

## **Head 160 – Ministry of Environment**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Ministry of Environment for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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. The summary report containing my comments and observations on the financial statements of the Ministry of Environment was issued to the Chief Accounting Officer on 31 May 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 31 May 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Ministry of Environment as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The Chief Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act, No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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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 summary 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 and its materiality depends on the influence on economic decisions taken by users 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

#### **1.5. Report on Other Legal Requirements**

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I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year, ( if not, mention so)
- (b) The recommendations made by me on the financial statements of the preceding year had been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Property, Plant and Equipment

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) A sum of Rs.1,179,220 had been spent on 31 December 2021 for the private lands under the Project for Rehabilitation of Barren Agricultural Lands in Kandy, Badulla, Nuwara Eliya Districts. As a result of the said expenditure had been shown under Ministry of Lands and Land Improvement, the value of assets owned by the Ministry has appeared wrong.</p>	<p>Since the No. of the expenditure object has been given as 2015 from the beginning of this Project, the cost of the Project is shown under land improvement in the accounts annually. Since the Treasury had provided budget allocations under this code when the Project was initiated, allocations are made annually under the same expenditure object up to now and the expenditure is accounted for under that expenditure object. This Project has now been completed.</p>	<p>Arrangements should be made to correct the indication of expenditure made for the private lands as the lands of the Ministry.</p>
<p>(b) Actions had not been taken to disclose the assessed value of the land on which the Sobadam Piyasa building is located, and maintained by the Ministry of Environment, amounting to Rs.261,000,000 under non-financial assets in the financial statements and to acquire the legal possession of the land .</p>	<p>The assessed value of the Sobadam Piyasa building of the Ministry amounting to Rs. 261 Million has not been recorded in the financial statements and the value recorded in the financial statements as the value of the building was Rs.1,013,366,589 . This value is the amount paid to the contractor up to now during the construction of the building and that value</p>	<p>Arrangements should be made to take legal possession of the land and to disclose the assessed value of land in the financial statements.</p>

has been stated in the statement of non-current assets in the financial statements.

## 2. Financial Review

### 2.1 Imprest Management

#### Audit Observation

#### Comments of the Chief Accounting Officer

#### Recommendation

A sum of Rs. 260,361 that should have been recovered from an officer of the management service in connection with a fraud committed by him in the Ministry had been shown in the accounts as an unsettled imprest balance even by 31 December 2021. The said amount had not been recovered even by 08 April 2022, the date of audit.

The Controller General of the Department of Immigration and Emigration, where the officer is currently working, was informed that the amount should be received through a cheque in the name of the Ministry of Environment.

Actions should be taken to recover the money.

### 2.2 Revenue Management

#### Audit Observation

#### Comments of the Chief Accounting Officer

#### Recommendation

In issuing quota licenses related to the import of hydrochloroflora carbon refrigerants, the Ministry had charged a government fee of Rs. 10 per kilogram of imported refrigerant and the total government fee income collected for the year 2021 was Rs.1,560,394. Although this revenue was credited to the Consolidated Fund of the Government, it was not included in the Annual Revenue Estimate.

If it is confirmed that it is appropriate to include this in the revenue estimates after studying further on the quota permit issuance process by the Montreal Alliance Project in the future years and other issues.

Necessary arrangements should be made to identify in the Revenue Estimate of the Government.

## 2.3 Expenditure Management

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) The total net allocation made for 06 expenditure objects in the year under review amounting to Rs. 89,400,000 had entirely been saved.	It was not possible to spend the allocation for the said Project during the year 2021 due to the reasons such as non-arisen of requirements in the year 2021, not receiving a request, recommendation as it was more appropriate to prepare the Biennial Transparency Report (BTR) first than preparing the BUR report, the delay in getting the approval of the Cabinet and receiving the consent from the Central Bank of Sri Lanka to release money on 27 December 2021.	Arrangements should be made to conduct cost reviews and utilize them effectively.
(b) Out of Rs. 225,100,000 allocated for 05 expenditure objects, more than fifty per cent were observed to be saved without spending.	These provisions had been saved due to the reasons such as having to stop new purchases according to the Decisions of the Cabinet of Ministers, not receiving a request from the relevant local government body, failure to organize the training programmes in practice due to the Covid epidemic situation.	Arrangements should be to prepare estimates effectively by reviewing costs in a timely manner.
(c) Although, according to Finance Regulation 03, the tasks included in the plans and programmes should be pre-determined and carried out, 03 projects valued at Rs.19,350,000 had been included in the budget estimate of the year under review even before getting the approval of the Cabinet of Ministers and this entire value had been	The donors have agreed to provide financial support for these projects in early 2020. Accordingly, the works of the projects have been commenced as usual. Nevertheless, when adhering with the President's Secretary's Circular No. PS/SP/SB/Circular/06/2019 dated 19 December 2019, the approval of the Ministry of Foreign Affairs had to be	Arrangements should be made to obtain prior approvals before executing projects.

