

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Marine Environment Protection Authority for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 in conjunction with provisions of the National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. 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 accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020, 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 on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities 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 Related Governing Parties in Relation to 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 determine 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 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 **Audit Scope**

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 Company'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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Audit Observations	Comments of The Management	Recommendation
According to paragraph 65 of the Sri Lanka Public Sector Accounting Standards No. 07, 69 items valued at Rs.106,294,775 which were fully depreciated had not been disclosed in the final accounts.	In accordance with Section 40 of the Sri Lanka Public Sector Accounting Standards No. 07, two methods have been proposed for reporting fixed assets to an institution. Accordingly, this authority has chosen the cost method. Accordingly, the provisions of Section 47 do not apply to this Authority.	Action should be taken in accordance with the accounting standards

1.5.2 Accounting Deficiencies

Audit Observations	Comments of The Management	Recommendations
The actions had not been taken to readjusted the error of capitalizing the repair expenditure incurred of Rs.1,215,299 on 26 December 2019 for the atomic absorption luminaire, and vehicle repair expenses incurred Rs.1,836,626 in 2018 by considering as an acquisition in the financial statements in the year under review.	Action will be taken to adjusted by the accounts for the year 2021.	Action Should be taken to adjustments correctly.

1.5.3 Suspense Account

Item	Amount	Period in suspense	Comments of The Management	Recommendation
	Rs.			
During the year under review and previous year, the creditors had credited Rs.265,165 directly to the Bank, had been shown in the financial statements as a balance of suspense account.	265,165	01 year	Despite all possible efforts to properly identify these obligations, the identity could not be identified. Those unrecognized credits have shown in the accounts as unrecognized receipts.	Action should be taken to identify the money directly credited to the bank.

1.6 Related Parties and Related party Transactions not Disclosed

Audit Observation	Comments of The Management	Recommendation
It had not been disclosed on the agreements that entered into with the University of Ruhuna which was the permanent place of work of the General Manager who has been released on secondary basis.	Replies have not been submitted.	An internal control system should be introduced and implemented.

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

Reference to the Laws, Rules, Regulations etc.	Non compliance	Comments of The Management	Recommendation
(a) Financial Regulation No 802(1),(2),(3) of the Financial Regulation of the	Although the machinery of the laboratory remained idle, the necessary	the action was taken the laboratory related machines	Relevant managers have already been informed to operate the laboratory machines
			Action should be taken to continue follow-up on assets.

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| Democratic Socialist Republic of Sri Lanka | had not been taken in this regard. | efficiently and effectively in the future. | |
| (b) Paragraph 02 of Chapter VI of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. | Actions had not taken to maintain note of conduct for all officers. | So far no separate note of conduct has been maintained for each officer and as pointed out in the audit, action will be taken to rectify this and maintain a note of conduct for all officers of the Authority from this year. | Action should be taken in accordance with the provisions of the Establishments Code. |
| (c) Government Procurement Guideline | | | |
| i. Paragraph 5.4.6 | Actions had not been taken to identify Construction defects and rectify defects in relation to the Dadalla office building in Galle. | The Central Engineering Research Bureau has already been informed about the construction defects in the Galle office complex. If the construction defects so identified are not rectified by this institution, the management has already made arrangements to rectify them with the retention money. | Defects detection and correction methods should be implemented effectively during the warranty period. |
| ii. Paragraph 8.12.1 | Although the quality of the services rendered should be independently inspected prior to taking over, such | The design and construction of the Galle office complex was carried out by the Central Engineering | Action should be taken to taking over the constructed building after checking and verifying that it is correct prior to taking over. |

inspection had not been carried out in respect of the Dadalla building in Galle. Research Bureau and the quality of the service rendered was not examined by incurring extra cost as it is a government institution.

