

## **Central Environment Authority - 2017**

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The audit of financial statements of the Central Environment Authority for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Financial Performance, Statement of Changes in Equity, Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my discretion 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 6(3) of National Environmental Act No: 47 of 1980 amended by 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was furnished to the Chairman of the Authority on 31 July 2018.

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

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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 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 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 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 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 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 Environment Authority as at 31 December 2017 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) **Sri Lanka Public Sector Accounting Standard 01**

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Although intangible assets should be presented as a line item in the face of the Statement of Financial Position as per paragraph 88 of the Standard, the software amounted to Rs. 819,322 that owned to the Authority had been accounted under the cost of Property, Plant and Equipment without identifying separately.

(b) **Sri Lanka Public Sector Accounting Standard 02**

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(i) Following observations are made regarding the Cash Flow Statement of Central Environment Authority.

- Non-cash other operating expenses amounting to Rs. 5,507,674 that stated in Statement of Financial Performance had not been adjusted to the Profit before Tax under the operating activities.
- It had been stated that the amount of Rs. 6,491,054 of Property, plant and equipment purchased in the year 2016 as cash outflow under the investing activities and the capital grant related to the year under review as cash inflow under financing activities.
- Non-cash transactions of Rs. 42,665,352 that included in work-in-progress had been stated as cash outflow under investing activities.

- The provision for gratuity of Rs. 387,785 in the Solid Waste Disposal Facility Construction Project related to the year under review had not been stated by deducting from profit before tax under the operating activities in the Cash Flow Statement of that project.

(c) Sri Lanka Public Sector Accounting Standard 07  
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(i) Although the useful life of an asset shall be reviewed at least at each annual reporting date as per paragraph 65 of the Standard, without doing so, it had been estimated 40 years instead of the useful life of 20 of Dompe Sanitary Landfill without any base.

(ii) Although Rs. 213,403 had been provisioned for depreciation for the machinery and plant in the year under review, the rate of depreciation related to that had not been disclosed in the financial statements as per Paragraph 86 of the Standard.

(d) Sri Lanka Public Sector Accounting Standard 09  
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The inventory formula that counted inventory had not been disclosed in the financial statements as per Paragraph 47(a) of the Standard.

## 2.2.2 Accounting Deficiencies -----

### 2.2.2.1 Central Environment Authority -----

The following observations are made.

- (a) Although laboratory equipment of Rs. 6,491,054 that stated as an expense in previous year had been capitalized in the year under review, that amount had been deducted from the expense instead of credited to the retained earnings and Rs. 30,232 of depreciation related to it had been stated as the depreciation of the year under review.
- (b) Depreciation of motor vehicle for the year under review had been overstated by Rs. 391,249 and the depreciation of other property, plant and equipment understated by Rs. 494,016.
- (c) Income receivable from waste disposal amounted to Rs. 3,850,714 had not been accounted.
- (d) An amount of Rs. 2,544,324 that received from disposal of vehicle removed from use in the years of 2015 and 2016 had been credited to the Consolidated Fund and it had been stated as an expense of the year instead of adjusting to retained earnings.

- (e) More than 03 years old balance of Rs. 49.33 million that completed the inspections out of the cash received for the issuing environment impact assessment license had been stated under the current liabilities instead of accounting as income.
- (f) The over provision of accrued expenses related to the previous year amounted to Rs. 219,571 had been deducted from the expense of the year instead of adjusting to the retained earnings and the accrued expenses of Rs.338,364 related to the year under review had not been accounted.
- (g) A sum of Rs. 14,947,726 of recurrent expenditure had been stated as work-in-progress.

#### **2.2.2.2 Pilisaru Project**

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The following observations are made.

- (a) Although a mobilization advance balance of Rs. 3,164,347 had been stated in the financial statements as at 31 December in the year under review for 07 contracts, an amount of Rs. 416,310 that deducted from the final bills had not been transferred to the operating expenses from that account.
- (b) Retention money payable of Rs. 976,164 as at 31 December in the year under review had been overstated.
- (c) The value of contract bills payable as at 31 December in the year under review amounting to Rs. 19,942,995 had been understated.
- (d) Although the liquidation damages of Rs. 902,596 had been accounted as income, it had been stated as a current liability in the financial statements.
- (e) The over provision of accrued expenses of Rs. 568,946 related to the previous year had been deducted from the expenditure of the year under review instead of adjusting to the retained earnings.
- (f) Although a sum of Rs. 1,630,847 of debit balances had been stated in the accrued expenses of Pilisaru Project as at 31 December in the year under review, action had not been taken to settle by identifying this balance.

