

Central Environmental Authority – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Central Environmental Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 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 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor's Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observation -----	Comments of the Management -----	Recommendation -----
Contrary to Sri Lanka Public Sector Accounting Standard 01, investments of Treasury bills valued at Rs.9,960,000 due to be realized within 12 months after the reporting date, had been brought to account under non-current assets.	As Treasury Bills are expected to be realized, those have been indicated as non-current assets.	As investments have been made for a period of one year, those should be indicated as non-current assets.

1.5.2 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
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(a) Income from building rent valued at Rs.1,708,236 receivable from the Pilisaru Project had not been brought to account.	Action will be taken to rectify.	It should be brought to account accurately.
(b) Work-in-Progress and stocks in transit valued at Rs.20,173,651 had been indicated as non-current assets and a sum of Rs.1,549,579 paid in the year 2019 for Work-in-Progress and stocks in transit had been indicated as transactions of the year under review.	As stocks in transit are not current assets, those have been brought to account accurately.	As those are transactions in the nature of current assets, action should be taken accordingly.
(c) Income from land fillings and from compost had been understated and overstated by Rs.7,261,920 and Rs.8,432,981 respectively in the financial statements of the year under review.	A classification error has occurred.	It should be brought to account accurately.
(d) Even though a sum of Rs.15.5 million had been estimated by the Authority for the payment of arrears in contributions for Employees' Provident Fund for the period between 2006 and 2008, the amount payable had not been revealed in accounts.	I point out that the said amount is brought to account as recurrent expenditure.	It should be brought to account accurately.
(e) A sum of Rs.2,422,437 spent annually for e-mails had been brought to account under non-current assets instead of accounting as expenditure.	I rectify the accounting in the year 2019.	It should be brought to account accurately.

- (f) The motor vehicle in which 03 oxygen cylinder regulators costing Rs.5,014,503 have been fixed, owned by the Department of Motor Traffic, had been brought to account under property, plant and equipment of the Authority. Depreciation of Rs.4,642,740 relating to the said motor vehicle had been shown as expenditure of the Authority. I rectify the accounting in the year 2019. It should be brought to account accurately.
- (g) According to the Construction of Solid Waste Disposal Facility Project, 04 laptop computers, 04 desktop computers and 04 UPSs purchased in the year 2019 at a cost of Rs.1,021,249 had been shown as assets of the year under review in the financial statements. Moreover, the said amount paid in the year 2019 had been shown by deducting from the bank balance without paying money erroneously. As such, the bank balance remained as at 31 December of the year under review as well had been understated in the financial statements by the same amount. It was a computing error. It should be brought to account accurately.
- (h) Other income amounting to Rs.1,322,307 relating to the Pilisar Project had not been shown in the statement of financial performance and expenditure payable valued at Rs.2,468,566 had not been recognized as accrued expenditure. Moreover, 97 sets of garbage containers I rectify computations in the year 2019. It should be brought to account accurately.

purchased at a cost of Rs.1,434,630 by this Project, had not been shown in the financial statements as remaining stocks.

- (i) Motor bicycles costing Rs.903,939 which were transferred to officers in service had been brought to account under assets. I rectify computations in the year 2019. It should be brought to account accurately.

1.5.3 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) National Environmental Act, No.47 of 1980 as amended by the National Environmental Act, No.56 of 1988	<p>Attention of the Authority had not been paid on performing following functions to be performed by virtue of powers of the Act.</p> <ul style="list-style-type: none"> i. Regularization of solid waste management ii. Prevention of disposal of waste, untreated sewerage and toxic chemicals iii Giving priority to minimize the use of chemical fertilizers through the manufacture of compost as a by-product of solid waste management. iv Implementation and regulation of urban waste management 	Action is being taken to amend the Act.	Necessary action should be taken in terms of the Act.

programmes

v. Regulation of environmental impacts arisen in the implementation of public transport systems

vi. Implementation of National Post Consumer Plastic Waste Management Project

(b)Gazette Extraordinary No.1533/16 of 25 January 2008

Even though the number of Transmission towers providing facilities for telecommunication and broadcasting radio and television island wide stood at 9,291, the number of towers for which licences have been obtained, stood at 3,561. Out of that, licences had not been obtained for 5,730 towers representing 62 per cent.