- (c) Section 17 (h) of Schedule II of the Marine Environmental Protection Waste Recovery Facility Order No. 1996/27 of 06 December 2016
- Although all service providers registered under the fuel oil waste category were required to make an initial deposit of Rs. 300,000, in contrary to that, relevant licenses had been issued to three institutions.
- Kindly inform that as per Section 17(h) of Schedule II of the Waste Recovery Facility Order as pointed out in the Audit, service providers who do not make a basic deposit of Rs.300,000 will not be registered with the Waste Recovery Service of the Authority.
- Action should be taken complied with Legal requirements .

- (ඊ) Management Services Circular No. 02/2020 dated 26 October 2020

- i. Paragraph 2(ii)
- The Scheme of Recruitment for all the posts in the Authority had not been prepared and had not obtained the approval.
- According to Circular 02/2016, the scheme of recruitment and promotion for all posts in the Authority is being prepared at present. Accordingly, Hope to prepare the procedure within the next month and forward it to the State Ministry of Urban Development,
- Action should be taken to prepare and get approval for the Scheme of Recruitment.

Coast
Conservation,
Waste Disposal and
Community
Sanitation.

- ii. Paragraph 2(vi) A succession plan has been prepared and action had not taken accordingly.. Steps will be taken to prepare a succession plan to fill the vacancies in line with the recruitment and promotion procedure as per Circular 02/2016. Action should be taken to prepare a succession plan.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.50,000,017 as compared with the corresponding surplus of Rs.2,952,703 for the preceding year. Accordingly, it was observed a growth of the financial results of Rs.47,047,314. This growth was mainly due to the revenue collected from the legal proceedings for the marine pollution matter occurred by a ship in the year of 2020.

3. Operating Review

3.1 Inactive or Underutilized Property, Plant and Equipment

Audit Observation	Comment of The Management	The Recommendation
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(a) A dinghy boat and a boat engine value of Rs.1,182,000 have been idle since month of February 2016, meanwhile, the boats required for various programs had obtained on lease basis.	Management will be instructed to plan activities that will be used for in the future Authority programs.	Action should be taken to maximize the productivity of the assets.
(b) The Atomic Absorption Spectrum Luminance, valued at Rs.5,800,000 purchased on 29 December 2016, had been unutilized since its purchase date in 2016.	It has been repaired and handed over to the Galle Laboratory and this machine has not been making installed so that it can be usable after the repairs.	Action should be taken to maximize the productivity of the assets.

- (c) Equipment worth Rs.54.2 million had been purchased for the laboratory constructed spending Rs.66.6 million in the coastal land at Dadalla Galle in 2017 with a view to providing marine environmental protection services on a commercial scale. At the time of the audited date, only a limited number of laboratory tests had been performed using these equipments. Also, the laboratory had not been adequately staffed to operate on a commercial scale. Furthermore, action had not been taken to dispose of expired chemicals in an environmentally friendly manner.
- Necessary arrangements are being made to recruit trained officers. Arrangements are being made to update the guidelines required to provide a commercial level service.
- Action should be taken to maximize the productivity of the assets.

3.2 Resources Released to Other Organization

Audit Observation -----	Comment of The Management -----	The Recommendation -----
<p>The inflatable oil boom machine owned by the Authority value of Rs.6.8 million had been leased to the Hambantota International Port Company for a day rate of US\$ 50 for a daily amount from 1 April to 13 August 2020. In relation to the lease of this machine in the letter No. 06 / MEPA / OSCP / HIPG / 2020 dated 07th February 2020 regarding the Hambantota International Port Company Although a bank draft value of Rs.5 million has been mentioned, the value of the bank draft mentioned in the bid referred to the institution No. 06 / MEPA / OSCP / HIPG / 2020 dated 20th February 2020 for leasing this</p>	<p>This inflatable oil boom machine was given as lease basis to Hambantota International Ports Company from 1 April to 13 August 2020 during this period. During this period, revenue of Rs.1.2 million received to the Authority. During this period it was difficult to obtain a bank guarantee from the company due to the epidemic situation in the country. However, due to the return of this inflatable oil boom machine to the authority as in the giving condition , there was no need for a bank guarantee.</p>	<p>The action should be taken to formulate and implement a proper system for asset security.</p>

machine is Rs.02 million. But the authority had not even been obtained a bank draft when leasing this machine to the above institution.