transferred to other projects by the Financial Regulation 66 of December 2021 .

obtained and the Foreign Ministry has advised to change the agreements. As the foreign aid agencies did not agree, the approval of the Cabinet of Ministers had to be obtained to continue the project and project activities have not been implemented until receiving the approval of the Cabinet of Ministers. As there was a delay in getting approval of Cabinet of Ministers, the Project activities could not be implemented and allocated funds have been transferred to other projects for effective utilization.

(d) As per the Budget Circular No. 07/2020-2021 dated 23 December 2020 for delegation of authority for expenditure and Paragraph 03 of the Circular on Public Expenditure Management, the tasks should be planned to be able to make purchases and payments from the first quarter while preparing the Annual Action Plan and Procurement Plan. Nevertheless, due to it had planned to make payments in the last quarter, it was explained that liquidity difficulties has to be faced. However, although the expenditure in the first quarter was 16 per cent as compared to the total expenditure in the year 2021, in the last quarter, 41 per cent of the total expenditure had been spent. Further, the Ministry had entered into liabilities valued at Rs. 15,541,881 pertaining to the National Programme for Environment

The preliminary works required for project implementation takes place in the first quarter of the year and sometimes, depending on the progress of the first quarter, there will be some revisions in the second and third quarters as well. Therefore, decrease of the expenditure in first quarter is a normal situation and most program completions extend into the last quarter of the year. As vouchers are prepared and paid after completion of the programme, the increase of expenditure in last quarter is normal. Since the Ministry of Environment had released allocations to the District Secretaries for the implementation of programmes under the Environmental Conservation National Program and the Surakimu Ganga National Programme, it is possible to enter into commitments up to that provision limit and as the funds

Plans should be made as distributing the expenses in a manner incurring of expenditure throughout the year.

Conservation and also the liabilities valued at Rs. 18,195,039 pertaining to the Surakimu Ganga National Programme on 31 December 2021.

(e) As it is very difficult to provide the additional provisions as per Paragraph 06 of the above circular, although the expenses arising in the year 2021 should be managed by properly prioritizing the given allocations, actions had not been so taken accordingly in respect of the expenditure object 160-2-3-145-2509 (ii) and the expenditure object 160-2-6-146-2509(13) .

(f) The total estimated provision allocated under expenditure item No. 160-2-3-118-2507(II) was Rs.20 Million and the expenditure was a saving of Rs.1.6 million by the end of the year. In checking of the expenditure of the said programme, it was observed that 75 per cent of the total expenditure was incurred from September to December 2021.

have not been received from the Treasury, these liabilities have been recorded as per the information received from the respective District Secretaries.

This situation arose due to the inability to fully utilize the provisions made available to the District Secretaries because of the heavy rainfall that affected the island in the last half of the year during the implementation of the projects.

Most of the programmes included in the Annual Action Plan commence at the beginning of the year and run until the end of the year and those programs often end in the last few months of the year. Therefore, the cost increases in the last few months of the year and the cost decreases in other months as compared.

The provisions made available should be utilized efficiently.

Follow-up actions of the programmes should be carried out continuously and the provisions should be utilized efficiently.

## 2.4 Entered into Liabilities and Commitments

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### Audit Observation

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A value of commitments and liabilities amounting to Rs. 15,451,881 had been recorded for the individuals, societies and organizations through the National Programme of Environmental Protection under 160-2-3124-2509 (II) Further, a sum of Rs.18,195,039 had been shown in the

### Comments of the Chief Accounting Officer

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The expenses incurred by the Divisional Secretary in relation to the estimates submitted by the Surakimu Ganga Project proposals have been debited to the Surakimu Ganga expenditure object. It is further informed that the detailed files

### Recommendation

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Delegating the responsibility of continuous monitoring of project progress to an officer and release of funds based on his

financial statements submitted for the audit as commitments and liabilities for individuals, societies and organizations by Surakimu Ganga National Environment Programme under 160-2-3145-2509 (II) . Nevertheless, there were no relevant files to verify those liabilities in the Project Education Division. It was ascertained that the Ministry does not carry out follow up actions in making payments for these programmes.

relating to expenditure are being maintained by District Secretariats and Divisional Secretariats.

observations.

