

Central Environmental Authority - 2013

The audit of financial Statements of the Central Environmental Authority for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction 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 the National Environment Act, No.47 of 1980. 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.

1.2 Managements responsibility for the financial Statements

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

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 Standards of Supreme Audit Institutions (ISSA1 – 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 performance procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 the Section 13 of the Finance Act, No. 38 of 1971 give discretionary any 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

My opinion is qualified based on the matter in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments of Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

An outside entity and an individual had filed cases against the Authority and claimed compensation of Rs.460 million together with Rs.10,000 per day from the date of filing the case respectively on the ground of suspension of a Project on breach of conditions stipulated in the Environmental Evaluation Report and construction of an Information Center (Sobaketha) in a land which was not legally vested. However, the nature of the contingent liability which may arise from those cases had not been disclosed in the financial statements according to the Sri Lanka Public Sector Accounting Standard No.08.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Out of the grants received from United Nations Environment Fund to implement a project for updating National Chemical Material Profile, a sum of Rs.1,664,495 had been saved and shown as payables instead of treated as grants received.
- (b) Although the expenditure incurred to develop of a new website amounted Rs.115,000, it had been brought to accounts as Rs.230,000 and as a result expenditure for the year and payables at the year end had been overstated by Rs.115,000.
- (c) Assets such as laboratory equipment, computer software, furniture and office equipment etc valued at Rs.3,512,216 had been erroneously disclosed as goods-in transit and work-in progress under non-current assets and related liabilities as payables under current liabilities without being identified the transactions specifically.

- (d) A sum of Rs.3,939,000 to be incurred on the educational programs and research and education expenses had been shown under the work in progress and accrued expenses. Nevertheless, the Authority was not bound to pay for those programs and as such assets and liabilities of the Authority as at 31 December of the year under review had been overstated in the financial Statements.

2.3 Non-Compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules and regulations were observed.

Reference to Laws, Rules, Regulations -----	Non Compliance -----
(a) Section 12.2.6 of Chapter VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Seven officers had been appointed for acting posts without the approval of the Secretary to the Ministry,
(b) Financial Regulation 757(c) of the Democratic Socialist Republic of Sri Lanka	Board of Survey reports in respect of laboratory equipment valued at Rs.125,571,509 had not made available.
(c) Public Enterprises Circular No. 95 of 14 June 1994	Contrary to circular instructions transport allowances amounting to Rs.1,455,000 had been paid to 22 Deputy Directors of the Authority while Rs.107,000 had been paid to two officers as official residence allowances.
(d) Gazette Notification No.1466/5 of 10 October 2006.	Even though the manufacturing of polythene product with 20 micron or less than that for local use, sale or use of such polythene product had been prohibited, action had not been taken to examine the progress of the implementation of such an order by the Authority.
(e) Management Services Circular No.39 of 26 May 2009.	Although the concurrence of the Department of Management Services should be obtained for the payment of additional allowances, contrary to that 3 increments had been granted to the officers who possessed post-graduate qualifications. The amount so paid to 22 officers during the year under review was Rs.20,445.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year under review had resulted in a deficit of Rs.28.6 million as compared with the deficit of Rs.30.6 million for the preceding year. Accordingly, a decrease of deficit by Rs.2 million was shown as compared with the preceding year. Although the grants from General Treasury and other operating income had increased by Rs.77.4 million, with the increase of operating expenses by Rs.77.9 million and decrease of deferred revenue income by Rs.4.5 million was the reason therefor.

3.2 Legal Cases initiated by the Authority

The Authority had filed 110 legal cases in the Courts at the end of the year under review against the outside entities and individuals in respect of environment pollution and environment licenses not obtained.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Complaints on Environmental Matters

- (i) According to the procedure adopted by the Authority regarding complaints, necessary action should be taken in respect of environmental complaints within 14 days. However, required action in respect of 03 environmental complaints made to the District office, Matara in March 2013 had not been taken by the Complaints Division at the Head Office even by the end of May 2013.
- (ii) A data base in respect of environmental complaints had not been maintained and the progress of the action taken with regard to complaints had not been reviewed.

(b) Issue of Environment Protection Licenses

- (i) According to the Condition No.22 on issue of the Environment Protection Licenses, it was informed that waste water analysis reports should be submitted once in a 3 months during the validity period of the Licenses but the Authority had not taken action to do this.
- (ii) In terms of Section 23(a) of the National Environment Act, No. 47 of 1980 and the Gazette Notification No. 1533/16 dated 25 January 2008, the Environment

Protection Licenses should be obtained for industries as well. Nevertheless, Licenses for 201 factories belonging to Board of Investment and 5298 factories not belonging to Board of Investment respectively had not been obtained.

