

Pilisaru project - 2013

The audit of financial statements of the pilisaru project for the year ended 31 December 2013 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.

1.2 Implementation, objectives, funding and duration of the Project.

The Pilisaru Project is implemented by the pilisaru Project Division established in the Central Environmental Authority and executed by the Ministry of Environment and Renewable Energy. Proper conservation of resources and to ensure the solid waste management, knowledge and skills building of persons engage in solid waste management, implementation of Solid waste management projects, Observation of projects, provision of facilities supply of required provision, establishment of a solid waste recycling banking system, taking legal action against the Local Authorities which do not manage solid waste are the main objectives of the Project. According to the funding plan for 6 years, the total cost of the project was Rs.5.6 billion, out of which Rs.2.675 billion from the Treasury and Rs.3 billion from "Green Tax introduced by the Budget for 2008 are expected to be financed. According to the Project proposal, the Project had commenced its activities on 01 January 2008 and was expected to be completed on 31 December 2011. However It was recommended by the cabinet paper No. 10/1905/432/008 dated 16 September 2010 and Cabinet memorandum No.10/2010 that as the project could not be completed on due date the project period had been extended for 3 years from 01 January 2011 and provision should be made for in the implementation of the project for the next 3 years from 2008 to 2010 within the approved Limit of Rs.5.6 billion. According to the action plan for the year 2013 the estimated cost for the project amounted to Rs.0.2 billion.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on revised of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall prevention. I have obtained sufficient information and explanations which to the best of my knowledge and belief were

necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over project Management and the reliability of books, records, etc. relating to the operations of the project.
- (b) Whether adequate accounting records were maintained of a continuing basis to show the expenditure of the project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the project in financial and physical terms, the assets and liabilities arising from the operations of the project, the identification of the purchases made out of the Loan, etc.
- (c) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the project.
- (d) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (e) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that,

- (a) The Project had maintained proper accounting records for the period of 06 months ended 30 June 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 June 2013 in accordance with Generally Accepted Accounting Principles,
- (b) The funds provided had been utilized for the purposes for which they were provided,
- (c) Satisfactory measures have been taken by the management to rectify the issues highlighted in my previous audit report.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented, the expenditure for the year under review amounted to Rs. 317,396,236 and the accumulated expenditure for the year ended 31 December 2013 amounted to Rs. 1,952,031,164. A summary of the expenditure for the year under review, expenditure for the preceding year and the accumulated expenditure as at 31 December 2013 is given below.

Item of Expenditure	Expenditure for the year 2013	Expenditure for the year 2012	Accumulated expenditure as at 31 December 2013
	Rs.	Rs.	Rs.
Constriction of compost yards	45,816,245	55,297,185	511,191,805
Land filling construction	732,443	4,255,164	17,211,401
Small scale compost Yards and household compost containers	246,921,008	302,556,119	1,208,284,882
Transport (fuel and maintenance)	2,460,379	4,059,468	17,624,018
Office stationary supplies	726,177	2,002,499	5,948,026
Salaries	12,915,044	22,573,584	108,626,343
Postal and Tele communication	285,081	349,013	3,772,920
Project Co-ordination and Management	852,286	204,066	3,034,053
Office Rent	4,739,702	3,408,800	19,347,056
Overtime	850,938	2,483,391	7,312,962
Bank charges and Debit tax	12,000	20,100	837,327
Insurance	-	254,937	2,583,181
Vehicles services and repairs	1,021,046	2,383,072	7,159,330
Expenditure relating to the korian International Corporation Agency	-	-	19,387,597

Training and capacity building of the project staff	-	-	5,171,390
Program Launching	-	-	4,959,320
Other	63,887	34,700	9,579,553
	-----	-----	-----
	317,396,236	399,882,098	1,952,031,164
	=====	=====	=====

5. Audit Observations

The following observations are made

- (a) Even though the loss of Rs. 6,050,000 incurred in respect of a vehicle belonging to the project in the year 2011, action had not been taken to recover the loss from the responsible Officers.
- (b) The Board of Survey reports for the year 2013 had not been presented to the Auditor General in terms of Financial Regulation 757.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain data in respect of the utilization of funds by the project during the year 2013 and the overall fund utilization of the project as at 31 December 2013 is given below.

Source of funds	Funds expected to be invested for project activities	Fund utilized during the year 2013	Total Funds utilized as at 31 December 2013
-----	-----	-----	-----
	Rs.million	Rs.million	Rs.million
Green Tax	3,000	-	-
GOSL	2,675	317	1,998
	<u>5,675</u>	<u>317</u>	<u>1,998</u>
	=====	=====	=====

6.2 Contract Administration

Following observations are made

- (a) Financial assistance had been granted by the project to construct compost yards in the various Pradeshiya Sabhas under the implementation of solid waste management project which was the main objective of the project. Audit examination carried out in this regard observed the following matters.
 - (i) Even though an advance of Rs. 1,241,652 had been paid out of the estimated value of Rs. 1,806,413 for the construction of the security fence of the compost yard office and the stores building by the Pilisaru project to the Thanamalwila Pradeshiya sabha, the construction work of this yard had been commenced

without being carried out any feasibility study. As such, it was observed in audit that disposal of waste and rubbish and manufacture of fertilizer could not be done at a maximum capacity.