#### **2.2.2.3 Solid Waste Disposal Facility Construction Project**

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The following observations are made.

- (a) The previous year adjusted amount of Rs. 45,947 related to the project had been adjusted to the expense of the year instead of adjusting to the retained earnings.

- (b) An amount of Rs. 2,884,421 that should be stated as advance under current assets had been stated under cash and cash equivalents as at 31 December 2017.

### 2.2.3 Lack of Evidence for Audit

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The bills in relation to Rs. 223,665,869 stated as accrued expenses as at 31 December 2017 that for the projects of constructing compost yards in local government authorities and other institutions had not been presented to the Audit.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) A sum of Rs. 61,524 of 08 environment impact assessment advance balances that should be paid and came from the year 2016 had not been settled even in the year under review.
- (b) Action had not been taken to recover the distress loan balances amounted to Rs. 1,083,076 that not recovered from the several years from 06 officers as at the year under review.
- (c) A sum of Rs. 2,282,518 of 06 expense objects that stated as accrued expenses in the previous year had not been settled even by the end of the year under review.

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

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The following observations are made.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Stamp Duty Special Provision Act No. 12 of 2006	Although the collected money for stamp duty at the end of each quarter should be remitted to the Commissioner General of Inland Revenue before 15 <sup>th</sup> day of next month, the stamp duty of Rs. 3,561,268 that collected in the previous year and year under review had not been remitted.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
----- Section 2.1 of Chapter XXIX	Although the Declarations of Assets and Liabilities should be presented by the officers who got the first appointments, action had not been done as such.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i) Financial Regulation 454 and 751

It had been noted that all receipts and issues of goods should be properly entered and accounted in the inventory book, the inventory books of Pilisaru Project had not been maintained and updated as such.

(ii) Financial Regulation 757(2)

According to the Board of Survey of the year under review, as 24 surpluses of 08 items and 132 deficits of 11 items had been identified, action had not been done in that regard as per financial regulations.

(d) Circulars

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(i) Treasury Circular No. 810 of 26 July 1971

Although the recovery of no pay leave should be recovered in full from the salary in the month that the leave taken or in the next month, action had not been done to recover as such.

(ii) Treasury Circular No. 328 of 21 January 1994

A sum of Rs. 1,155,500 of advances of 24 filling stations had been deposited without entering into agreements.

(iii) Treasury Circular No. IAI/2002/02 of 28 November 2002

A fixed asset register regarding computers and software had not been maintained by Pilisaru Project.

(iv) Public Finance Circular No. 03/2015 of 14 July 2015

(i) Petty cash advance of Rs. 15,000 given to Anuradhapura and Kandy district offices had not been settled as at 31 December both in the previous year and year under review.

(ii) Although sub imprest should be settled immediately as the task that it given was finished, Rs. 24,300 of advance at paid in 02 incidents had not been settled in full and Rs. 88,500 of sub imprest that paid in 06 incidents had been delayed to settle from 36 days to 69 days. Further, advances of Rs. 1,762,465 had been given exceeding the necessity at 57 incidents.

## **2.5 Transactions not supported by appropriate authority**

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Following observations are made.

- (a) As it had been obtained approval to pay gratuity allowance that related to National Post-Consumer Waste Management Project from the provisions of that project, Rs. 679,800 of gratuity had been paid by the Pilisaru Project.
- (b) As allowance of Rs. 21,006,163 had been paid for the saved medical leave of the officers annually, Rs. 10,796,255 had been paid from the funds of the Authority for an insurance of surgeries and hospital charges without charging any contribution in cash from officers without obtaining Treasury approval as per Section 9.12 of Public Enterprises Circular No. PED/12 dated on 02 June 2003.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the deficit of the Authority and its two projects for the year under review was Rs. 58,942,000 and as the corresponding surplus was Rs. 45,142,000 for the preceding year; a decline of Rs. 104,084,000 had been occurred in the financial results for the year under review as compared with the preceding year. The increase of small scale compost yards construction expense by Rs. 133,733,000 and tariff and other expenses by Rs. 15,784,000 had been the reasons for above decline in the financial result.

