

Central Environment Authority - 2021

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Central Environment Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2021, 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 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 responsibilities, 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 intends 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, it 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 Auditor's Responsibilities for the Audit of the Financial Statements

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 internal control.
- Evaluate the appropriateness of the accounting policies adopted by the management and the fairness of the accounting estimates used the related disclosures.
- 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 auditor's 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 auditor's 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 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 Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Within the stock-in-transit, a sum of Rs. 8,054,407 allocated for the purchase of fixed assets and a sum of Rs. 8,856,689 pertaining to 17 items for which payment was not made had been entered in the financial statements as stock-in-transit. Similarly, Actions had not been taken to adjust the value of 03 air conditioners valued at Rs. 1,430,000 included in the balance of stock-in-hand as at 01 January 2021 by deducting from the balance of the stock-in-hand account as at 31 December 2021 and in the financial statements. Therefore, the value of the stock-in-hand balance shown</p>	<p>Actions will be taken to adjust in the year 2022 properly.</p>	<p>Actions should be taken to correct the balance of the stock-in-transit account.</p>

in the financial statements had been overstated by Rs. 18,341,096 in the financial statements.

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| <p>(b) A provision had not been made in the financial statements for the interest amount of Rs.17,770,995 stipulated to be paid at the end of the year under review for a land transferred to the Authority by the Urban Development Authority. therefore, the deficit shown for the year had been understated in the financial statements by the above amount.</p> | <p>Arrangements will be made to disclose these payments in the accounts in the year 2022 .</p> | <p>Actions should be taken to make necessary arrangements.</p> |
| <p>(c) Without identifying the amount to be credited to the income account from the sale of compost bins from the year 2004, a balance of Rs .7,887,531 had been accounted for as compost bin reserves under non-current liabilities.</p> | <p>Although the income account should be credited, it has been recognized as reserves by a mistake. Arrangements will be made to check the accounts of previous years and adjust these accounts.</p> | <p>Actions should be taken to make adjustments in the final accounts.</p> |

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 751 of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka	Four tractors purchased in the year under review for a sum of Rs. 15,434,000 had not been entered in the Register of Fixed Assets.	These tractors have been purchased under the Surakimu Ganga Environmental Programme to be given to a third party associated with the objectives of the Programme. Therefore, these cannot be shown as fixed assets of the Authority.	Actions should be taken to carry out handing over and transferring of tractors in a formal manner.
(b) Section 24(d)-2 (1) of the National Environment (Amendment) Act No. 56 of 1988	Although it had been stated that the Authority is responsible for the physical planning of an environmental protection area, Environmental Protection Area Management Committees had not been established in relation to 5 environmental protection areas which had been declared as at 31 December 2021 .	It is not recommended to form management committees in these 5 areas. In necessary cases, meetings are held with all parties related to environmental protection and appropriate decisions are taken.	Environmental Protection Area Management Committees should be established and follow-up activities should be carried out continuously to resolve the issues.
(c) Chapter 111 of the Extraordinary Gazette dated 20 February 2009	A Program Manager appointed by the Board of Directors for the Surakimu River National Environmental Programme had been paid a sum of Rs.	This allowance has been paid on the approval of the Board of Directors and a Memorandum of Cabinet of Ministers for that has been forwarded on 27 September 2021. The Ministry had	Approval should be obtained prior to making payments.

- 170,000 per month from April to December 2021 as monthly salary and fuel allowance and an approval for that, had not been obtained.
- (d) Paragraph 2 (a) of Comptroller General's Asset Management Circular No. 04/2022 dated 25 January 2022
- Although 03 vehicles belonging to the Authority had been proposed for disposal, actions had not been taken even by 15 May 2022, for the disposal .
- informed several amendments to the Memorandum and the Revised Cabinet Paper has been forwarded to the Ministry on 20 December 2021 .
- The permission from the Department of Motor Vehicles to dispose of two vehicles out of the three prescribed for disposal have been asked for as scrap due to the damages occurred to the chassis. After receiving that permission, the three vehicles will be disposed of.
- Actions should be taken in terms of the Circular.
- (e) Paragraph 2 (b) of Comptroller General's Asset Management Circular No. 04/2022 dated 25 January 2022
- Four vehicles belonging to the Authority had not been repaired and put to use.
- There are 7 driver vacancies in the Authority. After recruiting drivers for vacancies, drivers will be assigned to those vehicles. At present, all the drivers of the Authority have been assigned one vehicle to the staff.
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- The answer is irrelevant.

1.7 Fund Management

Audit Observation

Although the balance in the 21 bank accounts pertaining to 25 District Offices of the Central Environment Authority as at 31 December 2021 amounting to Rs. 201,109,015 should be credited to the main bank

Comments of the Management

Standing orders have been given to the respective banks to transfer the balances of the 21 accounts of the Bank of Ceylon account of the Head Office as at the last day of every month. Accordingly, it will be discussed with the banks about

Recommendation

Necessary steps should be taken to disclose the bank account balances of the District Offices.

account of the Authority, the revenue collected from 18 offices had not credited.

the non-transfer of the balances mentioned in the inquiry and actions will be taken to correct it in future.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs. 22,121,759 and the corresponding deficit for the preceding year was Rs. 135,512,005. Accordingly, an improvement of Rs. 113,390,246 in the financial result was observed. The increase of recurrent grants and the growth of income had mainly attributed to this improvement.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

It had arranged to incur a sum of Rs. 2,030,000 to purchase an Electric Cart using the provisions of the Surakimu Ganga Programme in contrary to its objectives.

