

Head 291- Department of Coast Conservation and Coastal Resource Management

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Coast Conservation and Coastal Resource Management for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and 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. In terms of Sub-section 11(1) of the National Audit Act, No.19 of 2018, the summary report including my comments and observations on the financial statements of the Department was issued to the Accounting Officer on 16 June 2020. In terms of Sub-section 11(2) of the National Audit Act, the Annual Detailed Management Audit Report relating to the Department was issued on 17 July 2020 to the Accounting Officer. This report read in conjunction with Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka is submitted to Parliament in terms of Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of Public Accounts Circular No. 271/2019 dated 03rd December 2019 give a true and fair view of the financial position of the Department as at 31 December 2019, 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 responsibility, under those standards is further described in the Auditor's Responsibility 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 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Statement

The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine 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 of the Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Chief Accounting Officer and 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 system and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility for 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 summary 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 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

As required by Sub-section 6 (1) (d) and section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) That the financial statement for the year under review correspond to the previous year,
- (b) That my recommendation on financial statements for the past year has been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
The total balance of non-financial asset as per the previous year financial statement as at 31 December 2018 was Rs 387,973,060. But the total balance of the opening non-financial asset in the year under review was Rs 402,290,861. Hence, Rs 14,317,801 difference was observed.	The opening balance of assets and value of assets should be recorded accurately.	There are two reasons for the discrepancy of the balance dated on 31.12.2018 with the opening balance of non-financial assets which was gained by the CIGAS programme of the year 2019. i. To the date of 31.12.2018 the balance of work in progress (WIP) on office

building is Rs. 22,511,639 while the expenditure regarding that construction of the year 2019 is Rs. 37,371,226 and the total expenditure is Rs 59,882,865. Those amount to the 31.12.2019 had been changed to the building assets by the WIP. Therefore Rs. 59,882,865 amount had mentioned as constructions under the office buildings during the year is mentioned as non-financial assets statement taken by the CIGAS programme on 31.12.2019.

- ii. Every asset of regional offices belong to the department in the year 2019 have been evaluated and every values over Rs 5000 as the total 36,839,440 was included into the non-financial asset under the opening balance. Therefore the amount Rs 14,317,801 was gained by adjusting the amount Rs 22,511,639 and Rs 36,829,440.

2. Financial Review

2.1 Entering into Liabilities and Commitments

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Amount of liabilities regarding the year under review was Rs 329,590 relevant to the Browns and company have identified under 291-1-1-0-2003 as a capital object and on the year 2020 under the 291-1-0-1409(other) recurrent object had been settled for that under the financial regulations 66/69 haven't got the permission to provisions between expenditure object. Further ,under the 291-1-1-0-2003 capital expenditure object has recognized Rs 220,016 as overall liabilities of simple engineering (pvt) institution and for that Rs 265,800 is paid. According to that have paid Rs 45,784 without identifying as liabilities.</p>	<p>Liabilities identified under relevant expenditure objects have to pay under those same expenditure object and if making payment under other expenditure object for that have to get an action to transfer provisions under financial regulations 66/69</p>	<p>Based on the remaining provision for the year 2019 have made commitment Rs 921.330 of 5 institutions including Browns and Company but haven't received enough imprest on the financial year 2019 in order to pay and settle them. On the month of January 2020 only received Rs. 500,000 under expenditure object 291-1-1-0-2003.To get the work done newly have to settle the old bill of the expenditure object 291-1-1-0-1409 to settle Browns and Company bills.</p>

2.2 Issuance and Settlement of Advances

Audit Observation	Recommendation	Comments of the Accounting Officer
In accordance with Financial Regulations 371 (2) (b) and Financial Regulations 371 (5) of the Public Finance Circular No. 03/2015 dated 14 July 2015, the executive officer who receives the sub imprest should settle to the Imprest Accounts Sector within 10 days of the completion of the work. However, there were 24 instances where the total amount Rs 883,540 had not been settled on the due date and had been done those imprest settlement on a delay between 13 days and 05 months 20 days.	Immediate action taken for sub imprest should be settled in accordance with the circular as soon as the relevant work is completed.	National programs, special programs and proposed programs need to be implemented and completed within a specified time frame in order to be successful. Since the advance required for the work done by the non-executive officers could not be obtained in their own name, the relevant advance had to be obtained in the name of an executive officer. Therefore, as one of the officers had to complete the work with several advances, there have been instances where advances have been paid with a delay and steps will be taken to minimize such situations in the future

3. Operating Review

3.1 Planning

Audit Observation	Recommendation	Comments of the Accounting Officer
The initial project plan for the Koggala Beach Park, which was built at a cost of Rs 16,191,911 but estimated cost as the value of Rs 17,451,352 without proper	Before starting a project, the project should be properly planned and making minor changes should not be problematic, but in this way the project should look	The layout of the beach park has not been completely changed and its main purpose / scope has not been changed. But has the ability to change the

plan. By changing the opening project plan, includes the walking route input and the cafeteria was removed and the estimated size of the 06 stalls was reduced to 02 and the construction of the gabion wall and bridge was modified to include a drainage system. Further, the agreement entered into with the contractor did not include any details about the contract value, due date, performance bonds and late fees.

deeply into achieving the intended purpose of the project by making big changes while implementing the project.

raw material or work items without changing the intentions as required by the procured entity.

