

## **Central Environmental Authority – 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Central Environmental Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Central Environmental Authority as at 31 December 2019 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**

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My opinion is qualified based 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 is further described in the Auditor's Responsibility 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**

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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 determines 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 Sub-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 of the Authority.

#### **1.4 Scope of Audit**

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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 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.
- Obtain 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude 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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

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

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| <b>Audit Observation</b>  | <b>Comments of the Management</b>                            | <b>Recommendation</b>                      |
|---|--|--|
| -----   | -----  | -----                                      |
| (a) Although the available on the date of acquisition when an asset has been acquired as per paragraph 25 of No 07 of the Public Sector Accounting Standards the fair value should be taken in to accounts, 20 items Property Plant and Equipment by the Ministry to the Authority had not been accounted | Steps are taken to account for the fair value of the assets. | Should be comply with accounting standards |

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|-----|--|--|--------|
| (b) | Although the cash transactions had been required to be accounted for in the preparation of cash flows in accordance with Sri Lanka Public Sector Accounting Standards No 2, the assets transferred from other Institutions which did not affect the cash flow of the Authority and the amount of Rs.4,720,384 as cash flow under investment activities   | It had been corrected to year 2020   | - do - |
| (c) | Although in accordance with Sri Lanka Public Sector Accounting Standards No 3, quantitative pre-period errors should be restated in accordance with the financial statements approved for issuance after the detection of errors and financial statements should be made on the nature and manner of those errors. The correction had been done for the year under review in respect of the previous year Rs.76,976,507 were not disclosed in the financial statements | By mistake the relevant calculations are shown as receipts for the year 2019 | - do - |

### 1.5.3 Accounting Deficiencies

| -----<br>Audit Observations<br>-----  | Comments of the<br>Management   | Recommendation<br>-----   |
|---|---|---|
| (a) Instead of showing the total value of the two vehicles transferred to the Authority in the years 2012 and 2016 at Rs.3.5 million in the financial statements, It was mentioned in the financial statements as an assignments made during the year under review. | The                    gazette notification had been issued in this regard. | It should be accounted correctly.   |
| (b) The value of Rs. 4,642,740 provided by the Department of Motor Traffic to the environment air pollution testing Authority, it had been accounted for under the Property, Plant and Equipment as a mobile laboratory asset.                                      | Further action in this regard was referred to the Ministry                  | Transactions in the form of current assets, they should be dealt with accordingly |

- (c) Liabilities of arrears building rent Rs.11,790,000 to be paid by the Authority Provision had been made and had not been accounted in the financial statements
- The Attorney General has instructed to resolve this issue by passing parliamentary resolutions
- It should be brought to accounted correctly.

#### 1.5.4 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

| Reference to Laws, Rules, Regulations etc.   | Non-compliance  | Comments of the Management   | Recommendation                                     |
|--|---|--|--|
| (a) Public Sector Financial Circular No 438 of 13 November 2019                    | Although the goods and assets to be disposed of were to be disposed of properly, the disposable items piled up in the Authority parking premises had not been dealt with accordingly  | The disposal is to be completed immediately                          | Action should be taken of as per terms of circular |
| (b) National Budget Circular No 4/2019 of June 2019                                | Although it should be possible to control costs by adopting formal cost control methods and utilization of services in relation to contract services with regard to obtaining rental vehicle, the Authority had not been paid attention.  | Tenders have to be called again to avail rental transport facilities | - do -   |
| (c) Section 02 of the Public Administration Circular No 6/1997 of 03 February 1997 | Acting period should be subject to a maximum of 3 months, if the relevant vacancies had not been filled within that period, those posts will continue despite the need for secretary to the ministry to inquire into the need for retention, the Authority had been appointed officer to continue the acting. | At present the requirement process is in the final stages.           | - do -   |

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|-----|--|---|---|--|
| (d) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 102 and 105 | Although the mobile air quality laboratory had been involved and accident, it had not been complied with financial regulation   | An Investigation is underway in to whether this vehicle is being used effectively.                        | Action should be taken in terms of Financial Regulation. |
| (e) | National Environment Act No 47 of 1980 as amended by the National Environment Act. No 56 of 1988         | (i) Prevention of disposal of waste untreated sewerage and toxic chemicals  | It is regulated by environment permits  | -do -  |
|     |  | (ii) Giving priority to minimize the use of chemical fertilizers through the manufacture of compost as a product of solid waste   | Financial and Technical advice has been provided to all institutions                                      | -do -  |
|     |  | (iii) Implementation and regulation of urban waste management programmes  | That various programs are implemented   | -do -  |
|     |  | (iv) Regulation of environment impacts arisen in the implementation of public transport systems   | A gazette notification had been issued in this regard.  | -do -  |
|     |  | (v) Implementation of National post-consumer plastic Waste Management Project   | Further action in this regard had been referred to the Ministry   | -do -  |
|     |  | (vi) Formulate necessary legislation for study and monitoring of the existing environmental conditions in Sri Lanka, marking recommendations on planning and other factors in the | The Hon. Attorney General had been instructed to resolved this issue by passing Parliamentary resolutions | -do -  |

protection and management of national environment policy and criteria, issuing licenses to the authority in relation to environmental protection, implementing these function in the North Western Province

