

Marine Environment Protection Authority – 2017

The audit of financial statements of the Marine Environment Protection Authority for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 provisions 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 20 of the Marine Pollution Prevention Act, No.35 of 2008. 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Authority on 10 May 2018.

1.2 Management’s 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 Auditing Standards of Supreme Audit Institutions (ISSAI 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 judgement, 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 powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the 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 matters described 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 Marine Environment Protection Authority as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 1

In terms of paragraph 48 of the Standard, the revenue and expenses should not be offset unless required or permitted by the Standard. Nevertheless, the revenue and expenses for 2 items of celebration of the World Maritime Day and for the International Coastal Cleanup Programme had been offset and only sums of Rs.1,991,069 and Rs.2,865,092 had been brought to account respectively as net expenses.

(b) Sri Lanka Public Sector Accounting Standard 2

In terms of paragraph in which objectives of the Standard are mentioned, the Cash Flow Statement should be prepared by indicating the manner in which the cash was raised for activities of the entity and how cash was used. However, contrary to that, transactions of Rs.18,751,505 brought to account on accrued basis had not been adjusted to the Cash Flow Statement.

(c) Sri Lanka Public Sector Accounting Standard 7

In terms of paragraph 25 of the Standard, where an asset is acquired, it should be brought to account at its fair value as at the date of acquisition. Nevertheless, 32 assets of property, plant and equipment provided by the Ministry of Mahaweli Development and Environment to the Galle Sub-Office, had not been brought to account.

2.2.2 Accounting Policies

The following observations are made.

- (a) According to the Accounting Policy recognized by the Authority for the depreciation of non-current assets, depreciation for 03 items of assets purchased at a cost of Rs.247,750 had not been made during the year under review.
- (b) Even though the writing off of the cost of laboratory materials and laboratory glassware as an expenditure of the year purchased is the Policy of the Authority, equipment valued at Rs.1,764,198 received by making payments in January 2018, had been written off as an expenditure of the year under review.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) According to the physical stock verification carried out on 12 March 2018 by the Audit, the value of stocks of stationery had been understated by Rs.187,078.
- (b) In the rectification of an error, intangible assets valued at Rs.3,055,941 had been credited to the Provision for Depreciation Account instead of eliminating from the Furniture and Equipment Account.
- (c) A sum of Rs.2,991,897 received as insurance indemnity for 09 motor vehicle accidents and expenditure on repairs equivalent to that, had not been brought to account during the year under review.
- (d) Assets valued at Rs.7,076,006 paid in January and February 2018 and received by the Authority in the year 2018, had been recorded under property, plant and equipment of the year under review, thus indicating an over computation of that account.
- (e) Assets valued at Rs.316,975 received to the Authority in the year 2017 from the Project on Control of Invasive Alien Organisms, had been omitted from accounts.
- (f) According to the agreement entered into with the International Union for Conservation of Nature for the formulation of policies and an Action Plan with strategies for the protection of marine environment, a sum of Rs.2,850,624 to be paid in the year 2018 had been shown as an expenditure of the year under review.

2.2.4 Lack of Evidence for Audit

Receipts and certificates of attendance for the confirmation of payments totalling Rs.375,875 incurred for workshops, programmes and 08 hoardings, had not been made available to Audit.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Section 18.2 of the Marine Pollution Prevention Act, No. 35 of 2008	In the enforcement of powers of the Authority, by the Fund established according to the Act, only expenses to be incurred in performing and discharging duties and functions can be paid only by the Fund. However, a sum of Rs. 5,762,064 had been credited to an Employees Loan Fund with the approval of the Board of Directors.
(b) Circular No. SP/SB/07/15 of 25 September 2015 of the Secretary to the President	Even though it had been indicated that suitable hotels and seminar halls should be selected to organize public sector functions, conferences and workshops at a minimum cost so as to achieve expected goals, a sum of Rs. 982,160 had been paid in 04 instances by the Authority instead of taking action accordingly.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulations 104 (1) (a)	As soon as a loss or damage occurs, inquiries should be instituted to ascertain the extent and causes of the loss and to fix responsibility. However, action had not been taken in terms of Financial Regulations relating to 04 motor vehicle accidents valued at Rs. 519,624.
(ii) Financial Regulation 104 (4)	Even though a full report should be submitted by determining the persons responsible for that accident and estimating the value of loss within 03 months from the date of accident, action had not been so taken in respect of 02 accidents.
(iii) Financial Regulation 211	Even though all liabilities should be settled promptly, liabilities valued at Rs. 5,007,086 existed as at 31 December 2016 had not been settled even by the end of the year under review.