Comments of the Management

As there is a possibility of surface water pollution due to the air pollution caused by the smoke emitted by the motor vehicles traveling in the pooja area, this Electric Cart which operates environmentally friendly, electric power in order to mitigate the said situation was given at the request of Kataragama Nilame and the District Secretariat as a model project to reduce the air pollution in the Ruhunu Maha Devala premises.

Recommendation

Disciplinary action should be taken against the officers who have taken the decision against the purpose and arranged for the purchase.

3.2 Management Inefficiencies

Audit Observation

(a) Even though the Authority had owned the land portion of

Comments of the Management

The Urban Development Authority has informed to

Recommendation

Carrying out the necessary

129.88 perches additionally obtained in the year 2000 on the lease basis of 50 years for more than 19 years, no legal expropriation had been done after paying the relevant taxes. Since this portion of land was not legally acquired and also arrangements were made to hand over a portion of 20 perches out of that to the Urban Development Authority to the Electricity Board, the Authority had lost that extent of land.

pay for the additional land of 03 roods 9.88 perches of land. The funds were not received although the requests has been made from the Treasury. Actions have been taken only to acquire the land by making payment and a sum Rs. 10,397,822 had been paid by now. Arrangements are being made to pay the remaining amount.

activities to legally acquire the plot of land.

- (b) There was a difference of 387,523 units among the 15 items presented in relation to the progress of the Authority's Eco Club Materials and EPP Materials included in the Draft Annual Report of the Ministry of Environment for the year 2021 and the amounts actually distributed to the institutions.
- The school system has been inactive due to the Covid epidemic situation and the bad economic crisis since 2019 . Although various environmental programmes have been conducted in distance guidance method, certificates, notebooks, medals and other materials could not be distributed due to inability to conduct tests. Therefore, the Authority currently has an excess of these items.
- An officer should be given responsibility to carry out printing works only on requests and distribute them as planned.
- (c) The National Environment Act No. 47 of 1980 had not been amended even by the date of audit.
- The observations made to the National Environment Draft Bill from the Legal Draftsmen Department had been furnished to the Legal Draftsmen Department by the Authority.
- Arrangements should be made to amend the Act without delay.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
Actions had not been taken to transfer three vehicles received	It is informed that the actions will be taken to take over the	Arrangements should be made to

to the Authority by the Pilisaru Project on 06 December 2018, to the Authority even by the end of the year under review and the drone which was purchased on 15 December 2020 for Rs. 1.39 Million for the purpose of collecting information when carrying out environmental management activities, had not been used even at the end of the year under review for any operational task.

vehicles promptly in the future. There is no human resource to operate drones in the Environment Authority. The drone was purchased in response to a proposal made by the Air Force. Two groups including the legal officers of both parties were discussed on 08 December 2020, regarding the improvement of the Memorandum of Understanding regarding the operation of this machine and the next steps. The revised agreement has been submitted to the Sri Lanka Air Force for approval. The further actions are being taken by the Air Force by now in this regard. This Authority is carrying out follow-up actions in this regard continuously.

take over the 03 vehicles and not allow to keep the assets in an underutilized condition.

3.4 Delays in Project or Capital Works

Audit Observation

Even though Rs. 2 Million has been allocated for the procurement of consumables glassware chemicals and safety requirements for all laboratories of the Authority under item number 2.3.3 of the Action Plan, the task had not been met, even at the end of the year under review.

Comments of the Management

There has been some delay. The ordered equipment is being delivered to the laboratories in batchwise.

Recommendation

Follow-up actions should be carried out to check whether the tasks are met as planned.

3.5 Procurement Management

Audit Observation

(a) A number of 60 Bush Cutters had been purchased

Comments of the Management

Arrangements are being made to distribute according

Recommendation

The distribution of equipment

at a cost of Rs.1,083,333 on 27 November 2021 and out of these, 55 machines had remained in idle for more than 04 months without being used during the physical examination conducted on 07 April 2022 .

to the requests made by Surakimu Ganga Regional Committees properly in future.

should be done according to a formal method so that the project objectives are fulfilled and reports should be submitted to the audit.

(b) Out of the Environmental Pilot Caps that were purchased at a cost of Rs. 7,420,000, during the year 2021, a 84.53 per cent, that is , the caps valued at Rs. 6,272,000 had not been used for the relevant task even by 18 March 2022 .

When the country came to the situation as previous, the above stocks have been distributed.

Arrangements should be made to make orders after confirming the requirement correctly and to distribute as planned and the related responsibility should be assigned to an officer.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation

The Annual Reports related to the years 2019 and 2020 had not been tabled in Parliament.

Comments of the Management

The submission of these Annual Reports had been delayed due to the shortage of printed materials in the country.

Recommendation

Actions should be taken to table the Annual Reports.