**2. Financial Review**  
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**2.1 Financial Results**  
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The operating result of the Authority for the year under review had been a default of Rs.71,973,628 contrary the corresponding surplus of Rs.44,508,000 for the preceding year, thus indicating a deterioration of Rs.116,517,271 in the financial result. The decrease in the Differed Income by Rs.24,947,737, increase in the Personal Emoluments by Rs. 125,578,93 and Travelling Expense by Rs. 20,214,539 had been the main reason for the said deterioration.

**3. Operating Review**  
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**3.1 Uneconomic Transactions**  
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| Audit Observation<br>-----  | Comments of the Management<br>-----   | Recommendation<br>-----                                  |
|---|---|--|
| The Pethiyakanda compost yard, which was constructed at a cost of Rs. 87,492,401 for daily composting had not been used for two years | It had been decided to commence the operations of the project after Fulfilling all the requirements | Necessary arrangements should be made for immediate use. |

**3.2 Operating Inefficiencies**  
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| Audit Observation<br>-----  | Comments of the Management<br>-----              | Recommendation<br>-----                     |
|---|--|---|
| (a) Amendments to the National Environment Act, which began in 2017 it had not yet been finalized | That the necessary Further action is to be taken | The passage of the Act should be expedited. |

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|-----|--|--|---|
| (b) | The Environment Protection License database of the Central Provincial Office had not been updated properly and in a timely manner  | That the necessary instructions had not been given     | Must be updated regularly and timely                                      |
| (c) | The North Central Province Office had not been taken action to obtain the required technical reports when issuing environment protection permits and it had not been submitted the water quality reports requested by the industrialists   | Officers had been instructed to correct the situation. | Follow up action should be focused on                                     |
| (d) | In the implementation of the National Environment Act in the North Western Province, the staff attached to the North Western Provincial Office had problematic situation in dealing with outside Institutes in the North Western Province due to problems with the North Western Province Environment Act. | Necessary action to be taken                           | All provinces must act in accordance with the National Environmental Act. |

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

| Audit Observation  | Comments of the Management   | Recommendation                                   |
|--|--|--|
| Seven Motor Vehicles older than 20 years had not been disposed of a motor vehicle that had been taken out of service due to sea water had been idle for seven years. | That action had been taken to investigate in accordance with Financial Regulation No 104 | Action should be taken to dispose of it promptly |



### 3.4 Delays in Projects or Capital Works

| Audit Observations   | Comments of the Management  | Recommendation   |
|--|---|--|
| <p>(a) Even though the Construction of Solid Waste Disposal Facility Project at a total estimated cost of US\$ 33,536,000 implemented under loans from Korea of the Economic Development Cooperation Fund was scheduled to be completed on 29 June 2015, only activities in the planning phase of the Project had been completed even by May 2020. As a result the period of the Project had been extended up to the year 2021. Even though 5 ½ years had elapsed after commencement of this Project, construction of 04 land fillings has not been commenced up to now.</p> | <p>The evaluation report of the project has been prepared and presented for the approval of the Cabinet Appointed Procurement Committee. According to that decision, future action should be taken.</p> | <p>As the Project is implemented on loan aid, action should be taken to commence the Project speedily.</p> |

### 3.5 Utilization of Resources of other Organizations

| Audit Observation  | Comments of the Management  | Recommendation   |
|--|---|--|
| <p>109.88 perches 08 Land belonging to the urban Development Authority had been used by the Authority without approval</p> | <p>Necessary action is being taken to vest the ownership of the land.</p> | <p>Action should be taken to obtain approval and consent speedily.</p> |

## 4. Accountability and Good Governance

### 4.1 Audit Committee

| Audit Observation   | Comments of the Management        | Recommendation   |
|---|-----------------------------------|--|
| <p>Although the 04 annual Audit and Management Committee meetings were held, the implementation of decisions taken by the Committee was slow.</p> | <p>Replies had not been made.</p> | <p>A decision taken by the Audit Committee should be implemented speedily.</p> |

