

## **Central Environment Authority - 2020**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Central Environment 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 read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971. My comments and observations which I consider should be report 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 responsibility, 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 Those Charged with Governance for the 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.

#### **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 skepticism 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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 Board'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. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluated 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.

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 it has performed according to its powers, functions and duties; and
- Whether the resources 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 Preparation of Financial Statement**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

The following non-compliances were observed.

<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>(a) Actions had not been taken to adjust the transactions pertaining to the debits amounting to Rs. 2,778,846 and credits amounting to Rs. 849,063 made to the prior period account relating to the year under review, retrospectively and to disclose in financial statements in accordance with Paragraph 54 of Sri Lanka Public Sector Accounting Standards No. 03.</p>	<p>Actions will be taken in future to properly disclose the facts related to the adjustments made for the previous years.</p>	<p>Actions should be taken in accordance with Sri Lanka Accounting Standards.</p>

(b) The Authority did not submit all the details of the lands acquired on lease basis to the Audit and only the details of land leased by Ratnapura Regional Office on lease amounting to Rs. 315,490 per annum had been shown under land details of the financial statements. Further, the occupancy of 23 acres 01 rood 30.45 perches land obtained for an assessed value of Rs. 47 Million from the Land Reforms Commission under the lease base subject to the payment of an annual lease rent of Rs. 2,820,000 for the construction of Pethiyakanda Compost Yard had been handed over to the Authority from 17 December 2017. Accordingly, the lease rent payable as at 31 December 2020 was Rs.9,400,000. However, the provisions required for this payment were not stated in the financial statements and the details of payment of lease rent had not been disclosed in the financial statements in terms of Sri Lanka Public Sector Accounting Standards No. 12.

Actions will be taken to properly disclose the relevant facts regarding operating leases from the year 2021.

Actions should be taken in accordance with Accounting Standards.

### 1.5.2 Accounting Policies

-----

#### Audit Issue

-----

Two mobile circulating air quality measurement units purchased by the Vehicle Emission Fund in the year 2018 at a cost of Rs. 82,752,000

#### Comments of the Management

-----

Even though these 02 Air Quality Measurement Units were established in the Head Office and

#### Recommendation

-----

Actions should be taken to accurately identify the effective life of the asset.

had been handed over to the Central Environmental Authority on 20 November 2020. The date of use of an asset was taken into consideration in calculating the useful life of the asset according to the depreciation policy of the Authority and accordingly, the depreciation had been calculated for this asset considering the useful life as 10 years from the date of use. Nevertheless, in evaluating the useful life of the asset under the above conditions, the depreciation rate had not been calculated considering the time period of the asset was not used.

Central Provincial Office of the Authority in the year 2018 by the vehicular Emission test trust Fund, the submission to the our Authority in writing (transfer of ownership) had taken place on 20 November 2020 . Accordingly, the depreciation has been calculated from the date on which the ownership was properly transferred.

### 1.5.3 Accounting Deficiencies

The following observations are made.

Audit Issue	Comments of the Management	Recommendation
<p>(a) Even though the motor vehicles of the Authority had been re-valued during the year under review, only one motor cycle form of the motor cycles cost at Rs. 21,727,678 had been re-valued to a Rs. 10,000. Similarly, actions had not been taken to adjust the re-value amount of a lorry that had been re-valued for Rs. 500,000 with the above motor vehicles to the motor vehicles reserve and to the value of the motor vehicles.</p>	<p>Only the motorcycle at the Head Office was re-valued and the Administration Division has informed that the other motorcycles are not in functional condition. Examine it furthermore and if the motorcycles can be re-valued, actions will be taken to account for it in 2021.</p>	<p>Actions should be taken to account for accurately.</p>

- |  |  |   |
|--|--|---|
| <p><b>(b)</b> The recurrent grants from 2009 to 2020 totalled to Rs. 35,968,846 had been erroneously mentioned under the liabilities without being identified as an income.</p>  | <p>Within the recurrent grant account balance of Rs.36,120,516 as shown, there are very old balances remaining for years. Actions will be taken to include such old balances in the Annual Performance Statement, by checking furthermore the accounts, books and documents on these values.</p>   | <p>Actions should be taken to account for accurately.</p>   |
| <p><b>(c)</b> A sum of Rs.140,432,753 had been stated in the financial statements under current liabilities as payables until completion of the service for providing Environmental Impact Assessment Service (EIA) and out of which, a sum of Rs. 33,682,272 had exceeded a period of 05 years. Arrangements had not been made to identify the revenue of the Authority generated by these environmental impacts assessment service and to account for under the revenue.</p> | <p>Environmental Impact Assessment Fees can be settled only after conducting the relevant Environmental Assessment and submitting the reports. The settling of fees is done after making inquiries whether the projects can be completed by calling information at the provincial level for these settlements. It was unable to do so in this year due to delays in obtaining information.</p> | <p>Actions should be taken to make relevant adjustments in final accounts by obtaining information.</p> |
| <p><b>(d)</b> A sum of Rs. 18,455,380 had been stated in the financial statements as goods in transit and as creditors without ordering of goods and without responsibility during the year under review. The current assets and current liabilities were overstated in the financial statements by the same amount.</p>   | <p>Goods - in -transit and work-in-progress accounts indicate the purchases in capital nature and accordingly, until the ownership of those assets is ascertained and until those assets become usable condition, thus show the goods in transit and work-in progress in the accounts. Accordingly, the</p>  | <p>Actions should be taken to account for accurately.</p>   |

