectiveness of the Department's internal control.
- Evaluate whether structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a fair and reasonable manner.
- In the overall presentation, structure and content of 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 express the following matters in accordance with Section 6 (d) and Section 38 of National Audit Act, No. 19 of 2018.

- (a) Since there was no need for the preparation of financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were in consistent with the preceding year.
- (b) Since there was no requirement for the Department of Forests to prepare financial statements for the preceding year, recommendations on these financial statements had not been made.

1.6 Comments on Financial Statements

1.6.1 Presentation of Accounts

Audit Observation	Recommendation	Comment of the Accounting Officer
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Reconciliation statement of the public officers advance account		

In terms of State Accounts Circular No.256/2017 of 05 July 2017, the reconciliation statement of the advances to public officers account bearing item No.283011 needs to be presented to audit on or before 28 February 2019, according to the state account circular No.267/2018 of 21 November 2018 but it had been presented to audit on 24 April 2019, after a delay of 1 month and 24 days.	Action needs to be taken to present reconciliation statement in terms of State Account Circular No.267/2018 of 21 November 2018.	In the preparation of accounts related to the year 2018 there was a little delay and action will be taken to present it on due date in future.

1.6.2 Receipt of Revenue

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(i) According to the annual revised estimates, it was estimated to collect licence fees of Rs.110 million, relates to the private timber transport revenue code. But, only a net revenue of Rs.104.79 million had been collected. Therefore, non-reaching the revenue limit amounted to Rs.5.21 million, represented a decrease of 4.73 per cent.	In terms financial regulation 128(2) accurate revenue estimates need to be prepared as the revenue accounting officer and revised when necessary. Revenue administration needs to be efficiently performed by following the provisions of the government fiscal policy circular No.01/2015 of 20 July 2015.	It impossible to forecast 100 per cent accurately and the number of applications requested during the year could not be ascertained in the previous year.
(ii) Even though, it was estimated to collect an annual revenue of Rs.1,800 million under the revenue code of revenue receives from government forests, a net revenue of Rs.1,906.61 million had been collected. As such, the excess of revenue limit amounted to Rs.106.61 million and it was observed as an increase of 5.92 per cent.	In terms financial regulation 128(2) accurate revenue estimates need to be prepared as the revenue accounting officer and revise when necessary. Revenue administration needs to be efficiently performed by following the provisions of the government fiscal policy circular No.01/2015 of 20 July 2015.	Revenue such as removal fees of forest materials, entrance fees for government forests sale of publications, sale of plants, disposal of pinus timer and other revenue is collected but the revenue thereon could not be forecasted before the relevant year.
(iii) Arrears of revenue relating to the above 2 revenue codes during the past 3 years amounted to Rs.2.32 million	The revenue collecting officer should take steps in terms of Financial Regulation	Arrears of Rs.0.55 million relating to the revenue code of private timber transport had arisen due to non-

and Rs.410.20 million respectively and further arrears as at the end of the year amounted to Rs.0.55 million and Rs.125.44 million respectively.

175(2) and disciplinary action in terms of sections 8.1 and 8.2 of chapter XLVII needs to be taken in respect of officers default the duties.

renewal of licences. Arrears relating to the revenue code of government forests include the arrears of Rs.125.15 million receivable from the State Timber Corporation as royalties and the balance had become in arrears due to non-renewal of licences by entities hold licences.

1.6.3 Non-revenue receipts

In accounting non-revenue receipts relating to the financial statements the following deficiencies were observed.

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) The unsettled imprest balance as at the end of the year under review amounted to Rs.20.48 million.	In terms Financial Regulation 373(1) the balance as at 31 December needs to be remitted to the Treasury on that date itself.	Imprest balance had been remitted to the Treasury on 02 January 2019.
(ii) Receipt of deposits temporary retained until they refund to the third parties amounted to Rs.477.37 million and it represented 53.38 per cent of the total deposits.	If the relevant purpose is completed action needs to be taken to refund the deposits, being made aware of the third parties.	Money of incompleted projects needs to be retained in the deposit account.

