

## **Central Environmental Authority - 2014**

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The audit of financial statements of the Central Environmental Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 6(3) of the National Environment Act, No.47 of 1980. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements 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 Authority’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Central Environmental Authority as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

- (a) In terms of Accounting Standard No. 01, compost bin reserves valued at Rs. 7,887,531, and deposits for Environmental Evaluation Reports valued at Rs. 66,286,032 that could not be settled within a period of one year, had been shown under current liabilities in the financial statements.
- (b) In terms of Accounting Standard No. 07, assets still in use despite being fully depreciated, had not been revalued in order to show the fair value.

#### **2.2.2 Accounting Standards**

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The financial statements had revealed that the aids granted by the Government annually had been accounted in accordance with Sri Lanka Accounting Standards. Nevertheless, the matters relating to the accounting of Government grants that should have been revealed in terms of the said Standard, had not been revealed.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Eleven vehicles worth Rs. 132,787,410 received as grants, had not been included in the financial statements.
- (b) Depreciations for the year under review had been understated in the financial statements by a sum of Rs. 2,151,875 due to a motor car received as a capital grant had not been accounted.
- (c) A sum of Rs. 10,131,559 paid as a daily allowance for meals, had been accounted as travelling expenses instead of being accounted as salaries and allowances.
- (d) The assessed annual tax amounting to Rs. 900,000 payable to the Department of Forest Conservation in connection with the land where constructions had been made by the “KOICA” Project, had not been accounted as payable expenses.

**2.2.4 Lack of Evidence for Audit**

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The evidence shown against the following subjects had not been presented to audit.

<u>Subject</u>	<u>Value</u> Rs.	<u>Evidence not Presented</u>
(a) Pilisaru Project Contract expenses payable	121,440,643	Bills, Reports on works done
(b) Pilisaru Project Purchasing of bins	1,188,000	Goods Received Notes, Stocks Registers

**2.3 Accounts Receivable and Payable**

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Action had not been taken to settle an advance of Rs. 2,318,106 granted by the KOICA Project to the Pilisaru Project in the year 2012, a receivable sum of Rs. 81,579,241, and payable expenses amounting to Rs. 71,769,174.

**2.4 Non-Compliance with Laws, Rules, Regulations and Management Decisions**

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<u>Reference to Laws, Rules and Regulations</u>	<u>Non-compliance</u>
(a) Payment of Gratuity Act, No. 12 of 1983	Allocations amounting to Rs. 603,000 had not been made for paying gratuity to the officers of the Plastic Recycling Project. A sum of Rs. 109,775 had been paid to an officer when he had resigned during the year under review.
(b) Gazette No. 1466/5 dated 10 October 2006	Although it had been banned to use, sell or produce polythene with thickness less than or equal to 20 microns for domestic use, the Authority had not taken steps to examine the progress of implementing that directive.
(c) Section 10.3 of Chapter XXIV of the Establishments Code of Democratic Socialist Republic of Sri Lanka	The distress loan of an officer should be paid based on his basic salary for 10 months. Nevertheless, the Authority had paid the loan based on the gross salary for a period of 10 months. Accordingly, the Authority had overpaid a sum of Rs. 9,748,685 to 90 officers during the year under review.
(d) Public Enterprises Circular No. 95 of 14 June 1994.	A sum of Rs. 2,421,000 as a transport allowance for 23 Deputy Directors of the Authority, a sum of Rs. 10,131,559 as a food allowance for the officers, and another sum of Rs. 282,500 for 2 officers for the official residences from the year 2012, had been paid without approval of the Treasury.
(e) Management Services Circular No. 33 of 05 April 2007	Only the Project Director is entitled to transport facilities though, the Deputy Project Director too had been provided with transport facilities.

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| (f) Section 5.4.12 of Procurement Guidelines- 2006                     | Reimbursements of value added taxes relating to the construction contracts should be presented to the Commissioner General of the Inland Revenue with a copy to the Auditor General. However, action had not been taken in such a manner on a sum of Rs. 3,610,027 reimbursed to the construction company with regard to the filling of lands under KOICA Project. |
| (g) President’s Secretariat Circular No. CSA/P1/40 of 28 February 2007 | Despite being informed that hotel charges should not be settled with Public funds, a sum of Rs. 324,965 had been spent by the Plastic Recycling Project as hotel charges for conducting workshops and meetings during the year under review.   |