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| (iv) | Financial Regulation 156 (7) | Even though the Chief Accounting Officer should exercise due economy in all financial transactions, 16 instances of retaining money ranging from Rs.10,000 to Rs.72,000 in hand by officers were observed at the audit test checks. |
| (v) | Financial Regulation 1642 | As soon as an accident occurs, it should be reported to the nearest Police Station. However, action had not been so taken. |
| (vi) | Financial Regulation 1645 (a) | Even though action should be taken to make arrangements for checking daily running charts constantly by the responsible officers, it had not been so done in regional offices. |
| (d) | Public Finance Circular No.03/2015 of 14 July 2015 | Even though it had been indicated that bank prepaid cards can be used instead of granting Imprests, the Authority had not paid attention thereon. |
| (e) | Management Audit Circular No.01/2016 of 01 January 2016 | Even though the Government had emphasized the necessity of maintenance of a computer database system in respect of all assets of Government institutions, it had not been so done by the Authority for assets valued at Rs.200,736,374. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2017 had been a deficit of Rs.35,611,914 as compared with the corresponding deficit of Rs.2,966,368 for the preceding year, thus indicating a deterioration of Rs.32,645,546 in the financial result of the year under review as compared with the preceding year. The decrease in income by Rs.45,975,990 and the increase in salaries, employees' benefits and other recurrent expenditure by Rs.15,659,134 had been the main reasons for this deterioration.

An analysis of financial results of the year under review and 05 preceding years revealed that the deficit of Rs.1,814,711 of the year 2012 had increased to Rs.35,611,914 in the year under review. After taking into consideration the employees' remuneration and depreciation on the non-current assets, the contribution of the Authority had continuously improved. However, the contribution of the year under review had decreased by 19 per cent as compared with the preceding year.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though an Action Plan had been prepared, the Authority had not introduced a methodology for the examination of the progress of achieving objectives therein on timely basis. Moreover, activities such as preparation of the National Action Plan on policy strategies of marine environment protection, preparation of Environmental Sensitive Maps, presentation of Reports on Biological Survey of Ports and amendment of the Act of the Authority, had not been performed during the year.

4.1.2 Performance and Review

The following observations are made in respect of achieving of objectives of the Authority.

- (a) Action had not been taken to enforce the legal powers in the Act, impose penalties and prevent the marine pollution caused by the Chilaw Urban Council by the irregular disposal of garbage on a land at Kurusapaduwa situated near the main estuary of the Chilaw Lagoon relating to the Chilaw Office.
- (b) Agreements had been entered into for the purpose of preparation of a policy with strategies and an Action Plan for the protection of marine environment of Sri Lanka at a cost of Rs.5,938,800 on 15 August 2017 with a view to completing it within 05 months. Further, the Authority had paid a sum of Rs.3,088,176 therefor by November 2017. Even though those activities had been completed, the final report thereon had not been received by the Authority even by March 2018.

4.2 Management Activities

The following observations are made.

- (a) A sum of Rs.3,604,039 relating to the years 2014, 2015 and 2016 allocated for performing intended activities, had been resettled on 28 December 2017 to the General Treasury without performing those activities.
- (b) The period of lease of the Head Office building is to be expired in November 2018 and the lessor had informed the Authority that the said period will not be further extended. As such, the impairment of a sum of Rs.1,354,199 in the year 2018, which was spent and capitalized by the Authority for the development of this building, had not been disclosed.

- (c) Five items of computer accessories valued at Rs.177,075 received as donations in November 2017 from the Ministry of Disaster Management, had not been entered in inventories and they had been kept in stores in an unprotected manner.
- (d) Even though an allowance at a rate of Rs.750 per day with effect from 01 December 2010 and allowances according to day and night shift schedule since the year 2016, had been paid for officers who had been deployed in ports for providing waste reception facilities, the approval of the Department of Management Services had not been obtained therefor. A total sum of Rs.1,951,550 had been spent for the payment of those allowances from the year 2014 to the year 2017.
- (e) A sum of Rs.33,783,341 had been spent for the construction of the Mirissa Fisheries Harbour as a Green Fisheries Harbour under the Project of Green Fisheries Harbour and the entire activities of this Project had been completed as at 31 December 2016. However, action had not been taken to vest this Harbour with the Ceylon Fisheries Harbours Corporation even by 25 January 2018.

4.3 Operating Activities

The following observations are made.