1.6.4 Reconciliation statement of the advances to public officers account

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) The opening balance as at the beginning of the year under review was stated as Rs.215.56 million but the balance of the previous year it was stated as Rs.215.70 million. Accordingly, there was a difference of Rs.0.14 million between opening balances.	Difference need to be examined and corrected.	The loan balance of an officer transferred to the Doluwa Divisional Secretariat had caused thereto.
(ii) Closing balances according to the reconciliation statement of the Departmental books and the final balance as per Treasury printouts amounted to Rs.211.79 million and Rs.211.58 million respectively. Accordingly, there was a difference of Rs.0.21 million.	Difference need to be examined and corrected.	The Department of Examination (Head 212) had erroneously credited a sum of Rs.0.21 million.

1.6.5 Deposits

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) The Security Deposit balance at the end of the date of the year under review amounted to Rs.377.83 million. It was observed that Rs.74.39 million and Rs.183.56 million thereof had been the deposit remained for 5 years and more than 2 years respectively.	Lapsed deposits should be credited to government revenue in terms of F.R.571 (2).	Security deposits under the forest plantation need to be retained until the end of the project period of 30 years and a sum of Rs.0.47 million of the other security deposits had been credited to government revenue on 10.05.2019.

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| (ii) | The deposit balance temporary retained until it is refunded to a third party amounted to Rs.38.19 million out of which Rs.7.31 million and Rs.4.59 million had remained lapsed for 05 years and 02 years respectively. | Lapsed deposits should be credited to government revenue in terms of F.R.571(2) | Even though, over 2 years and over 5 years had lapsed. deposits in respect of in completed project need to be retained in the deposit account. |
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1.6.6 Property, Plant and Equipment

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(i)	The closing balance of the non-current assets in the previous year amounted to Rs.926.18 million whereas the opening balance of the year under review amounted to Rs.798.25 million, thus being observed a difference of Rs.127.93 million.	The difference between the closing balance of previous year and opening balance of this year needs to be settled.
(ii)	Identified assets as at 01 January 2018 had not been included in the 'sigas' programme and acquisitions and disposal of assets during the year under review had also not been included in the financial statements.	The opening balance is incorrect and action will be taken to correct it as Rs.926.18 million in future.
	All non-current assets need to be included in the 'sigas' programme and the programme needs to be updated.	Action is being taken to include assets, to the 'sigas' programme by now.

1.6.7 Non-maintenance of books and records

Audit test check observed that the Department did not maintained certain registers and certain registers were not updated properly.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(i) Register of Fixed Assets ----- In terms of Treasury Circular No.842 of 19 December 1978 and appendix 11 of Financial Regulation 502(2) a register of fixed assets had not been maintained.	The fixed assets register needs to be maintained, in terms of Treasury circular No.842 of 19 December 1978 and appendix 11 of F.R.502(2) in concurrence with the Auditor General.	According to the general instructions given by the State Account Circular No.267/2018 it is informed that the maintenance of a fixed asset register is not compulsory.
(ii) Liability Register ----- A liability register had not been maintained in terms of Financial Regulation 214.	Liabilities need to be recorded in a liability register, enabling to examine liabilities regularly in terms of F.R.214.	As sufficient imprest is available in the Department there was no need of maintaining a liability register.

1.6.8 Assurance of the Accounting Officer

Even though, the Accounting Officer needs to ensure the following in terms of section 38 of the National Audit Act No.19 of 2018, action had not been taken accordingly.

Audit Observation	Recommendation	Comment of the Accounting Officer
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The Chief Accounting Officer or 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	Action needs to be taken in accordance with Section 38 of the National Audit Act No.19 of 2018.	Action will be taken to submit a copy to the Auditor General in due course in terms of the Act

make any alterations as required for such systems to be effectively carried out and such reviews shall be carried out in writing and copies of the same need to be made available to the Auditor General. Nevertheless, copies of such reviews were not made available to audit ensuring such reviews were carried out.