payment will be made after transferring of the ownership of the relevant assets.

- |   |  |  |
|---|--|--|
| <p>(e) Due to errors in the calculation of value added tax liability, the tax liability to be paid at the end of the year had been understated by Rs. 696,282 in the financial statement.</p>   | <p>Arrangements will be made to do the adjustments properly in this regard and make payments or recoveries in the year 2021.</p>   | <p>Actions should be taken to account for accurately.</p>                        |
| <p>(f) Although the amount of Rs. 1,675,350 spent in 2018 for the design of the plan of the Ratnapura office complex should be shown as work -in -progress, it had been accounted for as current assets.</p>  | <p>Even though a sum of Rs. 1,675,350 has been paid in 2018 for the design of the plan of the Ratnapura office complex, Treasury allocations has not been received for the construction of the complex. Therefore, the procurement process has not yet commenced. Therefore, it is better to indicate that the payment as a payment in advance rather than accounting for as work -in -progress. After receiving of these approvals, the payments in advance will be transferred to the work -in -progress account as soon as the procurement commences.</p> | <p>Actions should be taken to account for accurately.</p>                        |
| <p>(g) Even though, an amount of Rs. 6,000,000 belonging to an unidentified account had been considered as a balance in preparing the trial balance pertaining to the final accounts by the Authority and then balanced, the required confirmations for</p> | <p>There is any unidentified account amounting to Rs. 6,000,000 in the trial balance 2020 submitted.</p>   | <p>The confirmations for each balance should be submitted with the accounts.</p> |

that were not submitted to the audit.

**1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.**

The following observations are made.

<b>Reference to Non-compliance with Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) National Environmental Act No. 47 of 1980 i. Section (7)	All the members appointed to the Environment Council had not attended the meetings of the year under review. Accordingly, the members had not contributed to achieve the objectives of the establishment of the Environmental Council.	According to the National Environmental Act No.47 of 1980, the Environment Council has been established with the objective of advising the Authority on matters relating to the responsibilities, powers and functions of the Central Environmental Authority and providing instructions to the Judiciary on certain matters sent to the Council by the Authority. Thirty members are appointed under the leadership of the Hon. Minister of Environment as per the Act. The Environment Council with 27 members was also	Actions should be taken to obtain the contribution of all members for the Environment Council.



inaugurated for the 13<sup>th</sup> Session of the Environment Council which had ended in December 2020.

The occasional lockdown across the country from 13 March with the spread of Covid 19 worldwide in 2020 led to minimize in the number of meetings that year.

- ii.**Section (7) Functions of the National Environmental Council established under the provisions of the National Environmental Act have been stated and necessary actions had not been taken as at the date of the audit on the following special issues discussed by the National Environment Council.
- (3)
- a.** Implementation of future plans proposed by the Central Environmental Authority in respect of managing Palms.
- It is informed that the following actions measures have been taken in respect of Palm during this year.
- A preliminary meeting with the participation of relevant institutions was held on 03 May 2021 in the Central Environmental Authority with the participation of the Chairman of the Central Environmental Authority and the officers of other institutions to coordinate the planning of future activities related to the Cabinet Memorandum submitted by His Excellency the President on 27 April 2021 to
- Arrangements should be made to take relevant decisions in respect of environmental issues in a timely manner.

systematically  
remove Palms from  
the lands where  
Palms are cultivated  
and to plant rubber  
or other catchment  
area protect  
plantations.

- It was decided at the above meeting to set up and implement an Inter-institutional Coordinating Committee.
- The Ministry of Environment has made arrangements to hold the first meeting of the Inter-institutional Coordinating Committee with Co-chaired by the Secretaries of the Ministries of Environment and Plantation Industries on 11 May 2020 with the participation of the officers of other relevant institutions. The meeting was cancelled by the Ministry of Environment due to the Covid 19 epidemic in the country and will be held in future.