Necessary measures will be taken within a period of 06 months.

Expedite action should be taken.

(c) Gazette Extraordinary No.1534/18 of 01 February 2008

Institutions by which bio medical and health care waste from Health Care Institutions including Medical Laboratories and Research Centres, are disposed of, should obtain licences for waste management. However, out of 613 hospitals

I inform that legal action is taken thereon. Prompt legal action should be taken.

implemented under Ministry of Health, only 60 hospitals had obtained licences therefor.

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| (d) Section 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 | Annual Reports for the years 2015, 2016 and 2017 had not been tabled in Parliament even by April 2019. | The relevant reports have been forwarded to the Ministry. | Annual Reports should be tabled in Parliament within the due period. |
| (e) Management Services Circular No.DMS/E/03/JCR/MSC C of 24 November 2008 | A sum of Rs.6,376,837 had been paid as salaries in arrears due to failure in placing 106 officers on accurate salary steps despite having absorbed them into the JM 12 Category. | I inform that action will be taken to recover since the year 2019. | Prompt action should be taken to recover them. |
| (f) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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| i. Financial Regulation 371 (2) (c) | Even though it had been informed that action should be taken to settle the advances obtained, immediately after completion of the relevant purpose for which it is granted, over a period of one month had elapsed to settle the advances of Rs.633,468 obtained in 37 instances. | Necessary measures will be taken to minimize such action. | Action should be taken in terms of Financial Regulations. |
| ii Financial Regulation 371(4) | Advances of Rs.3,836,727 had been granted to officers of the Authority in 185 instances exceeding | Necessary measures will be taken to minimize such action. | Action should be taken in terms of Financial Regulations. |

the requirement. There were 17 instances in which the total Imprests had been settled without utilizing advances for the relevant purpose.

(g) Construction of Solid Waste Disposal Facility Project

Cabinet Decision No. 403/19/0392/104/026 of 12 February 2019

Even though the approval had been granted to revise the loan agreement relating to the extension of the period of this Project and changing of project locations, relevant revisions had not been made.

Revisions relating to changing of project locations have been made by the General Treasury by now.

As this Project is implemented by means of loans, necessary action should be taken promptly.

2. Financial Review

2.1 Financial Results

The operating result of the Authority for the year under review had been a surplus of Rs.44,508,000 as compared with the corresponding surplus of Rs.17,966,000 for the preceding year, thus indicating an improvement of Rs.26,542,000 in the financial result. The increase in the total income by Rs.148,216,000 had been the main reason for the said improvement.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

A motor vehicle owned by the Pilisaru Project, which had been removed from being used due to damages caused by marine water, had remained idle over a period of 07 years and a sum of Rs.3,922,317 had been spent for 05 other activities deviating from main objectives of the Project.

Comments of the Management

A case is being heard in this connection and it has been indicated that action will be taken in future in compliance with objectives.

Recommendation

Relevant activities should be expedited and action should not be taken deviating from objectives.

3.2 Operating Inefficiencies

Audit Observation

Attention had not been paid on the process of encouraging the obtaining of licences by taking proper follow up action on transmission towers for which licences were not obtained.

Comments of the Management

This process would be followed after obtaining relevant information from the Telecommunications Regulatory Commission.

Recommendation

Should be followed speedily.

3.3 Transactions of Contentious Nature

Audit Observation

Out of the sum of Rs.1,583,590 provided for the Authority by the Ministry of Mahaweli Development and Environment for the implementation of the Project on Promoting the Conservation and Sustainable use of Biodiversity in environmental sensitive areas and the Maintenance of Ecosystem Services, a sum of

Comments of the Management

Investigations had been postponed temporarily according to a decision taken at the meeting.

Recommendation

More attention should be paid on taking action in accordance with the Action Plan.

Rs.1,447,890 had been returned to the Ministry without being utilized.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
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Action had not been taken to dispose of 07 motor vehicles older than 20 years and a sum of Rs.5,251,782 alone had been spent for maintenance and repairs of motor vehicles during 05 preceding years.	Future action will be taken thereon.	Prompt action should be taken to dispose of those vehicles.