- (a) Even though permits should be obtained for dumping of waste within the areas of Authority of each regional office, action had not been taken to summon reports on institutions which do not act accordingly and to take necessary future measures therefor by the Legal Division.
- (b) Environmental and marine pollution occurs due to high temperature of water discharged from the Norochcholai Coal Power Plant and due to spillage at unloading of coal into the sea. Nevertheless, the Authority had not taken action to minimize it.
- (c) The Management had not paid its attention to find prompt solutions in respect of the environment pollution occurred due to disposal of waste from a hotel at Kahanda Modara, Tangalle and due to inoperative sewage water treatment plant at Warahena.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) The camera system installed by spending Rs.378,123 in the Head Office and in offices of Colombo Port in December 2016, had remained idle over a period of one year.
- (b) A Lorry of which the value could not be found out, received by the Authority from the Department of Coast Conservation and a Dingi Boat valued at Rs.722,000 owned by the Authority had remained idle over a period of four years.

4.5 Identified Losses

In the purchase of 03 Turbidity meters valued at Rs.450,000 in the year under review, a loss of Rs.48,420 had occurred due to selecting the second bidder instead of selecting the qualified lowest bidder by the Technical Evaluation Committee.

4.6 Personnel Administration

The following observations are made.

- (a) Twenty two posts of the staff of the Authority had remained vacant as at 31 December 2017. Out of them, 12 posts in the tertiary and secondary levels being vacant had affected the decline of the operating efficiency of the Authority.
- (b) According to the Scheme of Recruitment, the Efficiency Bar Examinations should be held for the posts in primary and secondary levels before completion of 03 years. Nevertheless, employees of the Authority had been granted salary increments without holding such examinations.
- (c) Even though a new Scheme of Recruitment had been formulated, the approval of the Department of Management Services had not been obtained therefor.

5. Sustainable Development

Achievement of Sustainable Development Goals

Every Government Institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations. However, the Authority had not been aware of the manner in implementing the functions that come under its scope. As such, action had not been taken to identify the sustainable development goals, targets relating to those functions and focal points to reach those targets and indices for measuring the achievement of targets.

6. Accountability and Good Governance

6.1 Internal Audit

According to the approved cadre, the Internal Auditor and two Audit officers should be attached to the Internal Audit Unit. However, only the Internal Auditor and a Management Assistant had been attached to that Unit. As such, it was observed that a vast area could not be covered in audit.

6.2 Procurement and Contract Process

The following observations are made.

- (a) In terms of Guideline 4.2 of the Government Procurement Guidelines, a Procurement Plan had not been prepared in a realistic manner by the Authority and it had not been reviewed in an updated manner as well.
- (b) In the installation of a security camera system (CCTV) in the Head Office of the Authority and in Port Offices, an accessory recorded under specifications, had been purchased by identifying as an additional accessory and a sum of Rs.64,665 had been overpaid in the purchase of security cameras without obtaining the recommendation of the Committee which acted as the Technical Evaluation Committee.

6.3 Unresolved Audit Paragraphs

The following observations are made.

- (a) The Oil Spill Contingency Plan had not been approved by the Marine Environment Protection Authority in terms of the Order No.01 of 2012 under the provisions of Marine Pollution Prevention Act, No.35 of 2008.
- (b) A proper methodology had not been prepared for waste management existing in Fishery Harbours.
- (c) Even though it had been decided at the Audit and Management Committee held in the year 2013 to make Local Authorities aware on the disposal of waste of lavatories built in a manner that waste is disposed to sea within the limit of 300 meters from the sea to the land and to prepare a report in the manner that action to be taken in future by discussing with the Director General of the Tourism Development Board on the special impact posed to Tourism Industry due to waste disposed to sea without recycling, it had not been implemented even up to the year under review.

07 Systems and Controls

The weaknesses in systems and controls observed during the course of 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.

Areas of Systems and Controls	Observations
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(a) Personnel Administration	Failure in making Recruitments, granting of promotions and conducting disciplinary inquiries in a formal manner.

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| (b) Execution of Projects | Failure to complete the projects on due date and to take action to obtain final observations and accounts relating to the projects. |
| (c) Implementation of Plans. | Improper implementation of plans and failure in taking follow- up action. |
| (d) Financial Control | Incurring over expenditure in implementing programmes due to not paying attention on the allocated provisions for that matter. |
| (e) Stock Control | Failure in receiving Goods by the Stores and issuing them and failure to update Stock Registers. |
| (f) Control Over Motor Vehicles | Failure to update Log Books, Running Charts and Certifications and failure in conducting preliminary inquiries on motor vehicle accidents and in taking action according to Financial Regulations. |