

Forest Department Fund - 2023

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Forest Department Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity, and cash flow statement for the year then ended and notes to financial statements including material accounting policy 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, because of the significance of the matters described in Basis for Adverse Opinion of this report, the financial statements do not give a true and fair view of the financial position of the Fund as at 31 December 2023 and its financial performance, and 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 this 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 determines 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 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 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit 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; 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

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) According to Section 53 of Sri Lanka Public Sector Accounting Standard 01, all the statistical information should be disclosed in financial statement in a manner comparable with the preceding period. Nevertheless, comparable information relating to the preceding year had not been shown in such a manner in the financial statements of the Fund. Furthermore, a set of financial statements had been furnished to the Audit stating that Sri Lanka Public Sector Accounting Standards had been followed by providing annual balance sheets and income and expenditure account until the year 2022. But an erroneous note had been entered in the financial statements saying that no comparison had been made with the preceding year as preparation of the financial statements had been done for the first time in the year 2023.	Financial statements had not been prepared by following the double entry method until the year 2022, whereas only the payment reports had been prepared based on the receipts and payments of the year. That report cannot be practically classified as financial statements in the year under review.	All the statistical information in the financial statements should be given in a manner comparable with the preceding year.
(b) Firearms worth Rs.10,472,855 purchased in the year 2023 for security purposes, had not been brought to accounts as fixed assets contrary to Section 14 of the Sri Lanka Public Sector Accounting Standard 07; instead, that value had been written off as a recurrent expenditure, and as such, non-financial assets and surplus of the year had been understated by that amount in the financial statements.	Agreed with the observations.	Those items should be brought to accounts under fixed assets as per the Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Due to failure in maintaining ledger accounts for other income, expenditure, assets and liabilities except for the dues of the Fund and presenting a trial balance as at 31 December of the year 2023, it could not be verified in audit that financial	Agreed with the observation.	Ledger accounts should be maintained by following the double entry method thereby preparing the financial statement in

- statements had been prepared by showing the transactions through double entry method. accordance with the trial balance.
- (b) The cheque relating to the fine of Rs.135,540 sent by the Chilaw court, had not been credited to the Fund but recognized as an income of the Department. As such, income of the Fund and cash balance had been understated by that amount. Agreed with the observation. All of the court fines should be credited to the Fund.
- (c) According to CIGAS software, the income received in the year 2023 as court fines, amounted to Rs.72,722,750, but that amount had been overstated by Rs.862,824 thus showing the sum of Rs.73,585,574 in the accounts. As such, the surplus of the year had been overstated by that amount. As for all the receipts and payments of the Forest Fund being brought to accounts through the General Deposit Account, there exists no provision in the public accounting policy to deduct a certain payment. Hence, sums had been brought to General Deposit Account as re-receipts in order to deduct the expenses of the Forest Fund. Action should be taken to show the correct income in the financial statements.
- (d) A separate bank account had not been maintained for the Fund; instead, transactions of the Fund had been done from the bank account of the Department through a general deposit account of the Fund. The cash balances of the Fund existed in the general deposit account at the beginning and end of the year amounting to Rs.223,495,142 and Rs.251,648,896 respectively, had not been brought to the summarized cash book of the Fund as opening and closing balances. Agreed with the observations. All the transactions of the Fund should be indicated through the cash book of the fund or the account of receipt and payment and cash balance of the General Deposit Account of the Fund should be disclosed in the financial statements.
- (e) The total imprest released to the deputy Regional Forest Rangers had been recognized as expenditure. As the sum of Rs.1,803,043 returned from 04 regional offices as at 31 December had not been deducted from the total expenditure, the total expenditure had been overstated by that amount. As the accounting policy does not include provisions to deduct a payment made through the General Deposit Account, that saving had been brought to the General Deposit Account as a re-receipt. Transactions on the General Deposit Account should be shown in the ledger accounts through a receipts-payments account, thus recognizing the income and

expenditure of the Fund correctly.

- (f) The saving of Rs.341,735 out of the imprest of Rs.18,350,083 given to the regional office in Colombo in the year under review, had not been returned to the Head Office, but action had not been taken to adjust that amount as unsettled advance. Agreed with the observation. Unsettled imprests should be correctly adjusted to the accounts and settled.
- (g) The Department had registered for value added tax (VAT) in terms of Section 10 of the Value Added Tax Act No. 14 of 2002 as amended by Value Added Tax Act No. 44 of 2022, but the Department had not been entitled to do so, and hence, the VAT cannot be reimbursed in respect of purchases made by the Fund. Nevertheless, the VAT amounting to Rs. 1,803,592 paid for the purchases made in the year under review, had been included in the statement of financial performance as a surcharge income. Hence, surplus of the year under review had been overstated by that amount. The value of Rs. 1,803,592.47 being the input tax-local purchases upfront tax, settled within the relevant quarter out of the VAT paid for activities of the Forest Fund, had been shown as surcharges. As the Fund had not been registered for VAT and not been entitled thereto, the VAT of the Department should be computed without settling the VAT relating to the payments of the Fund, and the sum accounted as surcharge income should be settled.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Financial Regulations in terms of Public Finance Circular, No. 2020/01 dated 28 August 2020.			
(i) Financial Regulation 877(2) (a).	A separate bank account should be maintained for the Fund, but transactions of the Fund had been performed with the bank account of the Department of Forest Conservation through the General Deposit Account.	Agreed with the observation.	A separate bank account should be maintained for the Fund in accordance with the Financial Regulations.

