

Atomic Energy Authority – 2013

The audit of financial statements of the Atomic Energy Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 32(3) of the Atomic Energy Authority Act No. 19 of 1969. My comments and observations which I consider should be published with the annual report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 -1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Atomic Energy Authority as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)

The following observations are made.

- (a) The material changes made to the amounts in the financial statements of the previous year had not been properly disclosed.
- (b) A stock of raw material amounted to Rs. 312,431 had been capitalized as development expenditure during the year under review, instead of being treated as closing stocks.
- (c) The Authority had not revalued its property plant and equipment to ensure that the carrying amounts did not differ materially from the fair value, which would be determined at the balance sheet date as stipulated in **SLPSAS 7 – Property, Plant and Equipment**. Further, historical cost of the fully depreciated assets, which had been continuously used without being revalued, was Rs. 122.48 million as at 31 December 2013.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) According to the Cabinet decision taken to purchase the scientific equipment through International Atomic Energy Authority (IAEA), the Authority should pay the annual fee of US\$ 7,240.74 to the IAEA as administration and program assistance cost every year. However, the Authority had not accounted for that amount as payable to the IAEA for the year under review.

- (b) The Authority had awarded a contract to the Government Factory in 2010 at a cost of Rs.1,154,234 (including VAT) for sealing the windows in the main building in view of safe guard from rain water using rubber beading and silicon gum, and a sum of Rs.577,117 (including VAT) had been paid in August 2010 in this connection. However, the works had not been completed properly even up to the date of audit inspection carried out on 04 December 2014.

2.2.3 Unexplained Differences

The following observations are made.

- (a) The value of non-current assets as per the financial statements for the year 2013 was Rs.9,490,246, whereas according to the detailed schedule furnished together with the financial statements it was Rs. 9,417,746. Hence, the unexplained difference of Rs.72,500 had been observed between these two amounts.
- (b) The fixed asset register had not been maintained properly by the Authority. According to audit test checks, it was revealed that opening and closing balances of some fixed assets as per the financial statements (ledger accounts) had differed from the balances shown in the fixed assets register. Accordingly, differences of Rs. 827,861 and Rs. 279,179 relating to Scientific and Office Equipment, and Furniture and Fittings respectively had been observed in audit.

2.2.4 Accounts Receivable and Payable

The classification of total receivables of the Authority as at 31 December 2013 as compared with the previous year is as follows.

Item	Total Receivables as at 31 December	
	2013	2012
	Rs.	Rs.
Trade Receivable	4,391,420	4,604,649
Staff and Non-trade Receivables	40,317,170	1,736,301
Advances and Loans	5,678,764	6,031,423
Refundable Deposits	355,210	342,710
Total	50,742,564	12,715,083

The following observations are made in this regard.

- (a) The staff and non-trade receivables had increased by Rs. 38,580,869 or 2,222 per cent as at the end of the year under review as compared with the previous year. The expenditure amounted to Rs. 39,773,419 incurred by the Authority for the Multi-purpose Gamma Irradiation Facility (MGIF)

Project had been included in that figure as it was receivable form the Ministry of Science and Technology. However, that amount had not been confirmed by the Ministry.

- (b) The age analysis relating to the trade receivables of Rs. 4,391,420 as at 31 December 2013 is given below.

Category of Debtors	Balance as at 31 Dec. 2013	Period of Outstanding			
		Less than 6 months	6 months – 12 months	1 – 2 years	Over 2 years
	Rs.	Rs.	Rs.	Rs.	Rs.
Government Institutions	2,982,391	869,083	334,317	830,419	948,572
Private Institutions	1,409,029	522,089	523,190	150,331	213,419
Total	4,391,420	1,391,172	857,507	980,750	1,161,991

The following observations are made in this regard.

