

Marine Environmental Protection Authority -2014

The audit of financial statements of the Marine Environmental Protection 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 information, was carried out under my direction in pursuance of provision 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 20 of the Marine Pollution Prevention Act, No.35 of 2008. 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 Managements Responsibility for the Financial Statements

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

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 (ISSA1 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 performance procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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, 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. Sub sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary any powers to the Auditor General to determine the scope and extent of the Audit.

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matter in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects 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 Marine Environmental Protection 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 of Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

- (a) According to Sri Lanka Public Sector Accounting Standards No.01 the Marine Environment Conservation Fund amounting to Rs.15,516,150 shown in financial statement is a reserve belongs to the Authority. However, it had been shown as a non-current liability in the financial statements.
- (b) Even though according to the Sri Lanka Public Sector Accounting Standard No.09 , the value of the stocks should be measured at the lower of cost and net realizable value and shown in financial statements without being ascertained the net realizable value of the stock of oil spread disbursing had been shown in the financial statements at its cost of Rs.3,858,954.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.158,248 payable to the Department of Buildings for a consultancy service had not been shown in financial statements.
- (b) A sum of Rs.7,362,959 which had been given by the Treasury for construction of a Green Fishery Harbor had been accounted for as recurrent income instead of being accounted for as a donation and a sum of Rs.362,959 had been incurred out of that amount in the relevant year and it had been accounted for as an expenditure of the year. Also, a sum of Rs.7,000,000 retained further had been inappropriately accounted as an expenditure of the year though any transaction was not made.
- (c) Savings from the Capital Provisions amounting to Rs.19,530,152 provided by the Government for the Capital expenditure had been inappropriately shown in financial statement as a credit balance of the work –in –progress.

2.2.3 Lack of Evidence for Audit

Particulars of the expenditure and the detailed schedules of the amount of Rs.24,906,853 which had been written off as the expenditure of the year from the sum received as capital grants had not been furnished to audit.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to laws, rules, regulations -----	Non-compliance -----
(a) Section 16(3) of the Marine Pollution Prevention Act, No.35 of 2008	Even though it was stated that the officer who is appointed as the Secretary to the Board of Directors should have a considerable experiences and qualifications on the field of law or Secretarial experience as a Company Secretary, the person who appointed as the Secretary had not been fulfilled the said qualifications.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulations 751(i)	Two laboratory equipments valued at Rs.1,782,436 had not been entered in the Stock Register.
(ii) Financial Regulations 757(2)	Board of Survey Reports of the year under review had not been furnished to the Auditor General.
(c) Internal Circular of the Authority No.2/2011 of 24 March 2011 on providing and settlement of advances.	A sum of Rs.190,200 obtained in 21 instances had been re-settled entirely without spending and it was observed that an amount more than 50 per cent, out of the advances obtained, had been re-settled in cash in 60 instances.

03. . Financial Review

3.1 Financial Results

According to the financial statements presented, the results of the operations of the Authority during the year under review had been a deficit of Rs. 4,955,583 as compared with the

deficit of Rs. 2,804,789 for the previous year ,thus a deterioration amounting to Rs.2,150,794 in the financial results had been observed. Even though the total income of the year under review had increased by Rs.22 million, the increase in operational expenditure by Rs. 24 million in the year had been the main reason for this deterioration.

04. **Operating Review**

4.1 **Performance**

The following observations are made.

- (a) Even though a sum of Rs.1,990,000 had been spent for the 05 activities scheduled to be implemented during the year , a physical progress had not been achieved and the entire provision amounting to Rs.31,150,000 made on 03 activities had been saved. 50 per cent or more had been saved out of the provisions made for another 14 activities and expenditure on 12 activities had been made exceeding the provisions by Rs.6,071,000.
- (b) Even though provisions of Rs.10,000,000 and Rs.30,200,000 had been made for the Green Fishery Harbor Project and Establishment of National Centre for Marine Pollution Control respectively, planned to be implemented by the Authority in the year under review, those Projects had not been implemented.

4.2 **Operating Inefficiencies**

The following observations are made.

