

Sri Lanka Sustainable Energy Authority - 2013

The audit of the financial statements of the Sri Lanka Sustainable Energy Authority (SLSEA) for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013 and the statements of income, statements of changes in equity and statements of cash flows 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 50(3) of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007 and Section 13(1) of the Finance Act, No 38 of 1971. 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 Statements

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 Auditing Standards of the 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 judgment, including the assessment of the risks 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 effect 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 Sri Lanka Sustainable Energy Authority as at 31 December 2013 and its financial performance and its 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 **Accounting Deficiencies**

The following observations are made.

- (a) A land with extend of 50 acres acquired from the Mahawali Authority and the buildings constructed therein for Hambantota Solar Park Project had not been valued and brought to the financial statements even in the year under review.
- (b) The fully damaged wind tower had not been removed from the fixed asset and as a result, the property plant and equipment shown in the financial statements as at 31 December 2013 had been overstated by Rs. 2,377,000.
- (c) According to the financial statements income from power generation – Hambanthota had been Rs. 36,355,017. However, according to the sale invoices, it was Rs.44,153,180 thus, the income balance and receivables shown in the financial statements as at 31 December 2013 had been understated by Rs 7,798,163.
- (d) Although the audited financial statements of the previous year had been restated, it not been disclosed in the financial statements of the year under review in terms of Sri Lanka Public Sector Accounting Standards 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

2.2.2 **Accounts Receivable and Payable**

Age analysis had not been prepared in respect of receivables and payables amounting to Rs. 15,872,896 and Rs. 37,698,530 respectively shown in financial statements. Further, confirmations for those balances as at 31 December 2013 had not been called for. Therefore, the accuracy and the reliability of these balances could not be ascertained in audit.

2.2.3 Unreconciled Differences

The following observations are made.

- (a) A difference of Rs. 13,624,445 was observed between the property, plant and equipment shown in the financial statements and the detailed schedule furnished to audit.
- (b) The balance of Sustainable Energy Fund and Sustainable Energy guarantee Fund had not been tallied with the respective investments and the differences of Rs.8,030,813 and Rs.8,000,000 were observed between those two figures respectively.

2.3 Non Compliances with Laws, Rules and Regulations

Instances of non- compliances observed in audit are given below.

Reference to Laws, Rules and Regulations etc.	Non Compliance
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(a) Finance Act, No. 38 of the 1971	

(i) Section 8(1)	The budget of the Authority for the year 2013 which was required to be approved by the Board of the Directors before 30 September 2012 had been approved only on 16 January 2013.
(ii) Section 14 (1)	Annual draft report of the Authority had not been submitted to the Auditor General along with the financial statements for the year under review.
(b) Treasury Circulars	

(i) Circular No. 842 of 19 December 1978	A fixed assets register as per the Circular instruction had not been maintained.
(ii) Circular No.IAI/2002/02 of 28 November 2002	A register for computer hardware and software had not been maintained.
(d) Financial Regulation 396	Prompt action had not been taken for outstanding cheques valued at Rs. 459,910.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year under review had resulted in a surplus of Rs. 44,490,201 as compared with the corresponding surplus of Rs. 20,906,665 for the preceding year, thus indicating an improvement of Rs. 23,583,536 in the financial results. The increase of recurrent grant, energy permit fees and income from power generation (Indurana) by Rs.51,503,137 were attributed for this improvement.

3.2 Operating Inefficiencies

3.2.1 Development of Three Prototype Electric Vehicles

As pointed out in my previous year audit report, a sum of Rs. 7.888 million or 87.66 per cent of the agreed price had been paid as at 31 December 2009 to develop three prototype electric vehicles within 18 months from the date of 28 September 2007. It was observed that the developer had failed to complete even a single vehicle up to the date of audit inspection in May 2014, even though the project period had been dragged for nearly five years excessively without formal time extension.

3.2.2 Supply, Fabrication, Installation and Commission of Ten Wind Measuring Masts

The following positions reported in my previous audit reports had remained unchanged even the end of May 2014.

- (a) It was observed that the physical performance of wind measuring data collection was remained around 51 per cent level. Therefore, the Authority could not able to achieve the expected objectives such as identify the sites for establishing the wind measuring masts, collection of measuring data of wind and reporting those data etc. from the establishment of Wind Measuring Masts.
- (b) It was observed that the cost incurred to install the Tower in Nadukuda amounting to Rs. 2,377,000 become fruitless expenditure due to the Tower installed was not in the required standards.

3.2.3 Switch – Asia Programme

As pointed out in my previous year audit report, a sum of Rs. 3,135,202 out of Rs.7,334,354 received under Switch Asia Programme had been paid to all officers of the Authority as professional allowance during the years 2010 and 2011 in contrary to the provisions in the Public Enterprises Circular No. 95 of 04 June 1994 and Public Finance Circular No. PF/PE/5 of 11 January 2000.

The Secretary to the Ministry of Power and Energy had instructed the Chairman of the Authority by his letter No. PE/IA/22/vol. II dated 03 December 2012 to recover this payment from all officers or from the Chairman of the Authority. However meaningful actions had not

been taken to recover this unauthorized payment even up to the date of audit inspection on 26 May 2014.

3.3 Human Resources Management (HRM)

Proper personal management was not in operation within the Authority and the present recruitment procedure of the Authority had not been approved by the Department of Management Services.

3.4 Transactions of a Contentious Nature

Interest income amounting to Rs. 39,618,010 received during the period from 2008 to 2013 on the investments of money of the Sri Lanka Sustainable Energy Fund and Sri Lanka Sustainable Guarantee Fund had been utilized by the Authority without being remitted to the relevant Funds.

3.5 Unauthorized Payments

The Authority had encashed the employees a sum of Rs. 1,038,866 for unutilized leave without proper authority from the Department of Management Services and Salaries & Carder Commission.

3.6 Unsettled Foreign Advances

A Director of the Authority had obtained two advances amounting to Rs. 15,880 and Rs. 116,991 for purchase of warm cloths to attend a foreign training programme. However, those advances had not been settled even at the date of audit inspection on 26 May 2014.

4 Accountability and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted and the actual income and expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

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

- (a) Budgetary Control
- (b) Assets Management
- (c) Accounting
- (d) Implementation of Projects
- (e) Human Resources Management
- (f) Payment Procedure