## **2.5 Transactions not Supported by Adequate Authority**

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Action had been taken to conduct certificate courses, and charge course fees by establishing an institution under the name of “Sri Lanka -the Centre for International Environmental Studies” with effect from the year under review with the involvement of internal and external lecturers. It was observed that this institution had been operated by utilizing Rs. 19,185,000 worth provisions received from the Treasury instead of being empowered as a separate entity under the Cabinet approval. It was further observed that the Authority did not have an authority for such activities in accordance with “(n)” of Section 10 in the National Environment Act.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Authority and 03 of the projects thereunder for the year under review amounted to a deficit of Rs.52.7 million as against the surplus of Rs.49.4 million for the preceding year, thus indicating a deterioration of Rs.102.1 million in the financial results. The deterioration had mainly been caused by the increase in operating expenditure by a sum of Rs. 252.7 million in spite of the increase in the total income for the year under review by a sum of Rs. 150.6 million.

### **3.2 Legal Cases Instituted by or against the Authority**

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The following observations are made.

- (a) The Authority had filed 116 legal cases in the Courts at the end of the year under review against the outside entities and individuals in respect of environment pollution and environment licenses not obtained.
- (b) An external institution had filed a case against the Authority claiming a compensation of Rs. 460 million, and a person had filed a case against the Authority requesting a compensation of Rs. 10,000 per day since the date the legal proceedings had been instituted. However, the nature of contingent liabilities that could arise from those

cases had not been revealed in the financial statements in accordance with the Sri Lanka Public Sector Accounting Standard No. 08

#### **04. Operating Review**

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##### **4.1 Performance**

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In order to achieve the objectives of its establishment, the Authority had implemented various projects. Following are the observations and performances in regard of 04 main projects that had been proceeding during the year under review.

(a) A sum of Rs. 45 million had been allocated for the activities of the Plastic Recycling Project during the year under review, and Rs. 42.8 million of that had been spent. The following matters were observed during the examination in that connection.

(i) The Action Plan of the Plastic Recycling Project had been amended in the month of August and a provision of Rs.17,413,000 made for 22 activities included in the Action Plan had been eliminated in the amendment.

(ii) Furthermore, a sum of Rs. 12,073,000 had been paid for 02 activities that had not been included in the initial Action Plan.

(iii) Of expenditure amounting to Rs. 42.8 million that had been incurred during the year under review, a sum of Rs. 11.6 million representing 27 per cent had been spent on the operations and staff development.

(iv) A sum of Rs. 1,930,000 equivalent to 50 per cent had been saved from the money allocated for 03 activities included in the Action Plan.

(b) Sanitation Waste Land Filling Project at Dompe

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Two double cabs and one Isuzu cab had been purchased from the funds received by the Project instead of purchasing garbage trucks and bulldozers. Those vehicles had been assigned to officers of the Central Environmental Authority. Furthermore, a jeep and a van granted to the Project had been given to the *Pilisaru* Project, whereas two compactors had been granted to Kaduwela urban council without approval. Hence, it was observed that the main objective of the Project was waste management though, assets of the Project had been utilized for other objectives. It was observed during the physical examination carried out on 06 March 2015 that the Project of which the construction had been completed and handed over to the Authority on 24 March, had remained idle for a period of more than 01 year without commencing the operations.

(c) Solid Waste Disposal Facility Construction Project under the Credit Facilities Provided by Economic Corporation Fund (EDCF)

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In accordance with the loan agreement, the Project had been commenced in November 2013 under the funds amounting to US \$. 33.536 million and US \$. 8.350 from the Government of Korea, and the Government of Sri Lanka respectively. The

Project was to be completed within a period of 48 months. Although a period of 01 year and 06 months had elapsed by June 2015, the construction of proposed 04 land filling centers had not been commenced. Due to this delay, the management had failed to utilize a sum of US\$ 1,340,608 that had been agreed to be granted by the Korean Government during the year under review, in the implementation of the project.

(d) *Pilisaru Project*

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The Treasury had allocated a sum of Rs. 5.633 billion for the project planned to be completed during the 03 year period from 2008 – 2010. The following matters were observed in that connection.

- (i) Despite the plans to complete the project in the year 2010, the project had not been completed even by the August 2015. Only a sum of Rs. 2.352 billion representing 42 per cent of the sum of Rs. 5.633 billion allocated for the project, had been utilized up to the end of the year under review.
- (ii) Under the component of Solid Waste Management – an objective of the project, a financial sponsorship worth Rs. 1,533.34 million had been provided by the project for the construction of compost yards in 117 Pradeshiya Sabhas. Out of those yards, it was observed that there had been 23 yards involved in the process of composting with difficulties, 06 yards that had not been involved in the process of composting despite the constructions had been completed, 04 yards of which constructions had been in progress, and 04 yards remaining non-functional.
- (iii) In addition to this, a sum of Rs. 6,772,253 had been granted for the construction of compost yards in 03 Pradeshiya Sabhas, and the construction of one of the yards had not been completed up to 15 June 2015. Constructions of 02 yards had not been commenced, and a sum of Rs. 04 million had been incurred from this project in an un-economic manner for the construction of a temporary compost yard at a place where a compost yard was being constructed on foreign aids.