3.5 Delays in Projects or Capital Works

Audit Observations	Comments of the Management	Recommendation
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(a) Even though the Construction of Solid Waste Disposal Facility Project at a total estimated cost of US\$ 33,536,000 implemented under loans from Korea of the Economic Development Cooperation Fund, was scheduled to be completed on 29 June 2015, only activities in the planning phase of the Project had been completed even by May 2019 and the period of the Project had been extended up to the year 2021. However, the relevant loan and interest thereon should be repaid within a period of 40 years at an annual interest rate of 0.15 per cent after a 10 year grace period and the authority had not paid its attention on the possibility of resulting in a huge financial loss in the settlement of loans obtained due to long delay in commencing this project. Even though 5 ½ years had elapsed after commencement of this Project, construction of 04 land fillings has not	The evaluation report of the project has been prepared and presented for the approval of the Cabinet Appointed Procurement Committee. According to that decision, future action should be taken.	As the Project is implemented on loan aid, action should be taken to commence the Project speedily.

been commenced up to now. A sum of Rs.192,800 had been spent for a workshop of journalists, contrary to the main objectives and the Action Plan of the Project.

- (b) The financial progress of the Pilisaru Project which is implemented by the Authority, from 2008 to 31 December 2018 was 47.29 per cent and savings out of net provisions had been 52.71 per cent. According to the Cabinet Decision dated 14 December 2007, three out of 08 main objectives of the Project had not been implemented and the project had planned to construct 139 compost yards. However, 33 yards had not been completed. Out of those yards, 14 yards had remained idle and 03 yards had been abandoned. Moreover, there were 02 yards of which constructions had not been commenced due to legal reasons, 12 yards which are being constructed and 02 yards of which construction activities had not been carried out.
- Action could not be taken for achieving relevant objectives due to failure in taking action within the prevailing law.
- Necessary action should be taken for achieving objectives as planned by the project.

3.6 Procurement Management

Audit Observation	Comments of the Management	Recommendation
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In terms of Guideline 4.2.1 of the Procurement Guidelines, a Procurement Plan should be prepared in accordance with the Format given in 4.2.1 of the Procurement Manual and procurement activities envisaged at least for a period of three years should be listed therein. However, it had not been prepared accordingly.	I inform that necessary action will be taken from next year.	Action should be taken in compliance with the Procurement Guidelines.

3.7 Utilization of Resources of other Organizations

Audit Observation	Comments of the Management	Recommendation
Even though a sum of Rs.2,141,641 had been spent in the year under review for the renovation of Randeniya Sobaketha Centre building constructed on a land not owned by the Authority, action had not been taken to vest the said land or reveal in accounts.	Necessary action is being taken to vest the ownership of the land.	Vesting of the said land should be carried out speedily.

4. Accountability and Good Governance

4.1 Audit Committee

Audit Observation	Comments of the Management	Recommendation
Even though 04 Audit and Management Committee meetings had been held annually, implementation of decisions taken at that Committee had been slow.	Replies had not been made.	A decision taken by the Audit Committee should be implemented speedily.

4.2 Environmental Issues

Audit Observation	Comments of the Management	Recommendation
(a) The Authority should speedily take action with the cooperation of the Ministry of Health and other related institutions to direct institutions for functioning in accordance with rules, laws and regulations by ensuring the protection of the environment through solid waste management.	Action is being taken to formulate rules under the Environmental Act.	Necessary action should be taken speedily.
(b) Even though limits for noise control have been published, those limits had not been implemented.	Instructions required for noise control have been provided to the Commissioner of Motor Traffic by the Secretary to the President.	Relevant controls should be implemented speedily.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
----- Targets relating to achieving the sustainable development goals, indicators for measuring those targets and focal points to be reached have been recognized. However, it has been decided to cease the arraying of certain activities for publishing in the Gazette and the activities of implementation as pilot projects due to lack of provisions.	----- Necessary action is being implemented at present.	----- Relevant targets should be completed for reaching the sustainable developments goals.