- (a) Even though a sum of Rs.31,162,704 had been spent as at 31 December in the year under review only for the purchasing of laboratory equipment for the laboratory of the Authority established in the year 2009, actions had neither been taken to publish the test reports so far conducted at the laboratory nor action taken to prevent the marine pollution based on said reports.
- (b) Approval of the Board of Directors had been granted in the year 2013 to establish a laboratory in the Trincomalee office. Even though 05 laboratory equipment had been purchased by incurring a sum of Rs.1,500,693 as at May in the year under review for this purpose, the activities of that laboratory had not been commenced even as at 15 May 2015.
- (c) Even though according to the International Agreement of Prevention of Marine Pollution(MARPOL) an international methodology for emission of burnt oil and other waste from ships should be formulated, actions had not been taken in this connection so far.
- (d) Action had not been taken to supervise the discharge of pollutants to the sea by the Colombo Port City Development Project and to issue the license by taking actions according to the Extra Ordinary Gazette Notification No.1816/37 of 28 June 2013. A proper methodology had not been introduced for the issuing of license and the Authority had not paid its attention to minimize the marine pollution by issuing of license in proper manner.

- (e) Even though awareness programmes had been conducted on National Emergency Oil Spreading Plan , the relevant plan had not been updated after the year 2004.
- (f) It was observed in audit that the procedure of signing the Log Books as introduced by the Authority for the supervision of the duties of the Marine Pollution Prevention Field Assistants, and supervision of them had not been conducted properly.
- (g) Although a sum of Rs.699,730 had been spent for the update of Pollutant Source Inventory only in the year under review , the said inventory had not been prepared.

4.3 Idle and Underutilized Assets

Even though a computer software system spending a sum of Rs.4,000,000 in the year 2013 and a technical equipment spending a sum of Rs.1,411,004 in the year under review had been obtained for computerize (e service) the methodology of issuing license for the service of acceptance of the pollutants discharged by ships, this methodology had not been introduced even as at the end of June 2015.

4.4 Delayed Projects

Even though an expenditure amounting to Rs.10,040,667 had been incurred, sums of Rs.5,578,344 in the year 2013 and Rs.4,462,323 in the year under review for the Project of “Management of Introduction of Invasive of Alien Species in to Sri Lanka Waters through ship’s ballast water”, the final report of the Project had not been prepared even as at the end of June 2015.

4.5 Resources of the Authority Released to other Government Institutions

A microscope camera valued at Rs.873,750 had been purchased for the survey of establishing primary data system in the vicinity of harbor. Since there was no space available in the laboratory of the Authority it had been handed over to install in the University of Sri Jayewardenapura. The Chairman of the Authority had informed me on 02 July 2015 that it was done on the request made by a Lecturer who participated for this survey and after the completion the mission , action will be taken to re-place this equipment in the laboratory of the Authority.

4.6 Staff Administration

The following observations are made.

- (a) There were 34 vacancies in the staff of the Authority even as at 31 December 2014, out of these vacancies, 05 vacation in Senior level posts , had affected to perform the activities of the Authority efficiently.
- (b) Even though according to Section 7 of Public Administration Circular No.162 of 01 April 1980, all the officers who report for the duty should be put the arrival and departure times and the signature in the Attendance Register, the General Manager of the Authority had not been so done.

- (c) Even though according to the Recruiting Procedure of the Authority, the efficiency bar examination should be passed before completion of the 3 years period, salary increments had been paid without conducting the said examination. It was observed that maintaining of the Personnel files under the Administrative officer instead of being maintained them by the Human Resources Development Division ,was the reason for occurring of such deficiencies .

4.7 Vehicle Utilisation

A motor vehicle belongs to the Authority had been handed over to a private institute on 24 June 2013 for repairing purposes and action had not been taken to get back this vehicle to the custody of the Authority even as at 30 June 2015.

05 Accountability and Good Governance

5.1 Action Plan

The progress had not been presented according to the Action Plan in the Draft Annual Report presented, the Institute had not introduced a methodology to examine the progress of the achievements of the activities mentioned in the Action Plan in a timely manner.

5.2 Non Achievement of the Objectives of the Act

Actions had not been taken to draft legal provisions relating to 7 directives stipulated under Section 51(1) of the protection of Maritime pollution Act, No. 35 of 2008 minimize the marine pollution , earning the income and, introduction of methodologies for prevent the marine pollution systematically through it.

5.3 Unsolved Audit Paragraphs

The following observations are made.

- (a) The Cabinet of Ministers had approved to recover all expenditure incurred by the Authority with regard to prevent the marine pollution cause due to oil leakage from a ship in the year 2012 from the owners of the ship. However, the expenditure amounting to Rs.11,551,133 incurred thereon had not been recovered.
- (b) Necessary actions had not been taken up to 30 June 2015 with regard to the audit queries issued on the matters such as implementation of emergency plans for spilling of oil from ships, waste management of fishery harbors, take action on waste management of disposal of waste to the sea from the distance of 300 metres from the maritime limit and observation reports prepared in laboratories.

06 **Systems and Controls**

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

- (a) Implementation of Projects
- (b) Implementation of Programmes and Plans
- (c) Staff Administration