

Central Environmental Authority - 2015

The audit of financial statements of the Central Environmental Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 Environmental Act, No.47 of 1980 amended by the National Environmental Act, No.56 of 1988. 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

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

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 Auditing 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 misstatement 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

My opinion is qualified based on the matters described 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 Central Environmental Authority as at 31 December 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 03

Even though the lands valued at Rs.2,450,000, classified as lands and buildings in the preceding year, had been rectified in the year under review, adjustments had not been made for depreciation valued at Rs.428,750 in that connection.

(b) Sri Lanka Public Sector Accounting Standard 07

Even though property, plant and equipment with only insignificant changes in fair value should be revalued once in every 03 or 05 years, action had not been so taken in respect of motor vehicles valued at Rs.95,469,873.

2.2.2 Accounting Policies

The Policy on annual depreciations of 10 per cent of the cost, followed for office equipment had been followed in respect of computers without evaluating their useful life.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Assets valued at a total of Rs.20,178,000 received from various institutions and other projects in the year under review had not been brought to account and provisions for depreciations thereon as well had not been made.

(b) Projects valued at Rs.395,200,000 received in the preceding year as capital grants, had not been capitalized in the year 2014. As such, depreciation of Rs.9,443,854 relating to that, had been written off against the profit of the year under review instead of making adjustments retrospectively.

- (c) The value of assets amounting to Rs.528,152,772 received as capital grants from various institutions had been included as a financial movement in the cash flow statement and a sum of Rs.7,320,000 spent for purchase of motor bicycles in the preceding year had been shown as cash outflow in the year under review.

2.2.4 Lack of Evidence for Audit

Detailed schedules and bills for Goods in transit and work in progress totalling Rs.34,546,481 and project expenditure totalling Rs.164,361,911 payable to Local Authorities respectively, had not been furnished to audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.,	Non-compliances
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(a) Notification published in Gazette No. 1466/5 dated 10 October 2006	Although the production, sale or use of polythene with thickness less than or equal to 20 microns for domestic use had been banned, the Authority had not taken steps to examine the progress of implementing those directives.
(b) Section 10.3 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the National Budget Circular No.155 of 30 December 2011	Even though the loan should be computed based on the basic salary of the officers in the payment of distress loans, the Authority had made payments by computing based on the gross salary. As such, a sum of Rs.17,431,997 had been overpaid to 123 officers and distress loans had been paid to 59 officers exceeding the limits of the Circular.
(c) Section 7.4.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the fixed assets should be surveyed annually and compared with the balance of the Register of Fixed Assets, action had not been so taken.
(d) Management Services Circular No. 39 of 26 May 2009	Even though the concurrence of the Department of Management Services should be obtained in the payment of additional allowances, contrary to that, three salary increments each had been granted to 22 officers who had obtained postgraduate qualifications.
(e) Treasury Circulars	The Register of Fixed Assets had not been maintained properly in the updated manner.
(i) Circular No.842 of 19 December 1978	
(ii) Circular No. IAI/2002/02 of 28 November 2002	A Register on Computers and Computer Software had not been maintained properly in the updated manner.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority and 02 of the projects thereunder for the year under review had been a deficit of Rs.72,318,000 as compared with the corresponding deficit of Rs.61,310,000 for the preceding year, thus indicating a deterioration of Rs.11,008,000 in the financial result of the year under review as compared with the preceding year. Even though the operating income of the year under review had improved by Rs.86,026,000 as compared with the preceding year, the increase in the operating expenditure by Rs.97,033,000 had been the main reason for the above deterioration in the financial result.

An analysis of financial results of the year under review and the 04 preceding years revealed a financial surplus in the year 2011. Nevertheless, there had been continuous financial deficits from the year 2011 up to the year 2015. However, taking into consideration the employees' remuneration, Government tax and depreciation for the non-current assets, the contribution of the Authority in the years 2014 and 2015 had been Rs.453,482 and Rs.646,565 respectively.

3.2 Legal Cases Instituted by the Authority

The Authority had filed 60 and 116 cases in the year under review and in the preceding year respectively in the Courts against the outside entities and individuals in respect of environment pollution and for non-obtaining environment licenses.

4. Operating Review

4.1 Performance

The following observations are made.

(a) The main objectives in terms of Section 10 of the National Environmental Act, No.47 of 1980 as amended by the National Environmental Act, No.56 of 1988 are as follows.

