

## **Central Environmental Authority**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Central Environmental Authority had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Central Environmental Authority as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Sri Lanka Accounting Standards**

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Even though the depreciation policy had been changed in the year under review, it had not been disclosed by a note in terms of SLAS 3.

##### **1.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Expenditure of Rs.3,177,632 incurred for painting the Head Office building during the year under review had been brought to accounts as capital expenditure.
- (b) The deposit of Rs.144,000 paid as per the agreement to the owner of the building which had been taken on 5 year lease basis for the District Office Gampaha had not been brought to accounts.

- (c) Building rent of Rs.156,000 payable to the Uva Provincial Office in respect of the year 2009 and 2010 had not been brought to accounts.
- (d) Out of the imprest advance of Rs.01 million given to the Post Usage Plastic Waste Management National Project, the expenditure amounting to Rs.936,819 incurred up to 31 December 2010 had not been brought to accounts.

### **1.2.3 Unexplained Differences**

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According to the financial statements of the District Secretariat, the outstanding rent for the office of the Central Environment Authority operated in the Maligawatta Secretariat building premises as at 31 October 2006 amounted to Rs.11,790,000 whereas according to the financial statements of the Authority it was Rs.1,794,584. As such a difference of Rs.9,995,416 was observed.

### **1.2.4 Accounts Receivable and Payable**

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The following matters were observed.

- (a) An age analysis in respect of trade and other receivables amounting to Rs.54,054,405 shown in the financial statements was not made available for audit. Balances amounting to Rs.327,549 out of that remained outstanding for periods ranging from 2 to 4 years.
- (b) An age analysis in respect of the value of payables amounting to Rs.38,113,008 as per financial statements was not made available. Six payable balances valued at Rs.1,009,419 had remained unsettled for the periods ranging from 2 to 4 years.
- (c) According to the pre-paid advances shown in the financial statements, cash imprests of Rs.440,000 and petty cash imprests of Rs.232,500 had been given to 16 Regional Offices, 02 Projects, Western Provincial Office and to the Head Office. These imprests had not been settled as at 31 December 2010.

### 1.2.5 Lack of Evidence for Audit

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Due to non-availability of evidence such as project progress reports, detailed schedules, distribution particulars of compost bins, loss incurred on issue of bins, schedule of issue of licences and the schedule of gratuity provision for the year under review in respect of transactions in 4 instances valued at Rs.27,970,914 could not be satisfactorily vouched in audit.

### 1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Non-compliances with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Section 8(1) of the Finance Act No. 38 of 1971 and Section 5.2.6 of the Circular No. PED/12 dated 02 June 2003.	Even though the draft Budget should be forwarded to the Board approval before 3 months of the commencement of the relevant year, the budget of the Authority had been presented to the Board of Directors for approval only on 27 July 2010. The final revised budget had not been submitted to the Board of Directors for approval even by the end of the year under review.
(b) Financial Regulations (F.R)	
(i) F.R. 371 (2) (c)	(i) Even though the advance granted should be settled immediately after the purpose for which it was obtained was finished, the settlement of advances of Rs.107,370 had

been delayed for periods ranging from 01 to 07 months.

- (ii) Cash advances of Rs.189,450 had been more than 16 years old balances and action had not been taken to recover them.

(ii) F.R. 756 (i)

Even though a Board of Survey should be appointed on or about 15 December each year for the annual verification of stores, it had not been so done for the year 2010.

(c) Circular No. 95 dated 14 June 1994 of the Department of Public Enterprises

Even though only the benefits specifically approved by the Cabinet of Ministers, Ministry of Public Administration or Treasury can be paid to the employees of the Corporations and Statutory Boards with the approval of the Board of Directors a sum of Rs.69,625 had been paid to 22 officers without such approval for engaging in annual Board of Survey for the year 2009 during their normal office days.

(d) Treasury Circulars  
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(i) Circular No. 842 of 19  
December 1978

An updated Register of Fixed Assets had not been maintained.

(ii) circular No I/A/I/2002/02  
of 28 November 2002

A Register of computers had not been maintained as instructed by the circular.

## 2. Financial and Operating Review

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### 2.1 Financial Review

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#### 2.1.1 Financial Results

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The operation of the Authority for the year ended 31 December 2010 had resulted in a surplus of Rs.8,871,112 as against the deficit of Rs.12,679,973 for the preceding year, thus indicating an improvement of Rs.21,551,085 in the financial results. An increase of operating income by Rs.16,803,101 and the decrease in operating and non-operating expenditure by Rs.4,747,983 had been the main reasons for the improvement of financial results as compared with that of the preceding year.

The financial position of the year under review and the past 3 years is given below.

Year	Surplus / (Deficit)
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	Rs.
2007	(18,489,478)
2008	(3,592,102)
2009	(12,679,973)
2010	8,871,112

#### 2.1.2 Analytical Financial Review

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In analysing the total income of Rs.465,508,384 for the year under review the income of the Authority included therein amounted to Rs.111,087,595 representing 24 per cent of the total income. This income in the preceding year amounted to Rs.82,403,313 representing 18 per cent. The income had shown an improvement of 35 per cent as compared the year under review with the preceding year. The financial statements had not been presented by showing the income and expenditure of the Authority and the regional offices separately as shown in the estimates.

### 2.1.3 Transactions of Contentious Nature

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The following observations are made.

