

## Head 325 - Department of Sri Lanka Coast Guard

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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 Sri Lanka Coast Guard for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 Sri Lanka Coast Guard Department was issued to the Accounting Officer on 31 May 2022. The Annual Detailed Management Audit Report relating to the Department was issued to the Accounting Officer on 22 June 2022 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 2021 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

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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 are 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

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The 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**

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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 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:

- 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, misrepresentation or the override of internal control.
- Obtain an understanding of internal control relevant of the audit in order to design audit procedures that are appropriate in the circumstances, but no 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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I declare the following matters in accordance with Section 6 (1) (d) and Section 38 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 Financial Statements

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### 1.6.1 Financial Performance Statement

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The following deficiencies had been observed while accounting for non-revenue receipts related to the financial statements.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) As per the Treasury Final Summary (SA - 70) the final value was Rs.289,636,521 but as per the form (ACA -3) it was Rs.288,782,628. Accordingly, advance receipts and advance settlements of Rs. 853,893 had been understated.	Advice had been given to correct the discrepancy.	- That the imprest account should be prepared on the basis of the balances mentioned in the final treasury summary.
(b) In the treasury final trail balance (7002/409/21) the value of receipts from other sources was Rs.12,858,521 but in form (ACA-3) it was Rs.12,004,628. Accordingly, other sources had understated the imprest receipts by Rs.853,893.	Advice had been given to correct the discrepancy.	That imprest receipts should be properly recorded.

## 2. Financial Review

### 2.1 Utilization of Provisions

The following deficiencies had been observed while accounting for recurrent expenditure related to financial statements.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Expenditure management in accordance with paragraph <b>02</b> of Budget Circular No. <b>07/2020</b> dated <b>23</b> December <b>2020</b> and sub-section <b>5.1</b> of paragraph <b>05</b> of Public Finance Circular No. <b>02/2020</b> dated <b>28</b> August <b>2020</b> so as not to exceed the recurrent and capital allocation limits allocated by the annual budget estimates. Whereas it is the responsibility of the accounting officers to do so but In addition to the basic allocation of Rs.10,000,000 provided under the expenditure subject number 325-1-1-0-2104 for buildings and construction in the reviewed year, an allocation of Rs.75,000,000 was obtained through supplementary estimates for 4 sub-projects.	In addition to the provision made in the year under review, re-allocation had been made.	That the rules, regulations and circular provisions should be complied with.
(b) Although it is the responsibility of accounting officer to prepare the expenditure estimates as accurately as possible according to Financial Regulation <b>50</b> , provisions of Rs. <b>16,303,000</b> had been set aside by Financial Regulation <b>66</b> for <b>09</b> expenditure subjects.	Funding transfers had been used for un estimated tasks.	That the rules, regulations and circular provisions should be complied with.
(c) To be included under other recurring expenditure included in the statement of financial performance of the year under review Rs. <b>8,000</b> the cost of implementing the official language policy had been shown under other goods and services.	Notes were taken.	That the expenditure should be recorded under the prescribed expenditure subjects.

- (d) Recurrent expenditure of Rs.331,587 which could be specifically identified had been paid under capital expenditure and while incurring expenses, capital expenses of Rs.2,937,617 had not been classified under the prescribed expenses according to the nature of the expenses.
- Coordinated Budget Officer.
- with That the expenditure should be recorded under the prescribed expenditure subjects.

## 2.2 Entering into liabilities and obligations

Audit Observation	Comments of the Accounting Officer	Recommendation
According to the statement of treasury obligations and liabilities (SA - 92) of the year under review, the value of obligations and liabilities at the end of the year was Rs.3,134,972, but according to the form of note (iii), the value was Rs.741,042. Accordingly, the obligations and liabilities are Rs. 2,393,930 had been understated.	Notes were kept to record the liabilities properly in the future.	That the liabilities should be recorded properly.

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

Cases of non-compliance with the provisions of laws, rules and regulations observed during sample audits are analyzed below.

Reference to laws, rules and regulations	Observation Non compliance	Comments of the Accounting Officer	Recommendation
Department of Coast Guard Act No. 41 of 2009  Section II para 4 (g).	(a) Although it is the duty and function of the Coast Guard Department to assist in the conservation and protection of the coastal and marine environment, its proper and active functioning has been minimal.	The Ministry of Defense has submitted a detailed report to the Secretary.	Just submitting reports is not enough. Active participation is required.

Part III para 11	(b) Although an advisory council should be established, it has not been established so far.	Submitted information to the audit.	required	The letter informed that the appointment of an advisory council has not been completed till now. Therefore, necessary arrangements should be made to appoint an advisory council immediately.
Paragraph 12	(c) Although the advisory council should conduct a review of the annual activities of the Department and submit a detailed report to the minister, but the reports have not been submitted so far.	A report cannot be submitted as an advisory council has not been established.		That the relevant reports should be submitted in due time.