- (iii) According to the Extra Ordinary Gazette Notification No. 1534/08 dated 01 February 2008, a Waste Water Emission or Disposal License should be obtained before obtaining an Environment Protection License. Nevertheless, on issuing of Environment Protection Licenses for industries under Board of Investment, it was not investigated whether the above License had been obtained. According to a sample check, it was observed that Environment Protection Licenses had been issued to 15 industries by which Licenses for Waste Water Emission or Disposal had not been obtained. It was further observed that, this deficiency had directly contributed to worsen the environmental problems.
- (iv) A methodology in order to identify and solve environmental complaints received by the Authority against the industries by which Licenses obtained had not been introduced. It was further observed in the audit examination that concurrence of environmental matters had been granted without being examined the complaints made against such industries.

4.2 Operation of a Management Information System

The Authority had not introduced a Disaster Rebate Plan for the computerized management system maintained by the Authority.

4.3 Operating Inefficiencies

Even though the Environmental Officers under three levels namely Senior Environmental Officers, Regional Environmental Offices and Environmental Officers attached to Regional Officers and District Secretariats are engaged in duties, delegation of duties by identifying each of these levels had not been done and a supervisory mechanism had not been introduced. Travelling and subsistence totalling Rs.7,200,431 had been paid to Environmental Officers during the year under review without advance programs and progress reports to ensure the work done by the officers.

4.4 Idle and Under Utilised Assets

Ten testing equipment purchased in the year 2007 at a cost of Rs.452,660 for the testing of polythene products less than 20 micron had not been utilized even up to August 2014.

4.5 Identified Losses

Sundry advances of Rs.104,083 had been written off from the ledger Accounts with the approval of the Board of Management and action had not been taken to obtain the approval of the Treasury.

4.6 Apparent Discrepancies

Action had not been taken to recover the loss of Rs.49,623,542 incurred in construction works of Sanitation Waste Land Filling Project at Dompe even up to the end of August 2014.

4.7 Weaknesses in the Construction Administration

The following observations are made.

- (a) A provision of Rs.48 million had been made for the construction of a building for Southern Provincial Office and the following weaknesses were observed thereon.
 - (i) Even though building construction plan had been prepared and made payment Rs.380,721 in the year 2008, it was given up subsequently and construction had been commenced in accordance with a new plan prepared by the Consulting Committee. As the Consulting Committee had not prepared the plan for the building as per the specific standards, an additional cost of Rs.4,619,082 had to be incurred for works which were not necessarily required.
 - (ii) As the construction works had not been completed within the specified date, the delay charge of Rs.4,735,738 had not been recovered.
 - (iii) Even though it was estimated to construct a place in the part of the building for accommodation purposes at a cost of Rs.6,036,897 which represented 25 per cent of the total construction cost of Rs.23,926,797 under Stage II, a sum of Rs.5,480,517 had been spent for the construction of 02 rooms with 120 square feet each with a stair case. The approval of the Treasury had not been obtained for this additional cost.
 - (iv) A sum of Rs.816,032 had been spent on an additional estimate for construction activities and an over payment of Rs.861,000 had been made to the contractor for this purpose.
 - (v) The construction company had paid a sum of Rs.975,000 to an Engineer for 13 months at Rs.75,000 per month and the Authority had also paid Rs.550,000 to another Engineer for 11 months at Rs.50,000 per month for the performance of same purpose.

- (b) A contract for Rs.69.5 million had been awarded for the construction of access road to Sanitation Waste Retaining Land Filling Project at Dompe. At a field inspection carried out in audit it was observed that there was an over estimate of Rs.22.26 million and an over payment of Rs.8.15 million had been made to the contractor.
Even though 5 Laboratory reports had shown that construction works of the road had not been done in accordance with the standard specifications, the Authority had not paid attention thereon.
- (c) Even though it was planned to complete and utilize the Waste Detaining Project at the end of the year 2013, it was completed only in May 2014. However, action had not been taken to utilize same even up to September 2014.

4.8 Delays in Projects

The following observations are made.

- (a) The National Chemical Material Profile Updating Project was scheduled to be completed in the month of January of the year under review, the Project Implementation Design had not been completed even by 10 March 2014. However, an advance of Rs.336,000 had been paid at the time of signing the agreement for the preparation of project report. The office equipment had been purchased at a cost of Rs.558,840 for the project office before identifying needs of the project and such equipment had remained idle for more than one year.
- (b) Solid Waste Disposal Facility Construction Project carried out under this credit facilities provided by Economic Corporation Fund (EDCF).

Even though the project staff had been recruited in the year 2012 and the Project Agreement had been signed on 23 July 2013, the land fillings for 04 construction works had not been commenced. However, out of the cumulative expenditure of the Project up to the end of the year under review amounted Rs.11,028,095 or 64 per cent had been incurred for project staff, construction work of 04 land reclamation proposed under the Project had not been commenced during the period of 2 years.
- (c) The Treasury had made an allocation of Rs.5.633 billion for the “Pilisaru Project” commenced with the intention of completion it within the 3 years period from 2008 to 2010. The following matters were observed in this regard.
 - (i) Even though the Project was scheduled to be completed in the year 2010 it was not completed even by the end of August 2014. Out of the provision of Rs.5.633 billion made for the Project only Rs.1.965 billion or 35 per cent had been spent up to the end of the year under review.

