

Forest Department Fund - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Forest Department Fund for the year ended 31 December 2022 comprising the statement of balance sheet as at 31 December 2022 and the account of income and expenditure and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the fund as at 31 December 2022, 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 Adverse Opinion

I expressed adverse 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 adverse 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 determine 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 stability 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 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 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.

The scope of the audit 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observation was made.

<u>Non Compliance with the Standard</u>	<u>Management Comment</u>	<u>Recommendation</u>
Even though it had been stated that the accounts of the fund had been prepared according to the Sri Lanka Public Sector Accounting Standards, a statement of financial position and a statement of financial performance had not been prepared as stated in the standard and a balance sheet and an income and expenditure account had been prepared apart from those formats. Furthermore, according to paragraph 5.2 of Guideline No. 04 issued in relation to State Finance Circular No.01/2020 dated 28 August 2020, a cash flow statement and changes in equity statement were also not prepared.	Agree. The error will be rectified in the preparation of accounts for the year 2023.	Financial statements must be prepared and presented in accordance with Sri Lanka Public Sector Accounting Standards and Public Accounts Guidelines.

1.5.2 Accounting Deficiencies

The following observations were made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
(a) According to paragraph 15.1 of the State Finance Circular No.1/2020 dated 28 August 2020, a bank account was not maintained for the fund and the transactions of the fund were done through the bank account of the Department of Forest Conservation. Without maintaining a common ledger and journal, a trial Balance was	Agree. The error will be rectified in the preparation of accounts for the year 2023.	Account books including the ledger should be maintained and a trial balance should be prepared accordingly.

submitted and the sum of the debit balances was Rs.268,733,101 and the sum of credit balances is Rs.270,237,978 between debit side and credit side difference of Rs.1,504,877 was observed.

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| (b) | Received in the year under review in relation to the previous year Rs.2,284,576 court fine amount had been included in the financial statements as income of the year under review instead of showing it as a previous year adjustment. | Agree. The error will be rectified in the preparation of accounts for the year 2023. | The income related to the accounting period should be correctly recognized on accrual basis and financial statements should be prepared. |
| (c) | For Fixed Deposits in the Fund Regarding the year under review Rs.293,982 should be interest income of Rs.350,708 as Rs.56,726 more than Rs.363,325 Interest income receivable is Rs.52,250 as Rs.311,075 less was included in the financial statements. | Agree. The error will be rectified in the preparation of accounts for the year 2023. | Interest income should be accurately calculated and included in the accounts. |
| (d) | Although the fines collected from the court for forest offence are the main source of income of the fund, the money received and the receivables were not identified after obtaining monthly reports from the Range forest offices and only the amount received was considered as income. Therefore, it could not be confirmed that the accounts have been reconciled correctly. | Agree. The error will be rectified in the preparation of accounts for the year 2023. | The monthly reports from the Range Forest offices should be adjusted to the accrual basis and the correct income should be included in the financial statements. |
| (e) | 26 out of 91 courts, the amount of court fines due at the end of the year under review was Rs.1,544,877 only had been included in the balance sheet. Court fines related to the year 2022 received in the year 2023 are Rs.1,202,434 was also not included in the fines due. Accordingly, the correctness of the court fines receivable shown in the financial statements could not be confirmed. | Agree. The error will be rectified in the preparation of accounts for the year 2023. | All court fines income related to the accounting year should be disclosed in the financial statements. |

1.6 Investment Management

The following observation was made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
The stock certificate issued by the Central Bank of Sri Lanka is Rs.700,000 was held by the fund, but it was not disclosed in the financial statements and its validity was not confirmed in the audit.	Agree with the audit observations and this situation does not arise after opening an independent bank account for the fund.	All investments of the Fund must be included in the financial statements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.1,443,723 and the corresponding surplus in the preceding year amounted to Rs.18,927,751. Therefore an deterioration amounting to Rs.17,484,028 of the financial result was observed. The reasons for the deterioration was mainly due to the increase in security expenses by Rs.17,419,301.

3. Operational Review

3.1 Management Inefficiencies

The following observations were made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
(a) In the year 2022, although the market interest rates had increased at a very high level, the interest rates obtained for the fund's fixed deposits were as low as 5.5 percent, 7.75 percent and 5.25 percent respectively. Accordingly, the income that could have been obtained by not making fixed deposit investments in the fund in a more advantages manner had been lost.	Fixed deposits were canceled and advised to reinvest in the year 2023 at prevailing market interest rates.	A fixed deposit investment should be made in the fund in a more advantages manner.
(b) The expenditure under the reward code in the year under review was Rs.5,605,305 which was 13 percent of the total expenditure. Nevertheless, information was revealed that the officials have not been given reward since the year 2019, even though the related court cases have been finished and the fines have been credited to the fund. The reasons for the payment of the reward amount of Rs.387,528 directly given to the officers of the Colombo Zonal Office only between December 20 and 28, 2022 were not clear.	Since the year 2019, the rewards has been given, but it has been delayed since the year 2020 due to the covid 19 epidemic situation, because the committee meetings were controlled and the general office work was not done properly.	The existing system should be improved and efforts should be made to avoid the delay in giving the awards and provide a more efficient and high quality service.

3.2 Transactions of Contentious Nature

The following observation was made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
It was observed that Rs.1,096,950 spent from the fund for the fuel of the department is not in line with the objectives of the fund, although the expenses should be covered by the treasury allocations allocated for the department as the duties of the department's Security and Law Enforcement Division and Special Investigation Division are general administrative affairs of the department.	This unit has undertaken a special mission to protect forests. It is in accordance with Sections 64 (d) (V), (VI) of the Forest Ordinance. Therefore, it is observed that the expenditure incurred for this unit from the Forest Conservation Fund is not contrary to the Forest Conservation Ordinance.	The role and performance of the regional offices and the head office should be evaluated and expenditure should be incurred from the approved budget allocations for the functions of the fund, and expenditure should not be incurred from the fund for the sectors for which treasury allocations have been reserved.

4. Accountability and Good Governance

4.1 Tabling of Annual Performance Report in Parliament

The following observation was made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
Since its inception, the Fund had not prepared annual performance reports and tabled them in Parliament in accordance with the Financial Regulations 877(2) referred to in Section 1, Section 15.1 of State Finance Circular No. 1/2020 dated 28 August 2020.	No comments.	Annual performance reports should be prepared and tabled in the Parliament on the appointed date.

4.2 Budgetary Control

The following observations were made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
(a) Although the estimated expenditure of the fund in the year under review was Rs.70 million, there was a variation of 77 percent from the actual expenditure of Rs.16 million and the reason for this was the preparation of estimates without proper evaluation.	In preparing the future income estimates, will assume the values that can be actually reached and prepare a budget that can reach the desired goals.	Budget should be prepared according to accurate forecasts.

- (b) Although the original estimate of Rs.12,000,000 for legal and security expenses was revised to Rs.42,000,000 without treasury approval, the actual cost was only Rs.8,222,902. Accordingly, raising the estimate by 250 percent when the cost was low was a matter of controversy.
- Due to the economic downturn faced by Sri Lanka due to financial difficulties and lack of goods and services in the market, it was not possible to reach the desired goals.
- Estimates should be revised only on necessity after obtaining due approval.