

## Head – 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 2019 comprising the statement of financial position as at 31 December 2019 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. The summary report including my comments and observations on the financial statements of the Department of Sri Lanka Coast Guard was issued to the Accounting Officer on 26 June 2020 in terms of Section 11(1) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relating to the department was issued to the Accounting Officer on 04 September 2020 in terms of Section 11(2) of the National Audit Act. This report will 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.

In my opinion, except for the effects of the matters described in the paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No.271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Sri Lanka Coast Guard as at 31 December 2019, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities are further described in the Auditor's Responsibilities for the Audit of 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 on the Financial Statements

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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 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) © 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 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

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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 made by me regarding the financial statements furnished for the preceding year had not been implemented as per the observations shown in paragraphs 1.6.1 (a) (b) of this report.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non- compliance with provisions in circulars of Financial Statements

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Even though financial statements should be prepared in terms of state accounts circular No. 271/2019 dated 03 December 2019, the instances of deviation from the said requirements are given below.

Observation	Recommendation	Comments of the Accounting Officer
(a) Paragraph 7(v) of the circular stated how net assets are calculated. Without calculating accordingly a difference of Rs. 299,675 had been observed in ACA – P of the statement of financial position.	Preparation of financial statement by following instructions.	This change is due to the fact that the deposit account balance is not deducted from the total assets when calculating net assets by mistake.
(b) As per ACA 2(i) statement of expenditure by programme, the acquisition of capital assets worth Rs. 42,082,709 had not been recorded in the statement of non-financial assets as acquisition of assets by purchases. Due to this error the value of the Property, Plant and Equipment in the statement of financial position was less than from that value.	Financial statements should be corresponded to the figures contained in other relevant reports.	Although the year end balance was mentioned under the assets in the printed notes as it was the balance at the beginning of the year, the Department of Public Accounts was informed and attempts were made to include purchases during the year. As the error had not been rectified by the date of preparation of the accounts, the statements of non-financial assets was prepared and submitted in accordance with the printed treasury notes.

## 1.6.2 Cash Flow Statements

The following observations are made.

Observation	Recommendation	Comments of the Accounting Officer
(a) As per the consolidated trial balance, imprest receipts Rs. 323,170,000 other receipts Rs. 3,613,274 and general deposits receipts Rs 2,721,276 should be recorded separately under the cash flows generated by operating activities. But all the above receipts were stated as a total value of Rs. 329,504,550	Receipts should be properly classified and reported in the prescribed format.	Even though the figures included in the cash flow statement were correct but they are categorized on an accrual basis by mistake, the corrected cash flow statement according to the prescribed format is attached here with.
(b) Even though the value of cash spent on operational activities and investment activities on cash basis should be Rs. 70,226,245 and Rs. 256,568,104 respectively, but in the cash flow statement those values had been stated on accrual basis as Rs. 71,116,960 and Rs.258,387,590 respectively. Accordingly the amount spent on operational activities and investment activities had been overstated by Rs. 890,715 and Rs.1,819,486 respectively. Also deposit payment for the year under review was Rs. 2,710,201 had not been stated in cash flow statement.	The cash flows should be properly identified and recorded in the preparation of financial statements.	Even though the figures included in the cash flow statement were correct but they are categorized on an accrual basis by mistake, the corrected cash flow statement according to the prescribed format is attached here with.
(c) Even though the total value of cash spent on operational activities in the cash flow statement (ACA-C) should be Rs. 71,655,117 it had been understated by Rs. 538,157 due to erroneously recording as Rs. 71,116,960.	The cash flows should be properly identified and recorded in the preparation of financial statements.	Even though the figures included in the cash flow statement were correct but they are categorized on an accrual basis by mistake, the corrected cash flow statement according to the prescribed format is attached here with.