- (ii) The construction of 103 small scale compost yards had been planned under the Project, only 69 yards had been constructed. Even though Rs.66.73 million had been granted to 31 Local Authorities to construct 31 yards, construction works of 13 yards had not been commenced and 03 yards had been abandoned. Manufacture of compost had not been commenced by 14 yards constructed. The other yard had failed to manufacture compost with optimum capacity.
- (iii) Out of the 14 large scale compost yards designed to be constructed 06 yards had been constructed. Three large scale compost yards constructed at a cost of Rs.248.7 million had been failed due to lack of follow up actions and operational inefficiencies.
- (iv) Even though it was planned to construct 10 land escalation premises for non – rotten waste management, even one site had not been set up. Out of the provision made for the purpose, a sum of Rs.163 million had been spent up to the end of the year under review for temporary land filling.
- (v) Officers who had not possessed required qualifications had been recruited for the posts of Senior Engineer and the Deputy Manager (Public Relations) of the Project and a sum of Rs.6,403,600 had been paid as salaries and allowances from 2008 to 2012. Although the services of these officer had been terminated during the year under review, gratuity amounting to Rs.524,825 had been paid them. It was observed that the qualified and efficient officers had not been employed and it was a reason for the failure of the activities of the Project.
- (vi) According to the Project Agreement, an Environment Protection Licence should be obtained one month before the commencement of the compost yard, such a License had not been obtained for any of those compost yard. Further, in order to improve the quality of fertilizer manufactured for the sustainability of the Project, plantations with plentiful Nitrogen should be continuously operated and maintained at the premises of the Project from the commencement of the Project of plant leaves should be used as a raw – material for the manufacture of compost. However it had not been done accordingly. Further, quality assurance testing reports for 91 composed yard which are operating at present had not been obtained, once in a 03 months period according to the Agreements.
- (vii) A motor vehicle purchased from the funds of the Project had met with an accident causing a loss of Rs.6,050,000. Action had not been taken to recover the loss even after a lapse of 2 years.

4.9 Resources of the Authority allowed to use by other government institutions

A sum of Rs.783,000 had been spent by the Authority for the purchase of air tickets for the officers at the Minister's office. Further, the and salaries, overtime and combined allowances

totalling Rs.692,255 had been paid by the Authority for 02 casual employees and a driver attached to the office of the Deputy Minister.

4.10 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Authority as at 31 December 2013 was 947 officers However the actual cadre was 715, thus 232 vacancies were remained.
- (b) The Scheme of the Recruitment for the Authority had not been approved by the Department of Management Services of the Treasury.
- (c) Photocopies of educational certificates of the employees contained in the personal files had not been certified as true copies.

5. Accountability and Good Governance

5.1 Internal Audit

Eventhough the audit examinations had been carried out by the Internal Audit Division to strengthen the internal control systems, action had not been taken to rectify the weaknesses identified.

5.2 Procurement Plan

A procurement plan in accordance with the Procurement Guidelines - 2006 had not prepared.

5.3 Unresolved Audit Paragraphs

The following observations are made

- (a) Necessary steps had not been taken to rectify the deficiencies pointed out since 2012 in respect of issues such as air quality control, sound and vibration control, motor vehicle emission testing control, implementation of Projects in Male and the establishment of an Atmospheric Condition Follow up Unit at Colombo Fort under the Circulation Atmospheric Condition Follow up Project in Sri Lanka.
- (b) Action in terms of Section 23 of the National Environmental Act had not been taken in respect of the pollution of drainage system by disposing sewerage system and other chemical waste from the industrial and housing project to the developed channel and drainage system identified by Lunawa Project.

- (c) Amendments had not been made to the National Environment Act, No. 47 of 1980 required to be improved in 18 identified Sections of the Act.

5.4 Fulfilment of Environmental and Social Responsibility

In terms of National Environment Act, No. 47 of 1980 and paragraph 22 of the National Environment Amendment Act, No. 56 of 1988, programs should be recommended to identify and protect water flowing risk areas and effective conservation of soil. Contrary to that action had been taken to make recommendations by the Authority for soil cutting purposes without considering the environmental protection. Environmental Complaints were also lodged and stated that environmental evaluation were not carried out to make such recommendations.

6. Systems and Controls

Weaknesses in systems and control observed in 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.

- (a) Budget
- (b) Computer software system utilization
- (c) Accounting
- (d) Procurement procedure
- (e) Provision for gratuity
- (f) Environmental protection licences
- (g) Personnel administration
- (h) Contract administration
- (i) Internal Audit