

## Head 160 – Ministry of Environment

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Ministry of Environment for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance and cash flow statement for the year then ended, 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. The summary report including my comments and observations on the financial statements of the Ministry of Environment was issued to the Chief Accounting Officer on 21 May 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report in terms of Section 11 (2) of the National Audit Act was issued to the Chief Accounting Officer on 17 June 2021. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, apart from the impact from the matters stated in Paragraph 1.6 of this report, the financial statements of the Ministry of Environment as at 31 December 2020 and its financial performance and cash flow for the year then ended, give a true and fair view in accordance with Generally Accepted Accounting Principles.

#### 1.2 Basis for Qualified Opinion

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My opinion is qualified based on the matters stated in the Paragraph **1.6** of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My liability in relation to the financial statements is further described in the auditor's liability. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### 1.3 Responsibilities of Chief Accounting Officer for the Financial Statements

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Chief accounting officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section **38** of the National Audit Act, No. **19** of **2018** and / for such internal control as Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with section **16(1)** of the National Audit Act, No. **19** of **2018**, the Ministry shall maintain proper books and records of all its income, expenditure, assets and liabilities, to be able to prepare annual and periodic financial statements.

As per Sub-section **38 (1) (c)** of the National Audit Act, the Chief Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the Ministry and the effectiveness of such systems should be reviewed from time to time and the necessary changes should be done to proceed the system effectively.

#### **1.4 Responsibility of the Auditor on the Audit of Financial Statements**

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My objective is to provide 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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Department, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters that identified during my audit.

## 1.5 Report on Other Legal Requirements

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I declare the following in accordance with Section 6(1) (d) and Section 38 of National Audit Act, No. 19 of 2018.

(a) Financial Statements are consistent with the preceding year.

(b) My recommendations on financial statements for the preceding year had been implemented.

## 1.6 Comments on the Financial Statements

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### 1.6.1 Statement of Financial Position

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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An amount of Rs. <b>260,361</b> was to be charged for a fraud committed by an officer of the Management Service of the Ministry. That amount was stated in the accounts as a balance of unsettled imprest even by the end of the year under review.	According to the disciplinary order dated 08 October 2020, it had been decided that the official had committed financial fraud to the government. However, the penalty mentioned in the relevant disciplinary order is only the deferment of 03 increments of the officer's salary. It had not ordered the government to recover the loss of Rs. 260,361 or to pay the official to the government from the disciplinary order. Disciplinary authorities have been asked for advice on recovery.	Actions should be taken to settle the advances.

### 1.6.2. Non-maintenance of Documents and Books

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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In accordance with Financial Regulation 891 (i), even if a guarantee record containing the details of the officers and employees to be guaranteed is to be maintained, actions had not been taken to do so by the Ministry.	Actions will be taken in this regard in future.	Action should be done as per financial regulations.

### 1.6.3 Certifications Done by Chief Financial Officer

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>In terms of provision in section 38 of the National Audit Act, No 19 of 2018, the chief Acc.officer and Acc. officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out and the reviews shall be made available to the Auditor General.</p> <p>The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system is set up and maintained for the financial control of the Ministry and, though the efficiency of the system should be reviewed from time to time and necessary changes should be made to ensure that the system is running efficiently and, reviews are made in writing and a copy should be submitted to the Auditor General, Statements that such reviews had been made had not been submitted to the audit.</p>	<p>The internal audit activities are carried out accordingly by conducting the meeting of the Audit and Management Committee of the Ministry and preparing the internal audit plan. Further, progress review meetings of the Ministry, meetings of staff officers are conducted and, At each of those meetings, whether the internal control has been done properly is discussed. All these activities are carried out under the direct supervision of the Chief Accounting Officer.</p> <p>As per the audit observation, I will report to the audit that the financial control and internal control system of the Ministry is functioning properly.</p>	<p>It should be acted as per the provisions of Section 38 of the National Audit Act No. 19 of 2018.</p>

## 2. Financial Review

### 2.1 Imprest Management

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
It had been returned to the Treasury without utilizing Rs.2,478,373 and Rs.5,880,165 that provisioned for the Solid Waste Disposal Project and eco System Conservation and Management Project (ESCAMP).	Provisions had to be returned to the Treasury due to non-approval of the Cabinet to settle the final bills of the Solid Waste Disposal Project and the inability to complete the work due to various difficulties encountered in the implementation of the project.	Necessary steps should be taken to utilize the money received from the treasury.