- (i) The trade receivables of Rs. 2,142,739 were remained outstanding for a period ranging from one to eight years without being taken any recovery action.
 - (ii) The Authority had not established a policy to charge the interest on long outstanding balances.
 - (iii) Although the accounting policy in respect of provision for bad and doubtful debts had not been disclosed in the financial statements, a 100 per cent provision for bad and doubtful debts amounting to Rs. 909,576 had been made on the debtors outstanding for more than five years.
 - (iv) The Authority had not maintained individual ledger accounts for each debtor and instead monthly schedules had been prepared. As a result, services to the client institutions had been provided by the Authority without considering their outstanding balances.
 - (v) Due to lack of proper control over debtors, many issues in debt collection and invoicing were observed. According to the audit test check, it was revealed that four invoices issued for Rs. 81,417 were subsequently cancelled due to duplication.
- (c) The age analysis of debtors on the service category as at 31 December 2013 is shown below.

Category	Balance as at 31 December	Less than one year	01-02 years	03-04 years	More than 05 years
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	Rs.	Rs.	Rs.	Rs.	Rs.
General Scientific Equipment	1,207,823	499,200	189,155	59,304	460,164
Radiation Protection	1,257,732	441,844	622,422	73,123	120,343
Non Destructive Testing (NDT) Inspection	812,923	750,495	12,304	32,824	17,300
NDT Training Courses	517,169	390,600	93,300	15,900	17,369
Food Testing	173,448	158,701	12,247	-	2,500
License Fees	422,322	7,838	51,322	71,262	291,900
Total	4,391,417	2,248,678	980,750	252,413	909,576
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According to the above age analysis, a sum of Rs. 2,142,739 had been remained unrecovered for more than one year and out of that an amount of Rs. 909,576 was remained outstanding for more than 5 years, which had included a sum of Rs. 767,874 receivable from Government sector institutions.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority during the year under review had resulted in a deficit of Rs. 15,176,943 as compared with the corresponding deficit of Rs. 10,150,352 for the preceding year, thus indicating a further deterioration of Rs.5,026,591 in the financial results. Even though, the total revenue had been increased by 1.5 per cent during the year under review, the decrease of income from Non-destructive Testing (NDT) Inspection Services, Licensee Fees and Radiation Protection Services by 36 per cent, 5 per cent and 42 per cent respectively and the increase of total expenditure as compared with the preceding year by 5 per cent were the main contributory factors for this deterioration in financial results as analyzed below.

	For the year ended		Changes [Favorable/ (Adverse)]	Percentage
	2013	2012		
	Rs.	Rs.	Rs.	
Total Revenue	131,548,968	129,608,964	1,940,004	1.5
Less: Expenditure				
Wages, Salaries and Employee Benefits	(68,378,919)	(63,666,996)	(4,711,923)	7.4
Supplies and Consumable	(7,994,543)	(8,213,588)	219,045	2.7
Depreciation and Amortization	(33,828,656)	(31,711,770)	(2,116,886)	6.7
Impairment of Property, Plant and Equipment	(5,581,887)	(8,181,196)	2,599,309	31.8
Finance Cost and Other Expenditure	(30,941,906)	(27,985,766)	(2,956,140)	10.6
Total Expenditure	(146,725,910)	(139,759,316)	(6,966,594)	5.0
Deficit	(15,176,943)	(10,150,352)	(5,026,591)	49.5

3.2 Analytical Financial Review

The financial results and the net assets position of the Authority for the year 2013 and for the previous five years are depicted in the table given below.

Year	Excess/(Deficit) Before Tax	Net Assets Position as at end of the Year
	Rs.	Rs.
2013	(15,176,943)	559,038,724
2012	(10,150,352)	406,662,557
2011	3,297,783	324,166,702
2010	(618,182)	260,353,975
2009	841,179	180,401,940
2008	7,729,656	184,453,589

4 Operating Review

4.1 Performance

As per the Corporate Plan of the Authority, the Authority is functioning as the focal point of Sri Lanka for the coordination and implementation of Technical Corporation Programmes of the IAEA in order to develop nuclear technology in the country. Accordingly, IAEA provides funds to member countries for various projects that linked to the Country Programme Framework or to the National Development Plan where there is no Country Programme Framework, under their Technical Cooperation Programmes. However, the IAEA expects the Authority to complete the implemented projects within the given time period with the coordination of relevant Recipient Institutes and Counterpart(s).

