

## **Forest Department Fund - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Forest Department Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, 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 Qualified Opinion**

I expressed qualified 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 qualified 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 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, 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

| Non Compliance with the reference to particular Standard                                                                                                                                                                                                                                                                                                                                                                                                                                   | Management Comment                                                                                                                                                                                                      | Recommendation                                                                                                                                                               |
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| Although, as per paragraph 88 of Sri Lanka Public Sector Accounting Standards 01, the values in the statement of financial position should be classified under the relevant items specified therein, Firearms worth Rs.10,472,855 purchased for security purposes in 2023 using funds from the Forest Fund, had been classified under Financial Assets, instead of being disclosed under Property, Plant and Equipment within Non-Financial Assets in the Statement of Financial Position. | Firearms valued at Rs. 10,472,855 have been included in the Statement of Financial Position. This value is included under financial assets in the statement of financial position classification, which is not correct. | In accordance with Sri Lanka Public Sector Accounting Standards, financial and non-financial assets should be properly classified and presented in the financial statements. |

### 1.5.2 Accounting Deficiencies

| Audit Observation                                                                                                                                                                                                                                                                                                                          | Management Comment                                                                                                                                                                                                                                                                                                                                                                            | Recommendation                                                                                                                          |
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| (a) The total imprest amount released to the Deputy Zonal Forests Conservators had been identified as expenditure and as at 31 December 2024, Rs.3,830,989 returned from 04 Zonal Offices had been accounted for as income without deducting it from the total expenditure, thus overstated the total income and expenditure for the year. | In the Statement of Financial Performance of the Forest Fund, expenses such as rewards, travelling expenses for courts attending, forest protection expenses, and training expenses are accounted for in Treasury prints through the CIGAS programme. However, when receiving the remaining amount back from the expense, it is not practical to deduct expenses through the deposit account. | Action should be taken to state the Fund's income and expenditure accurately in the financial statements.                               |
| (b) Although the court fines and interest income received in cash during the year under review were Rs. 51,013,580 according to the Treasury printouts, the court fines                                                                                                                                                                    | It will be corrected in the financial statements for the year 2025.                                                                                                                                                                                                                                                                                                                           | Action should be taken to accurately identify and disclose the court fines and interest income of the Fund in the financial statements. |

and interest income in the statement of financial performance were overstated by Rs. 3,785,649 due to it being stated as Rs.54,799,229 in the ledger account.

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| <p>(c) Although the Department is registered for Value Added Tax (VAT) in terms of Section 10 of the Value Added Tax Act No. 14 of 2002 as amended by the Value Added Tax Act No. 44 of 2022, As the Fund is not eligible for that registration, the VAT amounting to Rs. 1,803,592 paid on purchases during the previous year had been erroneously accounted for in the Statement of Financial Performance as VAT surcharge receivable. The necessary adjustments to correct this error had not been made during the year under review as well.</p> | <p>In the year 2025, it will be adjusted through the accumulated fund and credited to the Government revenue.</p> | <p>Since the Fund is not registered for Value Added Tax, the Value Added Tax related to the Fund's payments should be recorded as an expense of the Fund, and the amount accounted for as income should be corrected and stated in the financial statements.</p> |
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## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

| Reference to Laws, Rules Regulations etc.                                                                                              | Non-compliance                                                                                                                                                                                                                                                                                         | Management Comment                                                            | Recommendation                                                                                                                |
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| Finance Regulations 877(2) (c) as amended by Public Finance Circular No. 1/2020 dated 28th August 2020 (Paragraph (3) of Guideline 04) | Although quarterly reports on key functions should have been prepared and submitted to the Auditor General with copies to the Department of State Finance and the Department of National Budget so that the progress of the Fund could be reviewed at the end of each quarter, this had not been done. | It has been noted that quarterly reports will be submitted from 2025 onwards. | Quarterly reports should be prepared and forwarded to the Auditor General, and copies should be sent to the relevant parties. |

## 1.7 Investment Management

| Audit Observation                                                                                                                                                                                              | Management Comment                                                                                                                                                                                   | Recommendation                                                         |
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| As at 31 December 2024, Rs.4,524,873 had been invested in fixed deposits from the Forest Fund, but as per Section 64 (d) of the Forest Conservation Ordinance, there is no provision for the use of funds from | These investments were not fixed deposit investments made during the year under review. Although a considerable amount of interest income has been received by the Fund from these investments up to | Action should be taken to utilize the funds for activities in the Act. |

the Forest Fund for investment activities, and formal approval obtained for these investments had not been presented for audit. now, the approval obtained from the General Treasury for making these too old long-term investments could not be found in the files.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.13,909,254 and the corresponding surplus in the preceding year amounted to Rs. 27,950,146 Therefore a deterioration of Rs.14,040,892 in the financial result was observed. This deterioration was mainly due to a decrease in court fines of Rs. 18,409,287.