### 2.2 Expenditure Management

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
The total value of the savings in provisions was Rs.105,445,677 and, out of it, Rs.86,690,909 or 82.21 per cent was the savings in capital provision. It was remained 100 per cent of provision savings in 02 capital expenditure subjects and, it had been left more than 50 per cent of provision of 06 expenditure subjects.	Although it was expected at the time of preparing the budget that new improvements would be made to the "SobadamPiyasa" building where the Ministry is located, the provisions in the above Expenditure subject remained the same due to the absence of such requirements in the year 2020 and the restriction on new purchases by Budget Circulars No. 04/2019, 07/2019 under Public Expenditure Management in the year 2019.	It should be provisioned by identifying the necessity through reviewing project activities.

### 2.3 Non-compliance of Laws, Rules and Regulations

It was observed following non-compliance of laws, rules and regulations.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
Reference to the Laws, Rules and Regulations	Non-compliance	
<p>(a) <b>Financial Regulations of Democratic, Socialist republic of Sri Lanka</b></p> <p>(i) Financial Regulation 104 (1) (a)</p>	<p>Although it should be done to know the exact extent and cause of the damage as soon as it occurs and to determine who is responsible for it, The loss for a vehicle accident that occurred on 16 November 2020 had not been calculated even by 05 April 2021, the audit date.</p>	<p>The cab bearing number PF 9438 has been directed to be repaired due to an accident and, The company has been asked to determine the cost of the repairs and whether the cab insurance will cover the cost. Statements have been recorded from all parties responsible for the accident by now and, I kindly state that action will be taken to provide the investigation report and the F.R.104 (4) report after receiving the replies from those institutions, to cover the losses accordingly.</p>
<p>(ii) Financial regulation 104 (1) (4)</p>	<p>Although a full report should be submitted to the Auditor General within 03 months from the date of the damage, no such action had been taken against two vehicles owned by</p>	<p>Preliminary Report of F.R. 104 (3) regarding the accident of van bearing No. NB 2752 has been submitted to the Auditor General and, the preliminary investigation report has been prepared after obtaining statements from the responsible</p>

It should be acted as per financial regulations.

Action should be done as per financial regulations.

the Ministry even parties.  
by 05 April 2021.

(b) Treasury Circular No. 2/2017  
dated on 31 December 2017

The vehicle belonging to the Department of Forest Conservation and Ministry of Irrigation and Water Resources Management are being taken over. The owner of the motor vehicle that was brought in as an official car could not be traced. Actions will be taken to find the owner and take over.

Although it has been emphasized that all government owned vehicles used by all government agencies should be registered in the name of that institution before June 30, 2018, no action had been taken to take over 03 vehicles belonging to external institutions in the name of the Ministry.

The vehicle belonging to the Department of Forest Conservation and Ministry of Irrigation and Water Resources Management are being taken over. The owner of the motor vehicle that was brought in as an official car could not be traced. Actions will be taken to find the owner and take over.

**3. Operational Review**  
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**3.1 Planning**  
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**Audit Observation**  
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**Comments of the Chief  
Financial Officer**  
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**Recommendation**  
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When selecting suitable smart cities for the Smart Climate Change Cities Project 2019, the Ministry of Environment has used climate change vulnerability data book released by the Ministry of Environment in the year 2011. Content data were observed to be more than 08 years old. Thus, the updated data were not used in selecting the most suitable smart city. The project provides technical support and, It consisted of two stages: as adaptation and Mitigation. Although the Ministry had entered into an agreement for this purpose for a period of one year in July 2020, that work had not been completed.

Replies will be provided later.

Projects should be planned based on the updated information for the achievement of the expected objectives of projects and, projects should be completed within specified time.

**3.2 Non-execution of Functions**

Following observations were made.