- (ii) An expenditure of Rs.100.861 million had been incurred for the construction of the grand scale compost yard at Kolonnawa, Pothu wil kumbura, but a feasibility study had not been carried out. It was observed and informed at the physical verification carried out on 02 March 2013 that there would be a danger in burying the compost yard by the rubbish heap nearby but attention had not been paid in this regard. Subsequently on 11 December 2013, that rubbish heap was collapsed on to the compost yard. A sum of Rs.114.06 million had been spent for the constructions of this compost yard and to purchase plant and machinery.
- (iii) A compost yard had been constructed in an extent of 06 acres at yudaganawa area in Polonnarawa District under the Large scale compost yards by incurring an expenditure of Rs. 22,442,860. Eventhough it was targeted to manufacture 20 tons of carbonic fertilizer per month by using garbage of Higurakgoda and Medirigirya areas under this large scale compost. Yard, only 2 tractor loads been received daily and as such the expected targets could not be achieved. Further, the Medirigiriy pradeshiya sabha had to spend Rs.2 million annually to maintain this yard and as a result this waste management projects was failed.
- (iv) It was observed that the manufacture of compost had not been carried out in the large scale compost yard at Monroviyawatta in Hikkaduwa, constructed to waste management in 07 Local authorities incurring an expenditure of Rs.112,200,183.
- (v) Further, even though a sum of Rs. 15,705,465 had been given to 12 Local authorities for the construction of small scale compost yards, they had not been constructed even by August 2014.
Even though an advance of Rs. 1,280,663 had been given to the Galenbindunuwewa pradeshiya sabha in November 2011 for the implementation of small scale compost projects it had not been constructed and it was unable to recover the advance paid.
- (vi) Even though the manufacture of compost should be started within 2 weeks after the construction of small scale compost yards, manufacture of compost had not been commenced in the compost yards constructed in 14 Local authorities by incurring an expenditure of Rs. 44,490,219.
- (vii) Even though a sum of Rs. 3,444,748 had been released to 3 other local authorities for the construction of compost yards, those projects had already been abandoned.
- (viii) Before 01 month of the commented of compost yard activities, it was stated in agreement that Environment protection License should be obtained by the Local authorities. Nevertheless, such licenses had not been obtained for 103 compost yards.

Further, action should be taken to grow and continuously operate and maintain 'galsidia' 'wal sooriya kantha, keppetiya, gansooriya etc, with high nitrogen in order to uplift the quality of fertilizer manufactured and to utilise those leaves as a raw material to manufacture compost. Nevertheless it had not be so done.

- (ix) The quality of samples of carbonic fertilizer manufactured in the compost yards should be tested once in 3 months by the manufacture and popularization program of carbonic fertilizer under the control of the Ministry of Agriculture. Nevertheless 91 Local authorities had not done so and the project had also not taken follow up action.
- (x) It was observed that tanks to be constructed for the disposal of waste water through solid waste recycling process in the compost yard implemented by the pradeshiya sabha at Beliatta had not been quantitatively and properly constructed and implemented.
- (b) Even though a sum of Rs. 187.93 million had been spent by the Pilisaru project during the period from 2008 to 2013 for awareness programs, the collection of allocated waste by the local authorities observed that the knowledge of persons who are engaged in solid waste management was not improved. Further, even though 6,160 containers of solid waste had been purchased at a cost of Rs. 19,434,130 and distributed among the Public and private institutions and Local authorities the objective of this was not achieved.
- (c) Even though a sum of Rs.163 million had been spent by the project for Land filling, any land filling whatsoever had not been set up out of 9 land fillings stated in the action plan for the period from 2008 - 2010.

6.3 Human Resources Management

Five coordinating officers had been recruited to the pilisaru project since 02 June 2014. Although a monthly salary of Rs. 40,000 and an monthly fuel allowance of Rs.20,000 had been paid to an individual with the approval of the Board of Directors, it was revealed that they had been recruited without checking their basic qualifications. Similarly, these posts had not been approved by the Department of Management services. Further, it was observed that in recruiting for the posts of senior Engineer and the Deputy Manager (Public Relations) of the project officer who had no required qualifications for the posts had been recruited and a sum of Rs. 6,403,600 had been paid as salaries and allowance to them during the period from 2008 to 2012.

After being pointed out his matter in audit their services were terminated. However a gratuity of Rs. 524,825 had been paid to them in the year 2013.