1.6.9 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules, regulations observed at audit test checks are given below.

Observation -----	Reference to laws, regulations etc. -----	Value ----- Rs.	Non-compliance -----	Recommendation -----	Comment of the Accounting Officer -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (F.R.)					
(i)	F.R 104(3) and 104(4)	Could not be calculated.	Ten losses for which preliminary reports and full reports not presented had not been reported in the year under review.	A full report and a preliminary report needs to be presented in terms of regulations.	Action will be taken to avoid such situation in giving required instructions.
(ii)	F.R 570 and 571(2)	Could not be calculated.	Action had not been taken in respect of security deposits and deposits temporary retained until they would be refunded to the 3 rd parties.	Action needs to be taken in respect of lapsed deposits.	Deposited money needs to be retained until the project work is completed.
(iii)	F.R 396(d)	1,771,496	Action in respect of	Action needs to be	The officer prepares

177 cheques issued but not presented to the bank, lapsed for more than 6 months had not been taken. taken in terms of Financial Regulations. bank reconciliations had gone on transfer and as such making adjustment had been delayed. Action will be taken to avoid such things in future.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
(a) Due to making provisions without being identified requirements and activities not done as planned, savings of Rs.68.39 million ranging from 7.5 per cent to 20.64 per cent had existed out of the provision of Rs.496.33 million made for 4 recurrent objects.	Accurate expenditure estimates should have been made in terms of Financial Regulation 50.	The overall expenditure is 95 per cent and savings of 16 objects out of 20 objects are less than 5 per cent.
(b) Of the provisions of Rs.135.70 million transferred under F.R.66 for 2 recurrent expenditure objects, savings of Rs.67.35 million ranging from 18.29 per cent to 51.33 per cent had existed.	Provisions need to be transferred only being correctly identified the requirements.	Provision had been transferred under F.R.66 only for the requirement but provisions were saved of the above 2 objects.

2.2 Operation of Bank Accounts

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) A balance totalling Rs.70,651 in 3 bank accounts had been overstated in the financial statements.	Overstated amount in the Financial Statements needs to be corrected.	Instead cheques lapsed for more than 6 months, the value of cheques lapsed for more than 5 years had been pasted in 3 bank accounts.
(b) According to the bank reconciliations, balances of unidentified receipts and payments amounted to Rs.24.57 million and Rs.1.13 million respectively and those balances remained for periods ranged from 06 months to 2 years.	Relevant balances need to be identified and adjusted accordingly.	A part of unidentified receipts had been identified as at 31.12.2018 and action had been taken to credit the balance unidentified receipts to government revenue.

3. Operating Review

3.1 Non-achievement of expected output level

Audit Observation	Recommendation	Comment of the Accounting Officer
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The provision for the establishment and management of industrial forest plantation amounted to Rs.325 million. According to the action plan, under the above purpose targets of reforestation, commercial attenuations and post falls consensuses need to be performed had been 956.2 hectares, 701.49 hectares and 1385.21 hectares respectively. According to the performance report the achievements had been 951.70 hectares, 695.78	Design plan to reach targets.	No comments rendered.

hectares and 926.52 hectares respectively.

3.2 Annual Performance Report

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
Even though the Performance Report needs to be tabled in Parliament within 150 days after the close of the financial year, it had not been tabled in Parliament even up to 31 May 2019.	Action needs to be taken in accordance with Public Finance Circular No.402 of 12 September 2002.	No comments furnished.