This programme is implemented by the Central Environment Authority and Projects implemented in the Districts are monitored by its environmental officers and the Ministry has conducted Project Implementation Progress Review Meetings involving District Secretaries.

In making provisions to the District Secretary for the payment to the selected beneficiaries in the year 2021 under the National Program on Environment Conservation, “Environment Conservation through Promotion of Green Enterprises” Programme, it has been informed to send a report containing the names of the beneficiaries who have been given provisions as at 30.12.2021. Further, a re-inquiry was made from the District Secretaries on 03.02.2022 and 17.02.2022, in respect of providing allocation. So far, reports related to the payment of provisions have been received from all the 17 relevant Districts.



## 2.5 Deposit Balances

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### Audit Observation

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### Comments of the Chief Accounting Officer

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### Recommendation

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A balance of Rs. 30,737,540 under the Treasury General Deposit Account related to contract retention money indicates in the general deposit account for more than two years and actions had not been taken in terms of Financial Regulation 570 (c).

Payments have been made for all bills presented by CECB and it is kindly informed that the actions will be taken to release the contract payment after the final bill is certified by the Building Department.

Actions should be taken in terms of Financial Regulation.

## 2.6 Non-compliance with Laws, Rules and Regulations

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### Audit Observation

### Comments of the Chief Accounting Officer

### Recommendation

With reference to  
Laws, Rules,  
Regulations etc.

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Non-compliance

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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka 104(1) (4)

Although a full report should be submitted to the Auditor General within 03 months from the date of the damage occurred, actions had not been so done even by 31 March 2022 in respect of 02 vehicles owned by the Ministry.

Arrangements have been made to send F.R.104 Preliminary Reports on losses in respect of these vehicles. The completion of repair works has been delayed due to the lack of vehicle spare parts in the market because of the current situation in the country. As it is necessary to mention the information related to the bill value received in that report after completing the vehicle repair in order

Actions should be taken in terms of Financial Regulation.

to prepare the final report, submission of final reports has been delayed.

(b) Treasury Circular No. 2/2017 dated 31 December 2017

Although every vehicle owned by the government should be registered in the name of that agency, before 30 June 2018 actions had not been taken to take over 03 vehicles used by the Ministry of Environment in the name of the Ministry.

Copies of the Registration Book of one vehicle have been sent to the Secretary to the State Ministry of Defense and Disaster Management and it has been informed to make necessary arrangements to legally transfer to the Ministry of Environment. The Ministry of Transport and Civil Aviation has been informed to hand over the jeep. A request has been made from the Ministry of Economic Policy and Planning to take over the jeep and as a response has not been received and due to revision of names of the Ministries, it has been impossible to take over this jeep. Accordingly, a request has been made from the Comptroller General to make the necessary arrangements for taking over.

Relevant activities should be carried out to legally take over.

## 2.7 Improper Transactions

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
----- Even though the Ministry had given an amount of Rs. 5,000,000 to the Central Environment Authority on 09 August 2021 for the construction of the first floor of the Central Provincial Office (160-02-03-137-2104(11)) , the Decision of the Cabinet of Ministers for the related task had been received on 06 October 2021 . Accordingly, the money had been released for the relevant task before the Decision of the Cabinet of Ministers was received.	----- Answer has not ponded.	----- Release of money should be done after receiving an approval legally.

## 3. Operating Review

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### 3.1 Failure to Receive the Expected Outcomes

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
----- The expenditure incurred for the Environmental Conservation Programme through the Promotion of Green Entrepreneurship implemented by the Ministry as at 31 December 2021 was Rs. 36,462,821, as per the Decision of the Cabinet of Ministers No. CP/21/0833/321/007 dated 25 May 2021, the desired objectives had not been achieved by the end of the year under review.	----- The work of the Project was disrupted due to the Covid-19 epidemic in the country and even though the provision of Rs.50 million has been released for selected beneficiaries this provision has been saved due to insufficient release of the necessary imprests from the Treasury. This Project is being continued in this year identifying the shortcomings in the year 2021.	----- Actions should be taken to continuously follow up the project progress and to obtain progress reports.