<b>Audit Observation</b>	<b>Comments of the Chief Financial Officer</b>	<b>Recommendation</b>
<p>(a) By June 2021, the required steps had not taken to introduce new regulations by amending the existing regulations on noise pollution control and to prohibit the importation of multiple vehicle horns.</p>	<p>Several meetings were held with the relevant parties at the Ministry of Environment in this regard. Accordingly, it was proposed by the Central Environmental Authority to amend the relevant regulations and assign them to the Department of Motor Traffic for implementation. Furthermore, the Environmental Authority is currently amending the relevant regulations.</p>	<p>Necessary steps should be taken to introduce new regulations.</p>
<p>(b) It was planned to set up a National Adaptive Fund to implement and fund the National Plan for Climate Change Adaptation from 2016 to 2025 to mitigate the adverse effects of climate change on the country. However, that fund had not been set up.</p>	<p>Replies will be provided later.</p>	<p>As the planned period has exceeded <b>04</b> years, the necessary work should be done expeditiously.</p>

**3.3 Non-achievement of Expected Output Level**

<b>Audit Observation</b>	<b>Comments of the Chief Financial Officer</b>	<b>Recommendation</b>
<p>The proposal on drafting a new Act for prevention of entering harmful invasive flora and fauna species into the country and to destroy those flora and fauna species had been presented by the Minister of Environment and Natural Resources in year 2009. That proposal was approved by <math>\text{අම/09/0047/359/001}</math> dated on 22 January 2009, a new Act has not been established until audited date.</p>	<p>The Act on special provision on invasive living species related for prevention of entering harmful invasive flora and fauna species into the country and to destroy those flora and fauna species had been drafted. The final draft with amendments had been sent to the Legal Draftment Department by No.02/08/GAR 122 dated on 08 November 2019.</p>	<p>Required action should be taken to establish and implement the Act.</p>



### 3.4 Abandonment of unfinished projects

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<b>Audit Observation</b>	<b>Comments of the Chief Financial Officer</b>	<b>Recommendation</b>
<p>The cost incurred for the Solid Waste Disposal Facility Project that implemented under loan agreement of Korean Economic Development Cooperation Fund was Rs.466 Million by the audited date and, that project had been abandoned as it was failed from 31 October 2020.</p>	<p>This project has to be stopped in the year 2020 as per the decision of the Cabinet of Ministers. Rs. 460 million has been spent on this project as planning, procurement payments to the Inland Revenue Department, preparation of proposed project lands and expenditure incurred on the project staff. I do not view the cost of preparing plans, pre-arranged assets and project landscaping as a wasteful expense.</p>	<p>Actions should be done to identify alternative requirements that can be implemented using these infrastructures.</p>

### 3.5 Delays in Implementing Projects

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Following observations were made.

<b>Audit Observation</b>	<b>Comments of the Chief Financial Officer</b>	<b>Recommendation</b>
<p>(a) The Secretary of Ministry of Mahaweli Development and Environment and Director of Environmental Studies Centre in University of Peradeniya had entered into agreement on 07 August 2019 to check the inclusion of “dioxin – like” (DL) in breast milk which is harmful to the body. Though it was agreed to spend Rs.1,000,000 for this, only Rs.600,000 had been spent at two instances by 09 April 2021.</p>	<p>According to the project agreement, Rs. 600,000 paid as Rs. 300,000 (30 per cent of the contract amount) the time of signing the contract and Rs. 300,000 for second payment after completing relevant tasks had been paid and, the balance amount can not be paid until the completion of its works as other matters related to the agreement have not been completed yet.</p>	<p>The performance of the money spent should be checked.</p>