3.3 Procurements

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) Even though the approval had been granted for the procurement of Rs.980,000 for the manufacture and transport of 70 fibre mouldings for the manufacture of boundary posts from Akuressa to Trincomalee District Office at Rs.14,000 per moulding in addition to that approval, a sum of Rs.1,960,000 had been spent for another 140 fibre mouldings.	Approved procurement limit for the District Forest Office amounts to Rs.1,000,000 and procurements need to be carry out within that limit.	Procurement methodology was violated and this will be prevented in due course.
(b) A special boundary pillars had been purchased by the District Forest Office, Anuradhapura at Rs.1,100 per pillar from a private entity and 23,000 boundary posts required to the Trincomalee District Forest Office could have been purchased for Rs.25,300,000 at	In procuring goods, action needs to be taken in a manner not to incur financial losses.	Action will be taken to minimise such issues in due course.

the same price. However, boundary pillars had been manufactured by spending a sum of Rs.27,465,050 resulting a financial loss of Rs.2,165,050.

- (c) According to the procurement approval of the District Forest Office, Trincomalee an agreement had been entered into with the supplier for the transport of 23,000 boundary pillars for Rs.1,299,750 to 6 districts but only 17,390 boundary pillars had been transported and incurred a sum of Rs.1,525,025 thereon. As such, a sum of Rs.225,275 had been spent in excess of the approved expenses.

Procurements need to be carried out within the approved limit as per guidelines.

As the contractor had informed that transport could not be done at that price, payments had been made based on the distance as units.

3.4 Losses and Damages

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>(a) A sum of Rs.205,699 relating to 27 events, less than the value of loss amounting to Rs.25,000, Rs.17,309,769 relating to 58 events more than the loss of Rs.25,000 had not been settled even by 31 December 2018. Of this, 42 events, the loss value of which amounted to Rs.5,308,195 had remained unsettled for more than 10 years.</p>	<p>Recover the loss being identified responsible officers and to take disciplinary action or to write off.</p>	<p>As they are fargone incidents, it is difficult to ascertain information. Action will be taken to minimise losses in future.</p>
<p>(b) Five losses valued at Rs.401,502 incurred during the year under review and prior years had not been included in the financial statements.</p>	<p>Losses need to be disclosed in the financial statements as per financial regulations.</p>	<p>Action will be taken to include these losses in the financial statements of 2019.</p>

3.5 Unreplied Audit Queries

----- Particulars of audit query

Recommendation

Comment of the Accounting Officer

Replies to 4 audit queries issued to the Department had not been furnished even by 31 March 2019.

Audit queries need to be replied.

Replied by 30 July 2019.

3.6 Management Weaknesses

The following observations are made.

Audit Observation

Recommendation

Comment of the Accounting Officer

(a) A gross salary of Rs.395,620 had been paid for 5 months period to the Legal Officer of the Department who had not served. That period had been treated as the vacated of service.

Action needs to be taken in accordance with rules and regulations of the Public Service Commission and the provision of the Establishments Code.

According to the decision of the Public Service Commission it was directed to reinstate with arrears of salaries and arrears had been paid accordingly.

(b) An unauthorized Mango plantation project had been started by a private company in June 2012. This company had extended the land area from 06 hectares to 200 hectares within a 5 months' period.

Action needs to be taken in terms of Section 20(1) of the Forest Conservation Ordinance.

Charge sheets have been issued to six officers including the District Forest Officers responsible in this regard.

(c) Even though, 6 years had elapsed after beginning of this project, the environmental recommendation had not been obtained from the Central Environmental Authority.

Recommendation of the Central Environmental Authority needs to be obtained.

Not obtained the environmental recommendation.

(d) Despite, the expulsion orders had been issued on 22 April 2016 by the court as per the court case filed in the Magistrates Court for this Mango Project, the Director

Action needs to be taken without being influenced legal actions.

Approval had been given for obtaining electricity without being prejudiced to legal action.

General of Conservation of Forest had issued letters stating that he had no objection to get three-phase electricity.