According to the audit test checks carried out in this connection, the following observations are made.

- (a) The Authority had failed to utilize the funds approved by the IAEA within the stipulated time period due to various reasons such as lack of proper coordination with the IAEA and recipient institutions, failure to maintain proper system for identification and assessment of country's nuclear technology requirements, weaknesses in recording and reporting systems, inefficiencies in monitoring of project activities, etc.
- (b) The Authority did not have the necessary expertise and nuclear facilities at the national level to utilize nuclear techniques in order to address the national development issues and contribute to achievement of socio economic goals.
- (c) Even though the Authority was expected to implement projects and utilize the available funds provided by the donor agencies in an effective and efficient manner, it was observed that implementation rate of some projects were at a very low level and meanwhile, it had evidenced that the project designs and work plans had not properly focused on country requirements. Instances of failures in the implementation of some projects are shown below.

Project No.	Funds Approved						Utilization of Total Fund Approved as at 30 June 2013		Name of the Recipient Institutes and Counterpart(s)
	2007	2008	2009	2010	2011	Total	Amount	Percentage	
	Euro	Euro	Euro	Euro	Euro	Euro	Euro	%	
SRL/5/040	74,100	143,495	-	69,395	-	286,990	57,450	20	Coconut Research Institute
SRL/8/020	-	-	82,900	87,155	66,300	236,355	7,770	3	AEA, Central Environmental Authority

According to the above information it was revealed that the Authority had failed to get maximum benefit to the country from the IAEA contribution. Further, the current position of those projects was not made available to audit.

4.2 Management Inefficiencies

(a) Excessive Payment of Value Added Tax

According to Part II of the First Schedule of Value Added Tax (VAT) Act, No. 14 of 2002 (consolidation – 2013), the supply or import of machinery is exempted from VAT. However, the Authority had paid a sum of Rs. 1,403,824 as VAT on procuring of eight scientific items without considering the exception clause.

(b) Training

The training programmes of the Authority had been conducted by individual divisions according to their requirements due to non-establishment of a separate training division to handle the training courses to be carried out by the Authority and a uniform mechanism for invoicing and carrying out the training programmes was not implemented. The following observations are also made in this regard.

- (i) There was no proper basis for collecting of course fees.
- (ii) There were instances where cancellation of invoices due to non-availability of sufficient participants for training courses.

(c) Radiation Testing for Food Items

The following observations are made.

- (i) Although, according to audit test check carried out in May 2014, it was revealed that, out of 146 samples of food items handed over to the Authority by the importers during the period from 2012 to 2013 for radiation testing, the importers had collected only 24 sample reports. The remaining 122 reports or 84 per cent had not been collected by the importers. However, it was observed that 93 importations in respect of 122 samples as mentioned above had been made by the importers without obtaining the radiation testing reports up to the date of audit. Accordingly, the control procedures designed by the Authority over the radiation testing for food items had not been operated effectively.
- (ii) Moreover, the Authority had not taken necessary actions to caution and encourage the Department of Customs and importers to collect radiation testing reports before custom clearance.
- (iii) Also, an appropriate procedure for coding of samples handed over to the Authority for radiation testing had not been designed and implemented by the Authority. Accordingly, it was observed that the possibility to identify samples by the names of importers or companies might cause to a risk of fraud or error. Therefore, the integrity and independency of such service could be questionable. As such, the existing practice of radiation testing for food items had not been operated effectively to ensure the protection of human health in the country.

4.3 Idle and Under Utilized Assets

The following observations are made.

- (a) Multi-purpose Gamma Irradiation Facility (MGIF) valued at Rs. 9,417,746 donated by the IAEA in May 2010 had remained unutilized until commenced its operational activities in February 2014.
- (b) An asset named as “Fourier Transform Infrared Spectrometer (FTIR)”, valued at Rs.5,611,171, donated by the IAEA on 31 May 2011 had remained idle up to the date of audit inspection on 30 September 2014.