- (a) In terms of Paragraph 02 of the Department of Public Enterprises Circular No. 95 dated 14 June 1994, only the benefits specifically approved by the Cabinet of Ministers. Ministry of Public Administration or the Treasury can be paid to the employees of the Corporations and statutory Boards with the approval of their Board of Directors. Nevertheless, the attendance allowance had been paid since 1993 contrary to that provision and the attendance allowance of Rs.4,196,100 had been paid during the year under review on the basis of Management paper No. 255/1176/06 and the related Board of Management decision No. 255/2/11.
- (b) Although the Treasury approval should be obtained to implement an incentive allowance scheme, a provision of Rs.629,604 equivalent to 7 per cent of the licence income had been made in the year under review without such approval only on the approval of the Board of Directors. This amount had been credited to the current account No. 2937303 of the Authority.

Further, the 7 per cent of the licence income amounting to Rs.2,109,948 , so provided from the licence income earned during the years 2009 and 2010 by the Authority had remained idle in a bank current account during the period between 10 to 12 months.

- (c) (i) The Authority had entered into a joint venture agreement on 08 December 2009 for a system of manufacturing fossil fuel (petrol, Diesel, kerosene oil) and LP gas by using plastic and polythene thrown away as a part of one project activity implemented under Post-used Plastic Waste Management National Project. Subsequently, a tripartite agreement had been signed to establish a company in the name of Polipto Lanka (Private) Ltd in the premises of the Central Environmental Authority and to

distribute its share capital such manner as 60 per cent to Central Environmental Authority, 30 per cent to the Founder of the Project and 10 per cent to the Chemical processing Engineering Division of the University of Moratuwa.

- (ii) The actual expenditure incurred in respect of the above project during the years 2009 and 2010 under activity No.B-3-1 in the Action Plan B-3 programme amounted to Rs.22,635,909. While being incurred such expenses, the fuel manufacturing pilot project had been removed from the Post-used Plastic Waste Management National Project by the Gazette (extra ordinary) Notification dated 04 October 2010 and it had been attached to the Ministry of Power and Energy. Action had not been taken to recover the expenditure incurred by the Authority.
  
- (d) It was observed that the balances of 14 bank accounts valued at Rs.17,134,762 operated in respect of Regional offices in the year 2010 had not been transferred to the main bank account as at 31 December 2010. Even a schedule in respect of these balances had not been presented along with the financial statements. A sum of Rs.884,369 in the Batticaloa Branch had not been transferred to the main account evn by 30 August 2011.

## **2.2. Operating Review**

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### **2.2.1 Performance**

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The following observations are made on the physical and financial progress on Activities to be performed in accordance with the Action Plan of the Post-used Plastic Waste Management Project.

- (a) The entire provision of Rs.360,000 allocated to 2 activities which had not been implemented during the year under review had been saved without being utilised.

- (b) The number of activities, the provisions of which were saved between 96% to 50% amounted to 15 and the total savings amounted to 3,895,000.
- (c) Expenditure had been incurred in excess of the provisions of 5 activities and the excess expenditure amounted to Rs.1,629,000.

### 2.2.2 Underutilisation of Funds

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Project grants of Rs.32,452,141 received for 45 items under the Recurrent grants had been remained without being utilised under non-current liabilities. A sum of Rs.5,731,287 included therein had remained idle for periods ranging from 01 to 07 years.

### 2.2.3 Personnel Management

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The approved cadre and the actual cadre as at 31 December 2010 amounted to 802 and 674 respectively. As such the number of vacancies amounted to 128.

Category	Approved Cadre	Actual Cadre	No. of Vacancies
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Top Management Level	21	18	03
Middle Management Level	76	74	02
Operating Management Level	705	582	123
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	802	674	128
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#### **2.2.4 Vehicle Utilisation**

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The total vehicle fleet of the Authority amounted to 49 comprising 21 assigned vehicles, 16 pool vehicles and 12 vehicles attached to Regional Offices. Out of the total fuel and maintenance expenditure of Rs.21 million incurred during the year under review, a sum of Rs. 04 Million or 19% had been spent for hired vehicles.

#### **2.2.5 Internal Audit**

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The Internal Audit Division consists of 3 audit officers. Western province, North Central Province, Sabaragamuwa Province, Southern Province and the Eastern Province had been covered by the internal audit but the Central Province and the Uva Province had not been subjected to audit during the year under review.

#### **2.2.6 Budgetary Control**

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The following matters were observed.

- (a) In the examination of estimated expenditure and the actual expenditure for the period January to 31 December 2010 the 07 items and 02 items had exceeded the estimated expenditure by 100% and 50% respectively, thus it was observed that the budget had not been made use of as an effective instrument of management control for the activities of the Authority.
- (b) A sum of Rs.38,488,751 under 26 recurrent expenditure items and 02 capital expenditure items had been spent by the Authority in excess of the expenditure limits approved by the Treasury in the year under review without prior authority.
- (c) A sum of Rs.939,515 or 94% under foreign travel expenditure item had been spent in excess of the provision.

- (d) Savings between 5% to 355% in 4 project activities implemented by the Authority were observed, while out of the amount of Rs.400,000 received for one activity which was not estimated, the excess expenditure incurred had been 23% .

### **3. Systems and Controls**

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Deficiencies in systems and controls observed during the course of audit were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Settlement of Advances
- (c) Fixed Assets
- (d) Attendance Bonus
- (e) Maintenance of Registers
- (f) Procurement Procedure
- (g) Recurrent Grants