- ❖ Regulate, maintain and control the types, constituents and effects of waste discharge, deposits or other sources of pollution which are of danger or potential danger to the quality of the environment through the implementation of Environmental Protection Programme under the National Environmental Act.
- ❖ Protect natural resources based on the country by ensuring environmentally and development intervention through systematically assessed environmental implications, using Environmental Impact Assessment as a tool.
- ❖ Make people conscious of the local, national and global environmental problems with a view to motivate and to harness public support and participation, particularly the participation of school children in protecting the environment.

❖

The following objectives out of those objectives had not been executed.

- (i) Require any local authority to comply with and give effect to any recommendations relating to environmental protection within the limits of the jurisdiction of such local authority and in particular any recommendations relating to the environmental pollution.
- (ii) Establish and maintain liaison with other countries and international organizations in respect of environmental protection and management.

(c) Pilisaru Project

Even though 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, only a sum of Rs.2.555 billion or 45 per cent had been utilized up to the end of the year under review. The project had not been completed up to the end of May 2016 and the following matters are observed in that connection.

- (i) Out of the provisions made for the contract in the year 2014 and at the beginning of the year 2015 for the Kotawila Waste Management Project implemented by using Anaerobic Digestive Technology of the Matara Municipal Council concurrently with the Deyata Kirula 2015, a sum of Rs.64,356,000 or 55 per cent had been paid to the contractors company as mobilization advances. The work of this project had been discontinued halfway and that project had not been commenced again even by 01 May 2016.
- (ii) Even though a sum of Rs.5,552,962 had been granted as advances to 04 Pradeshiya Sabhas and an Urban Council for the construction of compost yards, those constructions had not been completed.
- (iii) Compost Projects of 06 Local Authorities had been commenced after delays of 05 months to 03 years and 09 months.
- (iv) A sum of Rs.1,372,000 had been spent for the purposes of the Central Environmental Authority deviating from the objectives of the Project.

(d) **Solid Waste Disposal Facility Construction Project under the Credit Facilities Provided by Economic Development Co-operation Fund (EDCF)**

The following observations are made.

- (i) The Project had been commenced in November 2013 under the funds amounting to US \$. 33,536,000 and US \$. 8,350,000 from the Government of Korea and the Government of Sri Lanka respectively based on completion of the Project in 48 months. Even though a period of 02 years and 05 months had elapsed by May 2016 after commencing the project, the construction of proposed 04 land filling centers had not been completed. Provisions of

Rs.143,515,900 and Rs.192,000,000 had been made for this in the year 2014 and the year 2015 respectively.

- (ii) Even though provisions amounting to Rs.300,000,000 had been made as foreign loans in the year 2015 to build up the Solid Waste Disposal Facilities, the entire provisions had been transferred for the Project on Dam Protection and Designing Water Resource Management of the Ministry on 29 December 2015 without being utilized.
- (iii) Even though provisions of Rs.92,000,000 had been made in the year under review for local cost related with foreign funds, only a sum of Rs.14,953,000 had been utilized. As such, 84 per cent out of the entire provisions, that is, Rs.77,047,000 had been underutilized.

4.2 Management Activities

The following observations are made.

- (a) A contract valued at Rs.69,500,000 had been awarded for the construction of the access road of the premises of the Sanitation Waste Land Filling Project at Dompe. An on the spot test revealed that an overpayment of Rs.8,151,173 had been overpaid to the contractor due to the preparation of an overestimate of Rs.22,266,495 made as a result of estimating in excess of the standard rates, estimating for items not carried out and estimating for contingencies. Even though it had been confirmed by 05 laboratory reports that the construction of the road had not been carried out up to the specified standards, the Authority had not paid attention in that connection.
- (b) Even though the Authority had been using 06 motor vehicles given to the Authority by the Ministry of Environment, action had not been taken to effect the formal transfer of their ownership.
- (c) Allowances amounting to Rs.1,901,000 paid to the officers of the Authority as executive allowances, had not been recovered even by April 2016.
- (d) Administrative fees amounting to Rs.325,339 recoverable from the project proponent relating to 21 projects for the purpose of approving Environmental Impact Evaluation Project Reports, had not been recovered.

4.3 Transactions of Contentious Nature

A sum of Rs.12,902,384 had been paid to 874 officers of the Authority at the rate of Rs.85 per day in the year under review as food allowances without the approval of the Treasury.