4.4 Procurement of Machinery and Equipment

According to the audit test checks carried out on procurement of machinery and equipment during the year under review, the following observations are made.

- (a) 880 Della Projector with Ir-192

The above equipment had been donated by the IAEA in October 2012 mainly for training purposes. The value of Ir-192 instrument was Rs. 2,905,075, and according to the “Source Certificate” its life time would start decay from the date of ‘activity on’ and it would have finished on 18 September 2013 involuntarily. Accordingly, 81 per cent of the lifetime of that instrument had decayed when the first inspection carried out on 21 February 2013. The following observations are also made in this connection.

- (i) The equipment had been donated without some important accessories, such as “Lead shot”, which was required for safety. The ‘Operating and Maintenance Manual’ of the instrument, had advised that “an unshielded source at close range could cause serious injury or death to anyone who was exposed to it, even for a short duration of time”. Therefore, it was observed that the usage of that equipment without safety measures was very danger. Further, other required accessories of the said equipment such as Cobalt-60 & Iridium-192 Exposure Calculator and Cobalt-60 & Iridium-192 Cardboard Calculator had been received only on 03 July 2013, on which date 93 per cent of the lifetime of that instrument had decayed, and hence the Authority was unable to utilize that valuable equipment effectively.
- (ii) This equipment had been used for inspection without the said safety measures mentioned in the manual. For instance, despite risks it involved, appropriate transport facilities had not been provided when transporting that equipment for inspection purposes. Moreover, without considering the instructions of the manual to use that equipment under the trained officer, in several instances it had been handled by minor staff of the Authority.
- (iii) According to audit test checks, it was revealed that proper records relating to departure and return of the equipment had not been maintained at the gate of the Authority when renting out the said equipment.

(b) Eddy Current Tube Inspection Instrument

The Authority had purchased the above equipment on 27 March 2012 at a cost of Rs.8,219,680 with the objective of developing Eddy Current Tube Testing technology, locally. The following observations are made in this regard.

- (i) A feasibility study had not been carried out before purchasing the item to identify the industries in which such technology could be used.
- (ii) Even though an officer of the Authority had been sent to the Malaysian Institute for Nuclear Technology for training on Eddy Current Testing, he had obtained general training instead of specified training. Therefore, the Authority was unable to use that equipment for commercial purposes.
- (iii) According to the information made available, the fairness of the technical specifications of the equipment was questionable in audit. For instance, the equipment had been purchased at a price of 105 per cent over the estimated cost of Rs. 4 million.
- (iv) Even though 8 months warranty period had been elapsed as at 31 December 2013, the equipment had remained idle without being utilized for the intended purposes.

4.5 Human Resources Management

Twenty nine vacancies in different categories of the permanent staff, including 3 in senior grade, 17 in secondary grade and 9 in primary grades, were observed at the end of the year 2013, which showed the failure of the Authority to maintain a realistic cadre level by reviewing periodically.

5 Accountability and Good Governance

5.1 Internal Audit

The Internal Audit Division of the Authority consists of only one female officer, and some other additional works had too been assigned her. Accordingly, it was observed that the internal audit functions had not been appropriately designed and implemented by the Authority to monitor the internal control system of the entity.

5.2 Audit Committee

Non-responding by the Board of Directors with regard to the recommendations made by the Audit Committee were observed in several instances.

5.3 Procurement Plan

Even though a Procurement Plan had been prepared by the Authority, it was not in line with the Action Plan and the Budget prepared by the Authority for the year under review.

5.4 Budgetary Control

Significant variances were observed between the budgeted and the actuals, thus indicating that the budget had not been made use of as an effective instrument of management control.

6 Systems and Controls

Significant deficiencies observed in systems and controls during the course of audit were brought to the notice of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Property, Plant and Equipment
- (b) Debtors and Other Receivables
- (c) Compliance with Laws, Rules, etc.
- (d) Procurements
- (e) Utilization of Resources
- (f) Human Resources Management
- (g) Assets Management
- (h) Budgetary Control