### 3.2 Other Observations

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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It was observed that the National Environmental Action Plan for the years 2021-2030 was still in draft form even as at the date of audit.	This has been sent for printing.	Necessary activities should be done to bring the plan into action.

### 3.3 Foreign Funded Projects

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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As per the Section 2 of the Presidential Secretary's Circular No. PS/SP/SB/Circular/06/2019 dated 19 December 2019, it should have refrained from entering into any further engagements or Memorandum of Understandings or Agreements without obtaining final approval of the Cabinet of Ministers regarding the projects. Nevertheless, the Ministry had been entered into agreements before receiving approval of the Cabinet of Ministers for the projects such as environmentally friendly management of mercury containing waste in Sri Lanka by strengthening national capacity to reduce the mercury	Approvals of the Department of National Planning and the Department of Foreign Resources had been given to develop national capacity to reduce the use of mercury mixed waste and to implement the a study on the use of the medicine named "Lokanatha Rasa" Project and the approval of the Attorney General's Department for the project agreement has been given on 02.03.2021. Accordingly, the Ministry has entered into an agreement with the institutions that provide the relevant financial	Approvals should be obtained prior to entering into agreements.

use, The use of "Loknatha Rasa" medicines containing mercury as a liver protective treatment method drawing special attention for liver cell cancer condition and integrated management of the fields of forest, agriculture and tourism sectors through community-based ecosystem approach.

assistance.

Nevertheless, after that, the Ministry of Foreign Affairs has informed that the amendments should be made to certain clauses of the relevant project agreements and this Ministry has made aware the institutions which grants relevant financial assistance about it. Therein, as those institutions did not agree to the said amendments, a Memorandum of Cabinet of Ministers was submitted to resolve this problematic situation and to obtain Cabinet approval for the implementation of the projects. The approval of the Cabinet of Ministers was received for these projects on 28.09.2021. Currently, the activities of the above projects are being implemented.

The project on integrated management of forest, agriculture and tourism sectors through community-based ecosystem approach is a financial assistance project received by Sri Lanka through UNDP Agency under global facilities. After the completion of the project documents, the contract should have been signed within the specified periods for the Project and otherwise, there was a risk of losing the relevant project to our country, so we had to enter into

agreements. It is kindly informed that arrangements have been made to sign these agreements subject to the approval of the Cabinet.

### 3.4 Assets Management

----- Audit Observation -----	----- Comments of the Chief Accounting Officer -----	----- Recommendation -----
<p>It was revealed that out of the pool vehicles owned by the Ministry of Environment, two vehicles had been retained in garages and three vehicles had been retained in the Ministry Premises and due to lack of allocations, vehicles in the garage for a period of up to four years and vehicles in the Ministry Premises for a period of two years to four years had not been repaired..</p>	<p>Because of the reasons such as inability to repair due to insufficient provisions, shortage of vehicle spare parts in the market the repairs have been delayed.</p> <p>Assessment reports have been obtained for the disposal of 02 vehicles and it has been planned to provide to the government agencies which have vehicle requirements.</p>	<p>Arrangements should be made to follow up and take immediate necessary actions.</p>

### 4. Human Resources Management

The following observations are made.

----- Audit Observation -----	----- Comments of the Chief Accounting Officer -----	----- Recommendation -----
<p>(a) The number of vacancies in senior level posts in the Ministry was 17 as at 31 December 2021,</p>	<p>Recruitments for senior level posts are done by the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, the Ministry of Public</p>	<p>Necessary arrangements should be made to fill the available vacancies based on service requirements.</p>

Administration have been informed periodically through the MISCO data system and in writing to fill the said vacancies.

- (b) The excess number of posts of Development Officer, which was a secondary level post in the Ministry during the year under review was two.

The requests have been made from the Department of Management Services under F.R. 71 to approve 30 numbers of Development Officers for the Ministry of Environment more than the currently approved number of Development Officers on service requirement. Further, an application has been made under F.R. 71 for setting up of 391 posts of Development Officer for Ministry of Environment considering the request made by the District Secretaries to appoint an environment officer for each District Secretariat.

Necessary arrangements should be made to revise the number of posts so that they contain only the number of essential posts with consideration of the service requirements.