**3. Operational review**

**3.1 Leaving projects unfinished**

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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<p>For the construction of advanced training and administrative building in Rohana Institute of the Department, after spending Rs. <b>30.09</b> million, the work on the project, which was abandoned on <b>22 July 2017</b>, was resumed in the year <b>2021</b>. By April <b>2022</b>, the total cost incurred for this project was Rs. <b>104.8</b> million. It is observed during the audit that necessary actions should be taken to finish this training and administrative building, which is a very essential project for the department.</p>	<p>Necessary works will be done to carry out the necessary constructions this year.</p>	<p>That necessary actions should be taken to speed up the construction work.</p>

### 3.2 Procurement

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) According to 4.2.1 (e) of the Government Procurement Guidelines, the main procurement plan should be revised within a period of not more than six months, but the information regarding the construction of the advanced training and administrative building of the Department's Rohana Institute had not been included in the main procurement plan. Further, as per 4.3.1 (a) of the Government Procurement Guidelines, the total cost estimate including all associated costs should be prepared by the procurement entity, but this had not been done in relation to the above procurement.	Relevant updates will be done accordingly.	That necessary updates should be made as per the Code of Procurement Guidelines.
(b) According to 4.2.2 (a) of the Government Procurement Guidelines Code, a document describing the steps of each procurement action chronologically from the time of initiation to completion of the procurement should be prepared, but it had not been done accordingly.	Instructions have been given to the responsible officials.	That necessary updates should be made as per the Code of Procurement Guidelines.
(c) According to 6.3.6 of the Government Procurement Guidelines, financial information related to the opening of bids and information about each bid (whether duly completed and released bids have been submitted, alternative bids submitted etc.) must be recorded in a prescribed form and Action had not been done according to that.	Instructions have been given to maintain a record as expected in future.	That necessary updates should be made as per the Code of Procurement Guidelines.
(d) Instead of identifying the quantities of materials required under a specific storage method and executing the procurement process under that, the required quantities are brought from the relevant supply at each time, due to the fact that files have been opened to purchase individual items or parts of the same item from time to time there was no focus on getting the benefits of bulk purchase discounts, lowest prices and quality products.	Advice has been given to properly predict the related activities ahead.	That necessary updates should be made as per the Code of Procurement Guidelines.

### 3.3 Assets Management

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The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) 1159.92 perches (1.91825 hectares) of land belonging to other Ministries/Departments had been utilized without proper acquisition.	Proper acquisition is being done.	That Actions should be taken to complete the acquisition proceedings as soon as possible.
(b) The value of 10 ships/vessel which not in working condition was Rs. 163.2 million, attention should be focused on expediting further action, observed during the audit.	Actions will be made to make it operational position as soon as possible.	That the actions should be taken to expedite it an operational position

### 3.4 Management weaknesses

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Audit Observation	Comments of the Accounting Officer	Recommendation
It was not possible to safely store the dry food items in the food store of the Coast Guard 'Varuna' Institute. It was observed that the dry food items were destroyed by rats and various insects.. As a result, a serious problem has arisen regarding the health and safety of all the coast guard officers working in the camp, and due to the destruction of food items, they had to face a problem in maintaining the stock numbers properly.	Reservations will be made for food storage in the proposed building to be established in the future.	That the work to establish a food warehouse should be expedited.

### 3.5 Environmental Audit

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Audit observation	Comments of the Accounting Officer	Recommendation
The fishing vessels, equipment and gear arrested for illegal activities had been detained in the fishing	With the special permission of the court, it will be placed in a	That the impounded vessels, equipment and gear should be placed in



harbors and there was a possibility of an oil spill if there was an immediate flooding, and the increase in the spread of dengue mosquitoes due to rain water collecting in the vessels had to face many negative environmental, health and economic effects. It was observed that it is possible and no steps have been taken to mitigate that risk.

land location within the port. a proper place on land.

**4. Good Governance**  
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**4.1 Internal Audit**  
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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Although the department has 17 units located around the island, the opportunity to conduct a comprehensive audit was minimal due to insufficient utilization of human resources for internal audit.	Agree.	That adequate human resources should be employed for the internal audit section.

**5. Human Resource Management**  
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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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The post of Accountant, a senior level post in the approved cadre, had continued to be appointed as an acting appointment.	The senior level post in the approved cadre is currently not vacant.	That the senior level post which has been continuously appointed as an acting appointment should be converted into a permanent post.