3.2 Delays in Execution of Projects

 The following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Although the department should regulate to prevent unauthorized constructions, the total number of unauthorized constructions identified from 2015 to 2019 was 1344. The highest number of unauthorized constructions was reported from Galle and Matara districts. Although 1163 orders had been issued for demolition, only 214 had been demolished. That's a very low percentage, like 18 percent.	The provisions of the Coast Conservation Act should be complied with regarding the removal of unauthorized constructions and those which were ordered to be demolished but not demolished should be classified separately based on the causes and appropriate action should be taken immediately.	Necessary steps have been taken to remove unauthorized constructions and prevent new constructions in the Galle, Matara and Hambantota districts but the operation had been slow down due to inability to make provisions for essential programs of the department and national programs as well as related work, social problems and tourist arrivals.

- (b) Cultivation projects were initiated for these beaches by identifying the plants growing in each of the beaches and the expenditure incurred for that from 2016 to 2018 was Rs. 5,588,897. The projects had failed due to unplanned start-ups and failure of the department to properly monitor and supervise the performance during the implementation of the projects.
- A project should be started with a proper plan and properly monitored during the project implementation period and after completion, the project should be monitored to see whether the desired results of the project is achieved.
- Coastal Zone Programs have been implemented in 2016 and 2018 with the initial intervention of the Regional Offices of this Department under the assistance and supervision of the Divisional Secretariats and provincial Government Institutions to identify the herbs of plants growing in the respective coastal areas and to cultivate suitable plants for those areas. However, the herbs near by the coastal area were affected due to the climate and weather impact. Therefore, although the department has implemented the relevant programs with proper plan, it has not been able to reach the expected level.
- (c) The Department stated that during the design and construction of a coastal conservation construction, a large number of engineering data and geological anomalies regarding environment will be used and the necessary attention will be to the construction. However, due to the lack of a feasibility study, when a coastal conservation construction is carried out at one place, erosion will occur at another place. Though a
- Prior to undertaking a coastal conservation construction, a feasibility study should be conducted to obtain an assessment of the environmental impact of such construction. Then it is possible to plan the construction while minimizing the impact.
- The Act and the Coast Conservation and Coastal Resource Management Plan exempt the conduct of a separate environmental study for engineering construction for coastal conservation activities. Apart from the Coast Conservation and Coastal Resource Management Department, it is also difficult to find a suitable institution for the above activity.

groin, breakwater or boulder is constructed for the places of erosion, they were not the proper measures to prevent coastal erosion.

- (d) As a remedy for the coastal erosion caused by the cut off the sand dune near Kalutara Kalido from 2017 had been spent Rs 65,570,338 for the act of putting rocks and grains. but an environmental study was not done regarding the side effect of these activities. Hence, due to the failure of achieving expected goals was unable to face the rapid changing environmental situations. In addition, it was observed that the sand pumping project carried out on the beaches using 08 lakhs cubic meters of sand worth euro 4,406,100 to Kalido and Mount Lavinia to construct a beach and due to the continuous coastal erosion through pumped sand failure to achieve the expected goals and at the moment Rs 356,526,076 had been paid and the balance remained to be paid.
- Prior to construction or development work, an environmental study should be carried out to determine the impact of the project on the environment and should plan to achieve the expected goals.
- The erosion of the coastal area near Kalutara Kalido is an immediate situation due to the severe floods and adverse weather conditions and the department has taken the necessary remedial measures.
- (e) When construct a stonewall mixed stone for the lower part and boulders weighted 1 ½ to 2 ½ tons of block Any construction must be done with the standard.
- Both the Uswetakeiyawa and Dungalpitiya work sites have been rehabilitated in the event of

stones should be applied to the upper part above sea level but Uswetakeiyawa and Dungalpitiya built at a cost of Rs. 2,394,351 and Rs. 7,642,016 respectively. Due to the used mixed stone for the upper part the mixed stone were washed into the sea. Thus, the expected output could not be achieved due to non-utilization of maximum quality resources.

a sudden coastal erosion. In the treatment of this sudden coastal erosion situation, only mixed stones are used and over time the coastal erosion will subside and the areas will recover. However, those emergency constructions will not be rebuilt.