#### **4.2 Operating Inefficiencies**

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The following observations are made.

- (a) Even though the Project Director of the Plastic Recycling Project is entitled only to a monthly salary of Rs. 45,000 inclusive of all allowances, and the cost of living allowance on contract basis, a sum of Rs. 690,967 had been paid in 13 instances at Rs. 70,000 per month as vehicle rent for the official vehicle ,and fuel allowances. A motor vehicle of the Authority ,and a fuel allowance for 140 liters of petrol had been granted with effect from 01 August 2014.
- (b) Plastic Recycling Project had obtained a house on rent to be used as the stores since the year 2009. A sum of Rs. 2,699,400 had been paid during the year 2014 at Rs. 45,600 per month during January 2009 to August 2014 including a sum of Rs.

30,000 as monthly rental ,a sum of Rs. 600 for electricity and water, and a sum of Rs. 15,000 for a security guard. However, a lease agreement had not been signed for the year 2014. Even though the security allowance of Rs. 15,000 per month had been paid, there had been no security officer in charge of the stores at the time the audit examined it physically, and an attendance register too had not been maintained.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) A sum of Rs. 4,350,717 had been spent on programs of the Central Environmental Authority by deviating from the objectives of the *Pilisaru* Project.
- (b) Despite a sum of Rs. 60,867,560 granted during 2008 – 2010 for the construction of a large-scale compost yard in Badulla Municipal Council, the construction had been stopped. Owing to this, the Urban Development Authority had been given a sum of Rs. 39,000,000 for the removal of garbage. As the Urban Council is responsible for the removal of garbage, this payment was observed to be a misappropriation of project funds.
- (c) Thirteen motorbikes each costing Rs. 183,000 had been given to employees at Rs. 91,500 each on loan basis, and the Authority had incurred a loss of Rs. 1,189,500 in connection with those 13 motorbikes obtained on loans.

#### **4.4 Apparent Irregularities**

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The following observations are made.

- (a) A sum of Rs. 6,215,000 had been spent by the Plastic Recycling Project on the procurement of a polythene film processing machine, and a machine processing grains of polythene. As the machine had been imported by air without a proper plan and considering to be an urgent requirement, a loss amounting to Rs. 1,225,000 had incurred.
- (b) The *Pilisaru* Project had purchased 13 cameras at the cost of Rs. 176,696 , distributed them among the Environmental Officers of the Authority, and written off from the fixed assets.
- (c) Although a loss of Rs. 270,545 had incurred due to a vehicle that had met with an accident, action had not been taken to recover the said loss from the parties responsible, and the loss had been written off as expenses instead.

#### **4.5 Idle and Under-utilized Assets**

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The following observations are made.

- (a) Ten testing equipment purchased in the year 2007 at a cost of Rs. 452,660 for examining the products made of polythene with thickness less than 20 microns, had not been utilized even up to the end of April , 2015.

- (b) Forty motorbikes purchased during the year under review for pool vehicles, had remained idle for a period of 06 months, and 27 of them had remained idle up to 31 March 2015.

#### **4.6 Non-economic Transactions**

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The test of baseline data on water quality relating to the waste containers of the Sanitation Waste Land Filling Project at Dompe could have been carried out at the laboratory of the Central Environmental Authority. Nevertheless, an external institution had been paid a sum of Rs. 108,735 for carrying out the test.

#### **4.7 Weaknesses in the Contract Administration**

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The following observations are made.

- (a) The Authority had entered into an agreement with a private institution in the year 2012 to launch a waste management project using the anaerobic digestive technology. It was stipulated as per the agreement that the project be completed in January 2015 at an estimated cost of Rs. 121,782,000. A sum of Rs. 64,356,400 representing 53 per cent of the estimated cost had been paid by exceeding the maximum advance payable, which was 20 per cent. Even though it had been decided to invest a sum of Rs. 121 million on the project, a feasibility study on the project had not been conducted. Furthermore, a progress report in connection with the project had not been presented to audit up to 30 July 2015.
- (b) A sum of Rs. 6,797,976 had been spent during the year under review for purchasing 2,000 bins from a private company for the Plastic Recycling Project without evaluating the requirement, and a contract agreement in that connection had not been signed properly in terms of Section 8.9.1 of National Procurement Guidelines. Hence, liquidated damages could not be recovered despite a delay of 2 months in receiving 1,400 bins. An inventory had not been properly maintained to record the receipts and issues of bins.