- (b) Although only the Vice Chancellor was authorized with the approval of the Board of Governors when entering into agreements on behalf of the University as per Articles 45 (xv) and Sections 34 (3) of the Universities Act No. 16 of 1978, The agreement on this project was signed by the Director of the Center of Environmental Studies non-compliance with those regulations.
- This is an agreement reached on a proposal made directly by the Center for Environmental Studies, University of Peradeniya, according to a paper advertisement and, Agreement was signed with the Director of that institution. The agreement was signed after obtaining the approval of the Legal Officer, the Technical Evaluation Committee and the Procurement Committee.
- Actions should be done as per the legal provisions of entering into agreements.
- (c) As per the decision of the 15<sup>th</sup> Steering Committee Meeting held on 19 December 2019, breast milk samples should be taken from the families of the officers working in the welding plant and breast milk samples taken within two weeks of the birth of the first child should be used. Further, although it has been stated that samples should be taken by March 2020, no action had been taken in this regard by 09 April 2021.
- The Center for Environmental Studies at the University of Peradeniya informed that the project is being delayed due to non-receipt of goods ordered from Germany due to the Covid-19 global disaster situation. Breast milk samples could not be obtained due to lack of such equipment. Although the equipment has been received so far, samples are not currently available from expectant mothers. Mothers who need to get new samples need to be identified. Identifying mothers under this pandemic situation has not been possible so far as it has become difficult to obtain samples from hospitals.
- In project implementation, identification of its performance criteria and its practical implementation capabilities should be periodically monitored.
- (e) The plan to collect breast milk samples, to collect samples from selected areas covering all parts of the country, process the samples and send the samples to China for testing should be implemented from the time of signing the agreement by the University of Peradeniya. Thus,
- The delay was due to delays in obtaining equipment and re-identification of samples and the difficulty in obtaining approval from the health department due to the prevailing Covid19 situation. After receiving these samples, they have to be sent to China for testing.
- The capacity to reimplement should be re-considered.

although the project is expected to be completed by 30 June 2020, though the Ministry has extended the duration of the project until 31 December 2020, no action had been taken in this regard by the audited date.

**3.6 Foreign Projects**  
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Following observations were made.

<b>Audit Observation</b> -----	<b>Comments of the Chief Financial Officer</b> -----	<b>Recommendation</b> -----
(a) Although 38 of computers out of the 55 computers purchased by the Climate Change Mitigation Partnership Project on 29 December 2020, have been distributed to planned companies, the remaining 17 computers were retained within the project. However, all 55 computers remained idle due to a lack of technical support for the above computers.	It will take the necessary steps to deliver as soon as possible.	Immediate action must be taken to utilize the resources effectively.
(b) The overall performance of the project was prevailed at a lower level of 12.45 per cent.	The Covid 19 epidemic was a major factor in this.	Necessary action should be taken to achieve the project objectives.

**3.7 Asset Management**  
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Following observations were made.

<b>Audit Observation</b> -----	<b>Comments of the Chief Financial Officer</b> -----	<b>Recommendation</b> -----
(a) It was stated in year 2019 that the space of the stores of the Ministry was not sufficient and, it was observed that the same shortcomings were persisted in 2020 as well.	At present it is difficult to find additional space for the stores of this Ministry. However, in the future, when there is a change in the divisions of the Ministry, attention has been focused on allocating additional space for this purpose.	Plans should be prepared.

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| (b) A surplus of 63 computer equipment items and 03 fax machines were identified and reported. | Although the Ministry has prepared fixed asset registers in recent years, These items have been identified as redundant when comparing and updating the fixed asset register with the inventory book, including the serial numbers of the computer components. Instructions are given to make those items inventory. | Actions should be done to utilize additional assets by updating assets registers properly. |
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**4. Human Resource Management**

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<b>Audit Observation</b>	<b>Comments of the Chief Financial Officer</b>	<b>Recommendation</b>
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<p>The approved cadre was 258 and actual cadre was 229. Accordingly, number of vacancies was 29. 18 posts in senior level was vacant and, it was observed that it was directly affected to the performance of the Ministry as its percentage was 62 per cent. 05 approved posts in the Sri Lanka Agriculture Service and from 2019 the posts of Technical Officer, Electricity, Water and Buildings were vacant. The excess staff for Development Officer was 05.</p>	<p>There are 18 vacancies for the approved posts in relation to each service and, the ministry did not request to approve the posts in Sri Lanka Agriculture Service. Request was made to amend the approval for the posts of Agriculture Service and Engineering Service which were not included in the previous staff of the Ministry of Environment and are not required now.</p> <p>The ministry required 391 development officers. Recruitment for the posts of Technical Officer (Electrical) and Technical Officer (Water and Building) will be done through a general competitive examination to be held on behalf of all government institutions in future.</p>	<p>Necessary steps should be taken to recruit approved cadre for essential posts and have to revise the cadre.</p>