- b.** Inclusion of a condition on consisting level
- b.** When issuing Environmental Protection

of decibel in  
issuing  
Environmental  
Protection  
Licenses to  
explosives  
manufacturing  
companies.

Licenses to  
explosives  
manufacturing  
companies,  
conditions  
including amount  
of decibel for  
controlling noise  
pollution has  
already been  
included.  
Similarly, actions  
will be taken in  
future to make  
aware of Provincial  
Offices to take  
further actions in  
this regard.

c. If it is  
impossible to  
afford the cost  
of emissions  
testing machines  
locally, make  
necessary  
arrangements to  
take action for  
that.

c. The facts mentioned  
are accurate.  
Arrangements are  
being made to raise  
the required funds  
for maintenance  
services of emission  
testing machines.

iii. Section 23  
(o) (2) The regulations in  
respect of noise  
pollution control had not  
been amended.

The facts mentioned  
are accurate. An  
external consultant is  
appointed and the  
necessary  
arrangements are being  
done.

(b) Section 6.5.1  
of the Public  
Enterprise  
Circular No.  
PED 12 of 06  
June 2003

The Annual Report for  
the year 2019 had not  
been tabled.

Actions have been  
taken to obtain a date  
for the discussion to  
get the  
recommendation of the  
Hon. Minister before  
the Annual Report is

Actions should be  
taken to table the  
Annual Report  
within the stipulated  
time.

tabled in Parliament. Five Sinhala copies of the 2019 Annual Report were submitted to the ministry on 23<sup>rd</sup> March 2021.

- (c) Circular of the Department of Management Audit No. DMA/SP/2015/01 dated 15 December 2016
- Although a physical verification should be carried out on the vehicles as well as other assets during the Board of Survey, all the vehicles had not been undergone a physical verification as per the Asset Register of Vehicles .
- Physical verification of vehicles is being carried out in the Annual Board of Survey as scheduled from the year 2020.
- Actions should be taken in accordance with the circular instructions.
- (d) Extra ordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka No. 1533/16 dated 26 January 2008
- Eighty three Emission Centres established in 18 Districts of Sri Lanka are functioning without an Environmental Protection License valid as at 31 December 2020. A valid Environmental Protection License was not available for 23 out of 26 Emission Centres established in the Colombo District.
- Newly identified industries have been classified as industries subject to the process of obtaining Environmental Protection Licenses as per the database of the Central Environmental Authority. These industries are belonging to the NP (New Processing) and it has been active by then to obtain licenses sending 1078 such industries for environmental protection licensing process in the year 2020.
- Arrangements should be made to conduct a periodic review regarding the issuance of valid Environmental Protection Licenses.

## 2. Financial Review

-----

### 2.1 Financial Results

-----

The operating result for the year under review was a deficit of Rs.135,512,005 and the corresponding deficit of the preceding year was Rs.71,973,628. Accordingly, a deterioration of Rs.63,538,377 was observed in financial results. The decrease in operating income had mainly attributed to this deterioration.

## 3. Operating Review

-----

### 3.1 Underutilization of Funds

-----

#### Audit Issue

-----

With the commencement of the Waste Management Division since 2004, the amount received from the sale of compost bins which were donated by various parties valued at Rs. 7,887,531 had been carried on as the compost bins reserve. A programme to provide compost bins again to the public using funds from this reserve had not been activated by the Authority.

#### Comments of the Management

-----

This is the money received from the sale of compost bins (donations) received from various parties in the establishment of the Waste Management Division with compost bins reserve since 2004 after the previous checking of accounts. It is not a fund based on the Pilisaru Project and actions will be taken to adjust to this account in the year 2021 after checking of accounts.

#### Recommendation

-----

Funds should not be kept underutilized and actions should be taken to use it for the relevant project objectives.

### 3.2 Idle or Underutilized Property, Plant and Equipment

---

Audit Issue Observation	Comments of the Management	Recommendation
<p>(a) Although the public should be given the opportunity to comment on the Initial environmental Examination of a project in terms of Sub-sections 23 (b) (1) and (2) of the National Environmental Act No. 47 of 1980, the public was not given an opportunity to comment on the Pethiyakanda compost yard. As a result, due to there were public protests when the project was launched the compost yard which was constructed at a cost of Rs. 154,138,405, had been in dormant even by the date of audit.</p>	<p>The Gampaha District Integrated Solid Waste Management Project was launched promptly to manage the solid waste in the Gampaha District as soon as the Landslide occurred at Meethotamulla Garbage Dump. Under that Project, the organic fertilizer yard was constructed firstly. An environmental recommendation has been obtained for that as per the application submitted by the Western Provincial Waste Management Authority. Obtaining comments from public for that do not carry out. After the completion of the construction of this organic fertilizer yard it has been handed over to the Western Provincial Waste Management Authority for operations.</p>	<p>Arrangements should be made to utilize the assets in the most efficient manner.</p>
<p>(b) Due to failure to function with the technical details provided regarding the Dompe Sanitary Landfill which was constructed at a cost of Rs. 600 Million, a sum of Rs. 2,577,081 had to be spent to replace the geotextile cover inside the</p>	<p>Due to the fact that the garbage has to be dumped in the minimum capacity, it has been decided to carry out training in the premises and to carry out the repairs of the existing sanitary landfill from the remaining funds of KOICA which</p>	<p>Necessary actions should be taken not to keep the assets in an underutilized manner.</p>