3.3 Human Resources Management

Audit Observation	Comment of The Management	Recommendation
The approved carder of the Authority was 229 the actual number of employees was 174 as at 31 December 2020. Accordingly the numbers of vacancies were 54. Action had not been taken to fill these numbers of vacancies even as at the date of audit.	By the Authority has already published newspaper advertisements for the recruitment of Marine Environmental Officers, Assistant Marine Environmental Officers and Management Assistants and has completed the interviews for the recruitment of Assistant Marine Environmental Officers. An interviews were conducted for marine environmental officers and management assistants, but final interviews was unable to conducted due to the covid-19 epidemic situation.	Action should be taken to fill the vacancy.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation	Comment of The Management	Recommendation
Actions had not been taken to table the annual report of the Authority for the years of 2018 and 2019.	The Board of Directors has approved to table the Annual Reports 2017 and 2018 in Parliament. Accordingly, further work is being done.	Action should be taken to table the Annual Reports within the stipulated time.

4.2 Annual Action Plan

Audit Observation	Comment of The Management	The Recommendation
(a) According to the action plan, Rs.6,670,000 was estimated for 07 projects and the expenditure of that was Rs.8,594,846. Accordingly, Rs.1,924,846 had been spent in excess of the estimate and its percentage was 29 per cent.	The Authority has received more money in the form of grants and reimbursements than in excess of expenses.	Action should be taken to manage the estimated relevant expenditure.
(b) According to the action plan, the total estimated allocation for 09 sub-divisions related to 08 major projects was Rs.8,381,000 and the unutilized amount was Rs.6,935,050. It was observed that their percentage ranged from 68 per cent to 97 per cent of the total allocation.	Explanations has been given on not spending expenditure and continuation of activities till the year 2021.	Necessary action should be taken to implement the projects contained in the action plan.

4.3 Environmental Issues

Audit Observations	Comments of The Management	Recommendations
According to Section (6) (d) of the Prevention of Marine Pollution Act No. 35 of 2008 and Extraordinary Gazette Notification No. 37/1816 dated 28th June 2013, Although the Authority should take steps to prevent the discharge of waste into the ocean without inspection and verification, the authority had not taken action to prevent direct discharging of clinical waste of hazardous nature using long pipe into the ocean.	In addition to the waste from the Colombo wastewater system these long pipes, discharge wastewater generated by factories, homes and other locations using bowsers into the ocean without treatment. Several meetings were held with the Colombo Municipal Council and the Water Supply and Drainage Board for this purpose and those institutions have not yet taken the necessary action. This matter has been referred to the Presidential	The Authority should take action to prevent the direct discharge of hazardous chemical wastes directly into the ocean through long pipes.

Secretariat, the Ministry of Defence and the Secretariat of the Governor of the Western Province and situation has arisen where the Authority is unable to get action in accordance with the Act as the necessary action has not been taken by the government institutions that are required to take action in this regard.

4.4 Sustainable Development Goals

----- Audit Observation -----	Comment of The Management -----	The Recommendation -----
By the year 2025 the Authority had identified 05 major targets under Sustainable Development Objectives No.14 in the Annual Action Plan. Of these, at the examination of the performance of key targets such as daily coral reef cleaning, coral reef restoration, mangrove restoration and mangrove cultivation, it was observed that the effectiveness of the implementation for achievement of expected targets by year 2025 was not sufficient.	It is informed that actions are being taken to restore the quantity of coral reefs. Accordingly, the desired conservation status will be reached. Inform that the cultivation lands are being identified and the Puttalam Divisional Secretariat, in collaboration with the Ministry of Environment and the Institute of Silycan Trust, is replanting these mangroves.	The progress of the implementation of the plans should be reviewed.