### 1.6.3 Assurance to be made by Chief Accounting Officer and Accounting Officer

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Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>In terms of the provisions of section 38 of the National Audit Act No. 19 of 2018, the chief accounting officer and accounting officer should ensure that an effective internal control system is developed and maintained for the financial control of the department and the effectiveness of the system should be reviewed periodically and necessary changes should be made to ensure that the system is running effectively. Although the copies of that reviews should be made available to the Auditor General, but no statement had been made to the audit that such a review had taken place.</p>	<p>-----</p> <p>Should be act in accordance with the provisions of the audit act.</p>	<p>-----</p> <p>I kindly inform you that an effective internal control system for financial control will be formulated with regard to the provision of section 38 of the National Audit Act No. 19 of 2018 by connecting with the internal auditor and the necessary actions will be taken accordingly.</p>

## 2 Financial Review

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### 2.1 Deposit Balances

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Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>Deposits which are exceeding 02 years from the date of deposit should be credited or refunded to the state revenue in accordance with the financial regulation no. 571(3). However no such actions had been taken regarding the overdue deposits of Rs. 288,600 on the date of 31<sup>st</sup> of December 2019.</p>	<p>-----</p> <p>Should act in accordance with financial regulations regarding overdue deposits.</p>	<p>-----</p> <p>Coast Guard Department has withheld this amount as retention money for a service obtained by an external institution and the relevant parties had already been informed to take necessary actions in this regard.</p>

## 2.2 Managing Bank Accounts

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### Observation

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Actions had not been taken in accordance with Financial Regulation No. 396(d) on 08 unrepresented cheques worth Rs.232,218 which the validity period has expired.

### Recommendation

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Financial Regulations must be followed.

### Comments of the Accounting Officer

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I declare that the final reminder letters will be sent for the cheques which are exceeding 06 months from the date of issue and the necessary actions will be taken immediately with regard to this matter.

## 3 Operating Review

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### 3.1 Leaving Projects Unfinished

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#### Observation

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Project work had been abandoned from 22<sup>nd</sup> July 2017 after spending Rs. 30.09 Mn for the construction of an Advanced training and Administrative building in the Rohana institution of the department.

#### Recommendation

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When starting a new project, proper plans should be prepared and implemented by considering all the factors with regard to it.

#### Comments of the Accounting Officer

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Comments not furnished.

### 3.2 Annual Performance Report

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#### Observation

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In terms of the provision of section 16(2) of the National Audit Act No.19 of 2018 the Annual Performance Report should be made available with the Financial Statements to the Auditor General

#### Recommendation

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Annual Performance Report should be submitted along with the Financial Statements in

#### Comments of the Accounting Officer

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Comments not furnished.

but the department had not submitted the annual performance report for the year 2019.

accordance with the provisions of the National Audit Act.

### 3.3 Procurements

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The following observations are made.

Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) A contract for tinkering and painting of a Truck had been awarded for Rs. 777,000. However the registration number of the vehicle was mentioned differently in various documents and files regarding this agreement.	Should be considered about the accuracy of the documents which maintained by the department.	Comments not furnished.
(b) In terms of 4.3.1 (a) of National Procurement Guideline, the procurement entity should prepare a total cost estimate including all related expenses, in procuring goods and works. But there were 15 instances where assets and stocks worth Rs, 3,509,481 had been purchased without preparing a total cost estimate.	As per the provisions a total cost estimate should be prepared on procurement activities.	Comments not furnished.

### 3.4 Assets Management

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Observation -----	Recommendation -----	Comments of the Accounting Officer -----
It had been cost Rs. 82,158,588 from 2011 to the year under review for construction of buildings on 09 plots of 1263.45 perches which were not legally acquired.	Actions should be taken to take over the ownership of the relevant lands properly.	Comments not furnished.

### 3.5 Losses and Damages

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#### Observation

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Due to the late delivery of the vehicle after completing the work of the contract on tinkering and painting valued Rs. 777,000, a loss of Rs. 42,735 had been incurred due to not deducting the late fees as per the contract agreement.

#### Recommendation

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Delay charges will be levied as per the agreement regarding late orders.

#### Comments of the Accounting Officer

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Comments not furnished.

### 4 Human Resource Management

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#### Observation

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The Management Service Department had approved 03 Management Assistant posts and 01 Office Assistant post for the department. But those posts had been remained vacant.

#### Recommendation

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Approved vacancies should be filled.

#### Comments of the Accounting Officer

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Comments not furnished.