garbage bin. Further, even though the daily capacity of this landfill had been estimated as 90 Metric Tons, garbage had been collected in 2018, 2019 and 2020 with a minimum capacity of 7,956, 1,437 and 2,284 Tons respectively.

provided financial assistance for this Project for the construction of this sanitary landfill as per the decisions taken by the Central Environmental Authority and KOICA. Based on that decision, with all the activities such as repairing the geotextile layer of the sanitary landfill, solving problems with wastewater treatment system and training of sanitary landfill staff by specialists as well and repairing and handing over to the Central Environmental Authority were done.

### 3.3 Delays on Projects or Capital Works

Audit Issue Observation	Comments of the Management	Recommendation
<p>The expenditure incurred for the Solid Waste Disposal Facility Project implemented under the Korean Economic Development Cooperation Fund Loan Agreement No. SRI-21 was Rs. 466 Million as at the date of audit. The approval of the Cabinet of Minister had been granted to terminate the loan agreement for this Project based on the reasons such as failure to commence the construction works of the Project due to an objection to the bid security of the selected contractor at the time of awarding the contract, changing the selected sites for construction and changing</p>	<p>It had been planned to create two sanitary landfills within the Anuradhapura Kirikkulama and Galle Monrochiyawatta Pilisaru Projects premises itself as an extension of the large scale compost yards designed and handed over to the local authorities and to create two more sanitary landfills within the Jaffna Keeramale and Polonnaruwa Meegaswewa project sites as alternative project sites proposed instead of the Gonadigawatta and</p>	<p>Necessary steps should be taken to achieve the project objectives identifying the new scope.</p>

the scope of the Project.

Panadura Malamulla Project sites proposed in the preliminary plans respectively in order to achieve the Solid Waste Management Development Goals. All the works on the Project was to be completed within 48 months as per the agreement signed on 23 July 2013. It took an extra time to find alternative project sites to instead of the Kandy Gonadigawatta and Panadura Malamulla Project sites and to prepare plans for those identified alternative sites. Further, as a result of the inability to complete the procurement process for the selection of a Civil Construction Contractor which commenced in August 2017 after completion of all plans, the works on the Project could not be completed as planned until July 2020.

Due to the termination of this Project on 31 October in accordance with the Decision of the Cabinet of Ministers on 01 July 2020, opportunities to dispose of 123 Metric Tons of municipal waste daily in approximately 33 local government bodies in an environmentally friendly manner had deprived. The cost incurred for this Project was Rs. 450,278,338.



### 3.4 Procurement Management

---

<b>Audit Issue Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>Although the vibration analysis machine purchased in 2017 for Rs. 8,028,200 should be calibrated during the one year warranty period, it had not been so done even by June 2021. Despite of that, only 4 tests had been completed since the device was purchased and it had remained dormant due to non-calibration. Weakness in procurement mentioned in Paragraph 5 (2) (1) (c) of the Auditor General's Report issued in 2018 was further confirmed by this.</p>	<p>This Vibration Analysis Equipment has purchased from Richy Project (Pvt) Ltd. on 20 November 2017 with the approval of the Procurement Committee. Since the Richy Project (Pvt) Ltd. has been temporarily closed since 08 November 2018 a problem has arisen with the calibration of this device. As there were problems in respect of recommending the Richy Project (Pvt) Ltd. had problems at the time of purchase of the device, the relevant file has been taken away several times by the Audit Division of the Authority for investigation. Due to the closure of offices time to time due to the Covid epidemic situation in 2020 and 2021, the Calibration work has further delayed. A request has been made to provide a copy of the relevant legal letter to the Authority to prove the closure of Richy Project (Pvt) Ltd. Even though an estimate of Rs. 412,500 including all taxes has been provided for the Calibration of this</p>	<p>Arrangements should be made to introduce and implement an internal control system for using of assets and maintenance.</p>

device, it has been stated that the first Calibration will be done by Richey Project (Pvt) Ltd. when purchasing this equipment. It is intended to discuss the matter with that institution. After Calibration of this device, it is expected to be used for vibration pollution related tests and to obtain benefit from it.