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Management Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Recommendation                                                                                                                                                                                               |
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| (a) Although it was the policy of the Fund that court fines, the main source of income of the fund, are 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.                                                                                                                                                                                                                                                                                                                                                                                                               | As pointed out by the audit, action will be taken to obtain the arrears court fine revenue report from all Divisional Forest Offices to confirm whether all arrears court fines revenues have been accounted for.                                                                                                                                                                                                                                                                                                                                                   | Action should be taken to account for and recover all recoverable court fines relating to finalized cases.                                                                                                   |
| (b) Due to the failure to focus on carrying out the activities of the Fund efficiently, delays in the rewards, and the failure to timely identify the necessary expenditure for forest conservation, the objectives of the Fund were not properly achieved and as a result, a large amount of money had accumulated in the Fund, which amounted to Rs. 265,143,123 as at 31 December of the year under review. Furthermore, according to the letter No. H5/කැ.මු/පොදු/2011 and dated 21 September 2020 of the Conservator General of Forests, rewards should be made from the Forest Fund to officers who participated in the prevention of forest offenses. Although recommendations for rewards relating to | Payments have been submitted for 03 cases out of the 18 forest offense detections carried out from 2022 to 2024. Although the Range Forest Officer was instructed to correct and resubmit the detection reports and certain documents that contained deficiencies, the resubmission had been delayed. As a result, payments for the remaining 15 offenses have been delayed. Similarly, the Assistant Divisional Forest Officer had been informed by the Range Forest Officer to take further action regarding the 79 detections made by the Meerigama Range Forest | Action should be taken to effectively achieve the objectives for which the Fund was established by ensuring the timely payment of rewards and the timely identification of forest conservation expenditures. |

18 forest offenses committed from the year 2022 to the year 2024 by the Gampaha and Meerigama Range Forest Offices had been submitted to the Divisional Forest Officer, the relevant rewards had not been made as at 31 January 2025. Similarly, although 79 forest offense detections had been carried out by the Meerigama Range Forest Office from the year 2019 to the year 2024 and the relevant court proceedings had been completed within the relevant time frame, recommendations for payments had not been obtained due to the documentation work had not been finalized.

### 3.2 Transactions of Contentious Nature

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Management Comment                                                                                                                                                                                                                                                                                                                                                                 | Recommendation                                                                                                                                 |
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| 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 expenditures relevant to forest conservation, an amount of Rs. 2,935,368 for the printing of licenses which is a Treasury function not attributable to forest conservation had been incurred from the Fund in the year under review. | When allocating provisions for the year 2024, this expenditure was estimated in the fund account; therefore, it was accounted for in the fund account. Since the printing of license books is an expenditure not attributable to forest conservation, action will be taken from 2025 onwards to ensure that license book printing costs are not accounted for in the Fund account. | In accordance with Section 64(2)(d) of the Act, action should be taken to ensure that only authorized expenditures are incurred from the Fund. |

## 4. Accountability and Good Governance

### 4.1 Tabling of Annual Performance Report in Parliament

| Audit Observation                                                                                                                                                                                                                                                                                                                                                 | Management Comment                                                                                                     | Recommendation                                                                            |
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| In terms of Section 877(2)(e) of the amended Financial Regulations under Public Finance Circular No. 1/2020 dated 28 August 2020, the Fund’s financial statements and performance reports should have been tabled to Parliament within 150 days of the end of the accounting year. However, these reports had not been submitted since the inception of the Fund. | For the year 2024, action will be taken to table the Fund’s financial statements and performance report to Parliament. | Action should be taken to prepare the annual performance reports and table in Parliament. |

## 4.2 Budgetary Control

| Audit Observation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Management Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Recommendation                                                                                                                               |
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| For the year under review, the estimated revenue from court fines and investment income was Rs.42,237,500, whereas the actual revenue amounted to Rs. 55,214,256, exceeding the estimated revenue by Rs. 12,976,756, or 31 percent. Similarly, for 05 expenditure objects, only Rs.41,305,003 out of the estimated Rs.70,000,000 was spent during the year under review, resulting in underutilization of Rs.28,694,997, or between 6.3 percent and 62.7 percent of the estimated amount. Accordingly, it was observed that the budget had not been prepared with proper practical attention. | The estimated revenue from court fines for the year 2024 was Rs.42,000,000. Estimating the timeframe for the conclusion of a case heard in a court is a complex task. In some instances, a case that could conclude within a short period, such as a month, may, on other occasions, extend over several years. Due to this situation, there may be a variance between the estimated revenue and the actual revenue. However, practical attention will be given to court proceedings, and efforts will be made to prepare revenue estimates as accurately as possible. | Estimates should be prepared based on accurate forecasts, thereby making use of the budget as an effective instrument of management control. |