#### **4.8 Staff Administration**

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The following observations are made.

- (a) The approved cadre of the Authority was 1,151, whereas the actual cadre was 854 as at 31 December of the year under review. There had been 297 vacancies according to the approved staff. Action had not been taken to fill the vacancies, and a sum of Rs. 3,366,535 had been paid during the year under review as salaries for officers appointed for 08 posts that had not been approved.
- (b) Action had not been taken to prepare and approve a scheme of recruitment including specific qualifications required for the posts of the Authority.



- (c) According to the particulars of the approved cadre of the Authority, there had been 02 posts of Confidential Secretary. However, an additional Confidential Secretary had been appointed on assignment basis deviating from the approved cadre.
- (d) Contrary to the directives of Department of Management Services Circular No. 33, an underqualified person had been appointed to the post of Manager (Supplies and Services) of the Solid Waste Disposal Facility Construction Project being carried out under the credit facilities provided by Economic Corporation Fund, and a net salary inclusive of allowances aggregating Rs. 2,203,379 at a monthly salary of Rs. 95,000 had been paid during the year under review. Furthermore, appointments for 11 posts had not been made in a manner that the activities of the project could be carried out efficiently.
- (e) The Post-Consumer Plastic Waste Management Project had paid a sum of Rs. 435,146 as salaries and allowances during May 2013 – December 2014 to the officer who had been appointed as the Media Coordinator of the Minister’s office.
- (f) Three underqualified officers had been appointed to the upper level staff of the *Pilisaru* Project , whereas the number of vacancies that had not been filled up to 30 June 2015 was 14 .

#### **4.9 Resources of the Authority Allowed to be Used by Other Government Institutions**

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The following observation is made.

Three officers had been released to officiate at other institutions with salaries being paid by the Authority by the end of the year under review.

### **5. Accountability and Good Governance**

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#### **5.1 Internal Audit**

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An internal audit had not been carried out on the projects adequately.

#### **5.2 Unresolved Audit Paragraphs**

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Audit observations that remained unresolved up to the date of this report despite being brought to the notice of the Chairman of the Authority, are given below.

- (a) Action had not been taken to recover the loss of Rs. 49,623,542 incurred in connection with the constructions of the Sanitation Waste Land Filling Project at Dompe.
- (b) An over-estimation valued at Rs. 22.26 million had been made for the construction of the access road to the Sanitation Waste Land Filling Project at Dompe. The contractor had been over-paid a sum of Rs. 8.15 million, and the access road constructed was of substandard quality.

- (c) The National Chemical Material Profile Updating Project was scheduled to be completed in the month of January of the year under review. However, the Project Implementation Design had not been completed even by April 2015
- (d) Amendments had not been made to the National Environment Act, No. 47 of 1980 required to be improved in 18 identified Sections of the Act.

### **5.3 Fulfilment of Environmental and Social Responsibility**

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The following observations are made.

- (a) The Authority had not taken any step on the complaints received in connection with the damage caused to the environment because of the power station built by the *Naya Ganga* Small Scale Hydro-power Project by diverting the stream with the construction of a reservoir on top of the 6<sup>th</sup> one of the 7 waterfalls known as “*Eli 07*” in the *Samanala* forest reserve. Such damages had been caused to the environment due to negligence of environmental risks in granting approval for the preliminary environmental reports. Accordingly, it was observed that the Authority had deviated from its social responsibility.
- (b) Reports on the Assessment of Environmental Impact  
Even though it had been verified in field inspections and follow-ups that the Ministry of Irrigation and Water Resources Management had failed to fulfil the conditions required to grant environmental certificate to the *Uma Oya* Multi-purpose Development Project, approval on the assessment of environmental impact had been granted for the period 12 April 2011 to 12 April 2017 in spite of those observations. Despite 113 complaints received from the Public in this connection, attention of the management had not been drawn.
- (c) Environmental Complaints  
The number of environmental complaints received during the year under review was 2053 of which, 1614 complaints equivalent to 79 per cent had remained unresolved. Accordingly, it was observed that the progress in resolving the complaints had been at a very low level.

### **6. Systems and Controls**

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Weaknesses observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Implementation and Control of Projects
- (b) Accounting
- (c) Progress in the Fulfilment of Environmental Responsibility
- (d) Human Resources Management
- (e) Internal Audit