- | | | | | |
|------|---|---|------------------------------|--|
| (ii) | Financial Regulation 877 (2) (c), Paragraph (3) of Guideline 04 | Quarterly reports on key functions had not been prepared in a manner that progress of the Fund could be reviewed at the end of each quarter and presented to the Auditor General with copies to the Department of Public Finance and Department of National Budget. | Agreed with the observation. | Quarterly reports should be prepared in order to review the progress of the Fund and presented to the Auditor General with copies being sent to the relevant institutions. |
|------|---|---|------------------------------|--|

1.7 Management of Investments

Audit Observation

Comment of the Management

Recommendation

The sum of Rs.700,000 invested in equity certificates of the Central Bank of Sri Lanka on 03 January 2000 at the interest rate of 12 per cent had been realized after a period of 23 years, but no interest whatsoever had been received thereon. Although the said amount of Rs.700,000 that had not been shown in the financial statements until the end of the preceding year, had been recognized as an income in the statement of financial performance of the year under review in which the realization had been done, that amount had been shown under investments in the statement of financial position.

As a separate bank account, a cash book and other ledgers are not maintained for the Forest Fund, the funds received through realization of investments should be credited to the General Deposits Account of the Forest Fund. As such, it was so disclosed in the financial statements.

Interest of investments should be queried, and action should be taken to correct the adjustments on accounts.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.27,950,146 as compared with the corresponding surplus of Rs.1,443,723 in the preceding year. As such, an improvement of Rs.26,506,423 was observed in the financial result. This improvement had mainly been attributed by the increase in court fines by Rs.31,100,856.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Comment of the Management

Recommendation

- | | | | |
|-----|--|------------------------------|---|
| (a) | Due to reasons such as, inadequacy in the values of rewards, lack of attention on the efficiency in carrying out the functions of the Fund, delays in paying rewards, and failure in identifying the expenses to be incurred on forest conservation in a timely manner, objectives of the Fund could not be fulfilled, | Agreed with the observation. | Action should be taken to properly achieve the objectives in establishing the Fund. |
|-----|--|------------------------------|---|

and an extensive amount of funds had received at the Fund. The value of that amount was Rs.251,648,896 as at 31 December of the year under review.

- | | | | |
|-----|---|--|--|
| (b) | It was the policy of the Fund that court fines, the main source of income of the Fund, be accounted for under accrual basis. However, no follow up action had been taken as to whether all the court fines relating to the finalized court cases had been remitted by the courts. | Agreed with the observation. | Action should be taken to recover the court fines relating to finalized cases. |
| (c) | Action had not been taken to reward the relevant officers with respect to a sum of Rs.3,421,025 that had been credited to the reward fund relating to 274 forest crime cases finalized between the period from 2018 to 31 July 2023. | Instructions have been given to the Range Forest officers that files not presented for payment of rewards be examined and payments be made expeditiously. At present, payments are made with respect to files presented for rewards to the regional forest office. | Action should be taken to efficiently pay rewards by taking follow up action on the finalization of cases relating to forest crimes. |

3.2 Transactions of Contentious Nature

Audit Observation	Comment of the Management	Recommendation
Section 64(2) (d) of the Act had authorized to incur expenses through the Fund relating to forest conservation with respect to the Mission of the Department “ to conserve and develop national forest resources ensuring the prosperity of the nation”. However, without specifically identifying the expenses on conservation of forests, it was observed in sample check that a sum of Rs.2,966,335 had been incurred by the Fund on printing licenses and certificates of the year under review which had not come under forest conservation but should have been incurred from Treasury provisions.	Agreed with the observation.	Only the expenses authorized to be incurred in terms of Section 64(2) (d), should be incurred.

4. Accountability and Good Governance

4.1 Tabling the Annual Performance Report in Parliament

Audit Observation	Comment of the Management	Recommendation
The annual performance reports had not been prepared and tabled in Parliament since inception of the Fund.	Agreed with the observation.	Action should be taken to prepare the annual performance reports and table in Parliament .

4.2 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
As the budgetary estimates had not been prepared attentively and after a proper study, variations of 108.39 per cent and 34.37 per cent were observed between the estimated & actual income and estimated expenditure & actual expenditure respectively. As such, it was observed that the budget had not been made use of as an effective instrument of management control.	Agreed with the observation.	Estimates should be prepared based on accurate forecasts, thereby making use of the budget as an effective instrument of management control.