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| (e) Action had not been taken to recover the loss of Rs.582,130 caused by 2 vehicle accidents from the responsible parties. | Action needs to be taken to recover the loss from responsible parties. | Action is being taken to get compensations through the Attorney General's Department. |
| (f) Even though, a sum of Rs.1,145,022 had been incurred for the construction of drainage system (90 metres) on the access road to Kanthale Forest Range Office and side bank (70 metres), it was observed that rain water was not flown down, as the drainage system is put up over the access road. | Drainage system is to be put up enabling to flow water. | This can be precluded by making the road with earth filling though the drainage system is situated above the road. |
| (g) According to the records of the Geological Survey and Mines Bureau, further recoverable amount for 1057 cubes of granite picked and removed in excess of their limits by 6 granite licence holders in Anuradhapura range in the year under review amounted to Rs.618,630. | Outstanding fees need to be recovered based on the report of the Geological Survey and Mines Bureau. | Licence holders had been informed to pay outstanding fees and legal action will be taken if they do not pay. |
| (h) In the recovery of licence fees from 113 sand licence holders in the years 2016, 2017 and 2018, outstanding stamp fees of Rs.1,251,000 had not been recovered. | According to the instructions of the gazette notification extra ordinary No.1789/09 dated 17 December 2012 outstanding stamp fees need to be recovered. | By now outstanding stamp fees of Rs.187,000 had been recovered. Action will be taken to recover the balance from the security deposit of licence holders. |
| (i) According to the letter No.අනු/දී.ව.නි/විමර්ශන/2018 of | Special attention needs to be drawn on the | Action will be taken in future being obtained legal |

<p>29 October 2018 of the Anuradhapura District Forest Officer, a person with the assistance of various parties embezzled government lands of large scale by using deceitful documents and its financial value approximately amounted to Rs.2,000 million..</p>	<p>management of crown lands</p>	<p>instructions</p>
<p>(j) The Ro-Plant given to No.194 Kururnegala Colony Kahatagasdigiliya Range Community Based Organization on 10 March 2018, by the Environmental System Conservation Management Project had become inoperative even by the end of the year under review.</p>	<p>Expedite the installation.</p>	<p>the Ro-plant will be installed soon.</p>
<p>(k) Arrears of fees amounting to Rs.416,700 and Rs.86,000 had not been recovered by Kambururpitiya and Deniyaya Range Office respectively from timber businesses not renewed the registration in the year 2019.</p>	<p>Expedite the renewal of registration of timber businesses.</p>	<p>Action will be taken to cancel the unregistered timber businesses and register the other timber businesses on due time.</p>
<p>(l) Under the National Forestry Sector Master Plan of 1995, steps had not been taken to improve the financial facilities by building co-operation between ministries and financial institutions in order to begin modernize and uplift forest industries including industries initiated with non-forest products.</p>	<p>The National Forestry Sector Master Plan 1995 and the master plan need to be revised.</p>	<p>No steps had been taken in this regard and it is expected to set up a separate Division in this regard in the next staff revision.</p>

4. Reaching Sustainable Development Goals

Audit Observation

It was observed that the Department had identified objectives relating to 15 Sustainable Development Goals, targets and base data. Accordingly, protection of Highland Environmental System fixation, Sustainable usage, promotion, Sustainable Management of jungles, prevention of bio-diversity decay, increase the forest cover up to 32 per cent by the year 2030 had been targeted. However, according to the performance report of the Department in the year 2017 it was observed that the forest cover had improved up to 35.1 per cent.

Recommendation

Those targets and objectives need to be changed in terms of current needs.

Comment of the Accounting Officer

By using Google Satellite pictures on screen digitizing method, the forest cover has been identified as 35.21 per cent and without being published that map, the forest cover has been measured again by an another method. Accordingly, it was revealed the forest cover as 29.3 per cent.

5. Human Resources Management

Audit Observation

The Department had failed to fill the vacancies of 590 existed as at the end of the year under review.

Recommendation

Action needs to be taken to fill vacancies.

Comment of the Accounting Officer

Reasons for creating vacancies include, resign from service, vacation of posts, suspension of service retirements and deaths etc.