3.3 Procurements

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer																				
<p>(a) When preparing bidding documents for the purchase of a bidder, all costs incurred in addition to the import price of the item should be accurately identified and if the expenses are to be paid to the supplier, the cost details in the bid document should also be included. However, the following expenses incurred in purchasing 40,000 square meters of ground cover were not included in the bids.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Expense Description</th> <th style="text-align: right;">Value</th> </tr> <tr> <th style="text-align: left;">-----</th> <th style="text-align: right;">-----</th> </tr> <tr> <th></th> <th style="text-align: right;">(Rs.)</th> </tr> </thead> <tbody> <tr> <td>Asha Shipping Line Charges</td> <td style="text-align: right;">66,714</td> </tr> <tr> <td>Warehouse fees of the Sri Lanka Ports Authority Colombo International Container Terminals Ltd. Fees Rank Container Terminals Ltd. Fees (Container Inspection Fees)</td> <td style="text-align: right;">60,106</td> </tr> <tr> <td>Asha Shipping Line Fees</td> <td style="text-align: right;">192,374</td> </tr> <tr> <td>Transport and loading charges</td> <td style="text-align: right;">24,134</td> </tr> <tr> <td></td> <td style="text-align: right;">113,085</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>232,500</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>688,913</u></td> </tr> </tbody> </table>	Expense Description	Value	-----	-----		(Rs.)	Asha Shipping Line Charges	66,714	Warehouse fees of the Sri Lanka Ports Authority Colombo International Container Terminals Ltd. Fees Rank Container Terminals Ltd. Fees (Container Inspection Fees)	60,106	Asha Shipping Line Fees	192,374	Transport and loading charges	24,134		113,085		<u>232,500</u>		<u>688,913</u>	<p>All costs incurred to selected suppliers should be included in the bidding documents.</p>	<p>The bidding documents state that the winning supplier must pick up and deliver the goods, and payments will be made only in accordance with the original invoices of the relevant institutions, and following the procedure for reimbursement of customs duties, port charges and inspection fees incurred. Though the charges were done by any supplier the institutional rate calculation was not charged.</p>
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<p>(b) According to Section 8.9.1 (a) of the Procurement Guidelines, the work exceeding Rs. 250,000, have to make an agreement between the two parties. To construct the madilla breakwater had received a granite loader on a rental basis by spending Rs 450,000 and had given a contract of Rs 958,500 to a private institution but there is no agreement had been made for rent the machine and vehicles regarding kapungoda construction of groins.</p>	<p>Agreements should be entered into in accordance with the Procurement Guideline.</p>	<p>No agreement has been reached with the machine supplier before and steps have been taken to rectify it later.</p>
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3.4 Damages and Lossess

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>In accordance with financial Regulation 104 (1) (a) in case of any loss or damage, an investigation should be initiated to ascertain the extent and causes and to determine those who is responsible, but the Department in accordance with the Financial Regulations regarding damage to the vehicle bearing number PD-4249 Had not been acted upon.</p>	<p>Should be complied with the financial regulations.</p>	<p>The PD-4249 cab was involved in an accident on 24.09.2019 and a police report has been obtained regarding the accident on 31.10.2019.(The delay in obtaining the police report was due to the notice given by the police station that the vehicle had to be custody by the police obtain the analyst report). After discussing with the OIC, the police report was issued.Later, Samarasinghe Motors called for bids for the repair of Windscreen which was involved in the accident and the relevant type of Windscreen could not be obtained from Samarasinghe Motors due to stock expiration. At</p>

present bids are calling by another company for repairs and further work is being done in accordance with the financial regulations.

3.5 Management Inefficiencies

The following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Licenses were issued to Mineral Sands for sand mining from February 2017 to August 2019, and the company mined an additional 19,096 cubes of sand in violation of the terms of those three licenses. Therefore supplementary fee want to be charged by the department due to excessive sand mining from the mineral sand company. But no action had been taken to recover the additional charge of Rs. 9,548,057 from Mineral Sands.</p>	<p>Action should be taken to recover the amount related to the amount of excess mining in violation of the conditions of the license issued for mineral sand mining.</p>	<p>Also, payments have been made to the Coast Conservation and Coastal Resource Management Department for the mining as per the relevant gazette notification. However, it was agreed not to charge for the sand and to pay for it if there is any variation in the amount of release, as the remainder will be released to the shoreline after the acquisition of the pure mineral sand.</p>
<p>License Number</p>	<p>Extent of excess sand mining</p>	<p>The amount charged for cube</p>
<p>P/17/78</p>	<p>9321.80</p>	<p>4,660,900</p>
<p>P/18/86</p>	<p>3928.67</p>	<p>1,964,338</p>
<p>P/18/946</p>	<p>5,846</p>	<p>2,922,819</p>

(b) It is the responsibility of Lanka Minerals to rehabilitate the beach with sea sand after mining of mineral sand in accordance with the 06th condition of the above license and it should be done under the direct supervision of an engineer of the department and the company. But according to reports sent by the company, 277,944 metric tons of sea sand should be filled, but only 119,323 metric tons have been filled and 158,621 metric tons still need to be filled.

The Department should follow up on the refilling of sand to the relevant places after conducting sand mining as per the conditions mentioned in the license and inform the relevant institution about it.

However, Lanka Mineral Sands was informed that the payment should be made as per the relevant gazette notification as the audit has revealed that there is a discrepancy between the sand currently released to the beach and the sand being mining.