4.4 Underutilization of Funds

A sum of Rs.4,333,917 received for 10 projects as recurrent and capital aid, had been underutilized without using for the relevant objectives.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Ten testing equipment purchased in the year 2007 at a cost of Rs.452,660 for testing the products made of polythene with thickness less than 20 microns, had not been utilized even up to May 2016.
- (b) A motor vehicle valued at Rs.6,050,000 had remained idle in the vehicle park without being used over a period of nearly 04 years.

4.6 Identified Losses

A surcharge of Rs.18,130 had been paid due to non-payment of Employees' Trust Fund contributions payable in the year 2014 and action had not been taken to recover these amounts from the officers responsible.

4.7 Resources of the Authority given to other Government Institutions

A compact motor vehicle valued at Rs.6,675,000 received for the Green Park Centre in Dompe had been given without approval for the use of the Kaduwela Municipal Council since the year 2014.

4.8 Staff Administration

The following observations are made.

- (a) The approved cadre of the Authority had been 1,173, whereas the actual cadre had been 874 as at 31 December 2015.
- (b) Even though the approvals and promotions in the staff had been made without approving the new Scheme of Recruitment, action had not been taken on a legal basis in that connection. As such, it was observed that the opportunity of appointing properly qualified officers had been missed. Moreover, instances where qualifications had been decided considering basic degrees and postgraduate qualifications and service experience of several years in the Authority as similar relating to each post in the existing Scheme of Recruitment were observed. Further, it was observed that the Scheme of Recruitment had been formulated by including the existing qualifications of the officers serving in certain posts.

4.9 Utilization of Motor Vehicles

The following observations are made.

- (a) Necessary steps had not been taken to dispose of or auction 04 unserviceable motor vehicles.
- (b) An inquiry in respect of a misplaced motor bicycle costing Rs.183,000 had not been completed even up to 31 December 2015, the date of audit.

5. Accountability and Good Governance

5.1 Internal Audit

Even though the proposed staff of the Internal Audit Unit should comprise 07 officers including the Internal Auditor, only three officers had been attached as at 01 August 2016. It was observed that this staff is inadequate in considering the scope of the Authority.

5.2 Fulfilment of Environmental and Social Responsibility

The following observations are made.

- (a) The number of environmental complaints received during the year under review was 2053 of which, 1614 complaints equivalent to 79 per cent remained unresolved. Accordingly, it was observed that the progress in resolving the complaints had been at a very low level.
- (b) Even though it is a responsibility of the Authority to give priority to matters such as paying attention on planning steps necessary to implement waste management projects in small or medium scale in the country, providing an alternate solution for the use of chemical fertilizer through manufacture of compost which is a by- product of waste management and minimizing environmental damage and earning an income to the Authority as well in respect of waste collected in urban areas, which is a national issue, proper attention had not been paid thereon.
- (c) The service that should be provided to the public by the Authority had not been fulfilled satisfactorily due to issuance of Environment Protection Licenses for industries without a proper methodology.
- (d) It had been identified that there is a possible risk of water drying up in the 06th and 07th waterfalls by constructing 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 6th of the 7 waterfalls known as “*Eli 07*” in the *Samanala* Forest Reserve. The relevant preliminary environmental reports had been issued without considering the complaints and risks thereon. The project had been completed by now and even though it had been confirmed by field inspection reports that there is a threat to 02 out of 07 waterfalls being dried up, no action whatsoever had been taken in that connection.
- (e) Among the objectives and key functions mentioned in the National Environmental Act, the Authority is responsible for the coordination of all regulatory activities relating to the discharge of wastes and pollutants into the environment and the protection and the improvement of the quality of the environment. Discharge of wastes collected in urban areas is become a severe problem to the environment as well as to the sanitation of the public. However, many Local Authorities had not paid attention on the necessity of giving prompt solutions thereon.

6. Systems and Controls

Deficiencies in systems and control observed in 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.

Areas of Systems and Controls -----	Observations -----
(a) Staff Administration	Failure in recruiting, promoting and giving salary increments according to the Scheme of Recruitment.
(b) Implementation and Control of Projects	Failure in completion of projects as scheduled on due date and non-presentation of final reports and accounts relating to projects.
(c) Control of Motor Vehicles	Even though action should be taken to dispose of unserviceable motor vehicles and minimize obtaining hired motor vehicles, action had not been so taken.