When analyzing the financial result for the year under review with 04 preceding years, though the surplus of Rs. 28,610,438 in the year 2013 had been increased continuously upto a deficit of Rs. 72,318,000 in the year 2015, a surplus of Rs. 45,142,000 had been received in the year 2016 and again a deficit of Rs. 58,942,000 had been received in the year under review. However, after adjusting employee remunerations and depreciation for non- current assets to the financial result, as the contribution of Rs. 369,820,312 in the year 2013 had been increased continuously upto Rs. 743,306,000 as at the end of year 2016 but it was fallen down to Rs. 669,680,000 by the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Activities and Review**

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As per Section 10 of National Environment Act No.47 of 1980 as amended by National Environment Act No. 56 Of 1988, out of the 18 key objectives stated, the fulfillment of following objectives had been remained in a low level and it had been observed that more attention was not paid in that regard.

- (a) The Authority had more responsibility in respect of the solid waste management and though the compost projects had been commenced by the Pilisaru Project, the paying attention on reducing the environmental and healthiness harmful situation to the environment and the public by formalizing waste management that prevailed as a national issue had been remained in a minimum level.
- (b) Although the Authority has power to determine the each local government authority to act as any directions in relation to the items of the prohibition of the unauthorized, discharge, emission or deposit of litter, waste, garbage and sewage, the prevention of the discharge of untreated sewage or Substandard industrial effluents or toxic chemicals into soil, canals or water ways and to require any local authority to comply with and give effect to any recommendations relating to environmental protections within the limits of the jurisdiction of such local authority in accordance with the National Environmental Act No. 56 of 1988, the more attention had not been paid for this.
- (c) Although the Authority has the responsibility to priority in drawing attention to facilitate for the implementation of small or medium scale garbage management projects within the country in respect of wastes accumulated in the urban areas which is a national problem, giving alternative solutions in place of snags of chemical fertilizers by manufacturing of compost fertilizers which is a repercussion arises out of waste management resulting to minimize environmental damage and even to earn an income to the Authority, a more attention had not been paid on these matters.
- (d) As the Authority has a responsibility to create coordination of all regulatory activities relating to the discharge of wastes and pollutants into the environment and the protection and the improvement of quality of the environment that included among the powers, functions and duties stated in the National Environmental Act, the attention paid on the requirement of giving expeditious solutions had been remained in a minimum level as the emission of wastes accumulated in the urban areas in to the Environment by lots of local authorities which is a terrible problem in respect of environment and the health safety of the General Public.

## **4.2 Management Activities**

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The following observations are made.

- (a) 18 regional offices owned to the Authority had been continued on the rental basis and it had been paid Rs. 13,967,560 as rentals in the year under review but it had been observed that the attention of the Management was not paid in respect of the construction of buildings by obtaining permanent lands.
- (b) Although the income of Rs. 2,225,291 in the Dompe Sanitary Landfill that assigned to the Authority had been credited to the account of the Authority, the amount of Rs. 3,232,431 of expenses related to that had been incurred by Pilisaru Project instead of incurring by the Authority.



### **4.3 Underutilization of Funds**

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Following observations are made.

- (a) The bank balance of Rs. 70,935,172 of 14 collection accounts in the Bank of Ceylon branches of each province for the regional offices of the Authority that prevailed throughout the year under review had been retained without transferring to the Current Account of the head office. Accordingly, as there was no proper financial management control, the attention had not been paid to fulfill the operating activities of the Authority of earn income from investing those funds.
- (b) Capital grant of Rs. 1,288,713 that received for the Integrated Resource Management Project in the previous year had not been utilized by the end of the year under review.

### **4.4 Idle and Underutilized Assets**

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Following observations are made.

- (a) Although a van with the estimated value of Rs. 800,000 for a period of one year and a vehicle that removed from driving as it caught to sea water for 06 years had been remained idle, action had not been taken to dispose these vehicles or use by repairing.
- (b) 05 tents that stored recycled waste with a cost to Rs. 1,552,490 had been remained without using in the car park of the Authority for a period of one year.

### **4.5 Commencement of the Projects on the lands/property not vested properly**

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An amount of Rs. 1,200,734 had been incurred for the construction of a building legal ownership of the land not having to the Pilisaru Project but action had not been taken to transfer the title of that land legally.

## **5. Sustainable Development**

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### **5.1 Achievement of Sustainable Development Goals**

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Although every public institution should act in compliance with United Nations Sustainable Development Agenda for the year 2030 and Circular No:NP/SP/SDP/17 dated on 14 August 2017 issued by the Secretary of Ministry of National Policies and Defense, as the Authority had been aware of that and identified the sustainable goals and targets. However, it is observed that the planning to achieve targeted objectives and the process of pre preparation had been remained in a slow and weak situation with the lack of coordination with other institutions when reading for achieving those targets.

## **6. Accountability and Good Governance**

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### **6.1 Presentation of Financial Statements**

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Although financial statements and draft annual report should be presented to the Auditor General within 60 days after ending the financial year as per the section 6.5.1 of the Public Enterprises Circular No: PED/12 dated on 02 June 2003, the financial statements of the Authority and its 02 projects for the year under review had been presented with a delay of 83 days, that is on 22 May 2018.

### **6.2 Procurement and Contract Process**

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#### **6.2.1 Procurements**

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Following observations are made.

- (a) As per Section 8.9.1 of Procurement Guidelines, it had not been signed agreements for the contract of the works exceeding Rs. 250,000 and the contracts for the goods or services exceeding Rs. 500,000.
- (b) Main Procurement Plan had not been prepared as per 4.2.1 of Procurement Guidelines.
- (c) According to the Technical Evaluation Committee report on 31 August 2017, without rejecting a bid that should be rejected as not submitting manufacturer's certificate and warranty certificate of the manufacturer, a vibration analysis equipment amounted to Rs. 8,028,200 had been purchased from that supplier.
- (d) Although an advance of 20 per cent of the contract price should be only paid as per 5.4.4 of Procurement Guidelines, 36 per cent, that is Rs. 2,000,000 had been paid to North Central Province Engineering Department as an advance for the construction of a security fence in the premises of proposed Meegaswewa sanitary landfill at Rs. 5,546,557.

#### **6.2.2 Delayed Projects**

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Although the Solid Waste Disposal Facility Construction Project with an estimated total cost of United State Dollar 33,536,000 that implemented on the Korean loan aid of the Economic Development Cooperation Fund had been scheduled to be completed On 29 June 2015, only the activities of the planning level of the project had been completed by the date of this report and the duration of the project had been extended upto 2021. But, the loan and interest should be paid within 40 years after 10 years grace period under the annual interest of 0.15 per cent and it was observed in the Audit that there will be a massive financial loss when settling the loan obtained as there was a delay of commencing the project for a long time.

### **6.3 Tabling of Annual Reports**

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Although the Annual Reports should be tabled within 150 days elapsing the financial year as per Section 6.5.3 of Public Enterprises Circular No. PED/12 on 02 June 2003, the Annual Reports of 2015 and 2016 had not been tabled in the Parliament even by July 2018.

### **6.4 Performing Social Responsibility**

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Following observations are made.

- (a) Out of 114 bus depot, only 14 depots had obtained the environmental protection licenses and it had been observed that the attention of the Authority should be paid in respect of that as there is a considerable damage to for a, fauna and soil due to the releasing of waste water and waste into the external environment by bus depot.
- (b) Although it is the responsibility of the Authority to give more contribution to management of non-degradable waste such as polythene, plastic by disposing to the environment properly and make aware the public on recycling of polythene and plastic, it had been observed in the Audit that the Authority had failed to achieve its expected objectives through the stoppage on the way of National Post-Consumer Plastic Waste Management Project.

## **7. Systems and Controls**

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Deficiencies in systems and controls 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.

<b>Areas of Systems and Observations</b>	<b>Controls</b>
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|--------------------------------|---|
| (a) Accounting                 | It had not been accounted by classifying expenses properly, calculated depreciation accurately and done accounting in respect of contracts accurately.  |
| (b) Operating Control          | Non-execution of powers vested to the Authority as per Environmental Act, action had not been taken in respect of sub imprest, advances and inventory books as per Financial Regulations.           |
| (c) Human Resources Management | Personal files had not been updated, not submission of Declarations of Assets and Liabilities and placement of correct salary steps and promotions had not been done as per approved methodologies. |

- (d) Implementation and Control of Projects      Steps had not been taken to complete the projects on time.
- (e) Vehicle Control      Action had not been done to dispose vehicles that should be, to obtain insurance claims in precise and to act as per Financial Regulations in respect of vehicle accidents
- (f) Asset Control      Necessary actions had not been taken to reuse idle assets or to dispose, a proper methodology had not been followed when using vehicles.