

## **Sri Lanka Sustainable Energy Authority - 2015**

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The audit of the financial statements of the Sri Lanka Sustainable Energy Authority (SLSEA) for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 and the statements of income, statements of changes in equity and statements of cash flow 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 50(3) of the Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007. 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**

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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**

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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 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 judgement, 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2015 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Even though comparative information should be presented for all values included in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 01, comparative information had not been presented relating to the note on property, plant and equipment.

#### **2.2.2 Accounting Policies**

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A sum of Rs.8,033,271 payable as building rent relating to the year 2012 had neither been accounted nor sufficiently disclosed in the financial statements due to being disputed. However, that amount had been paid by the Authority on 29 February 2016.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Even though income from Hambantota solar power generation and income from Indurana Mini Hydropower Plant amounting to Rs.42,049,876 and Rs.3,836,217 respectively had been brought to account, the income of the year under review had been overstated by a sum of Rs.3,324,695 as the income according to the invoices amounted to Rs.39,129,831 and Rs.3,431,567 respectively.
- (b) Even though a sum of Rs.12,981,175 had been brought to account as income receivable from the power generation of Hambantota and Indurana, income receivable according to the invoices had been a sum of Rs.16,560,440. As a result, income receivable had been understated by a sum of Rs.3,579,265.
- (c) Even though the canopy fixed to a cab by spending a sum of Rs.218,670 in the year under review had been capitalized, depreciation relating to the year under review amounting to Rs.32,800 had not been brought to account.
- (d) A land, 50 acres in extent acquired from the Mahaweli Authority on 28 July 2011 for the Hambantota Solar Park Project had not been assessed and brought to the financial statements even in the year under review.

- (e) Damage had been caused by the collapse of Udappuwa Wind Mast costing Rs.2,244,000 in October 2010 and it had been inoperative for more than 05 years. Action had not been taken to dispose the net value of this asset amounting to Rs.601,875 from books even up to 30 September 2016.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken by the Authority to recover balances amounting to Rs.3,486,182 remained in the accounts for more than 1 year and less than 4 years and a balance of Rs.9,275 which had lapsed over 5 years as at the last date of the year under review.
- (b) A sum of Rs.7,622,186 out of a sum of Rs.11,579,596 stated in the accounts as accrued expenditure as at the end of the year under review had been brought forward from the year 2011 and action had not been taken either to settle this amount or to credit to the income by the Authority even up to the year under review.

### 2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

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Instances of non- compliance observed during the course of audit were as follows.

#### Reference to Laws, Rules, Regulations and Management Decisions

#### Non- compliance

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- (a) Sustainable Energy Authority Act No.35  
of 2007

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Sections 7(1), 8(1) and 42(1)

The Renewable Energy Inventory, Energy Map, Energy Development Plan and the Report on the Performance in the field of Energy in Sri Lanka had not been prepared and presented to the Minister.

- (b) Finance Act No.38 of 1971

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Section 14(1)

The Draft Annual Report for the year 2015 with the financial statements for the year under review had not been presented to the Auditor General.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i) Financial Regulation 108

A Register of Losses and Damages had not been maintained.

(ii) Financial Regulation 1645

There were 16 vehicles belonging to the Authority and the fuel consumption of 8 vehicles had not been noted in the log books since the year of purchase of these vehicles and the fuel consumption of the 8 remaining vehicles had not been noted from several years.

(iii) Financial Regulation 756(i)

A Survey of Goods had not been conducted as at 31 December of the year under review.

(d) Treasury Circulars

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(i) Circular No.842 of 19 December 1978

A Register of Fixed Assets had not been maintained in terms of the Circular.

(ii) Circular No.IAI/2002/02 of 28 November 2002

A Register of Fixed Assets had not been maintained in respect of Computer, Software and Accessories.

(iii) Public Finance Circular No.03/2015 of 14 July 2015

Advances exceeding Rs.100,000 had been provided to non- Staff Grade Officers in 9 instances in the year under review, contrary to the provisions of the Circular.

(e) Public Administration Circulars

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Circular No.13/2008(IV) of 09 February 2011

Four- thousand eighty- eight point five litres of fuel had been provided to 6 officers of the Authority including the Director General exceeding the approved limit of fuel in the year under review and its value amounted to Rs.478,373.

(f) Public Enterprises Circulars

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Circular No.PED/45 of 02 October 2007

Statements of liabilities that should be included in the financial statements had not been included.

## **2.5 Transactions not supported by Adequate Authority**

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A sum of Rs.3,135,202 out of a sum of Rs.7,334,354 received under the “Switch- Asia” programme had been paid as professional allowance for all officers of the Authority in the years 2010 and 2011 contrary to the provisions in the Public Enterprises Circular No.95 of 04 June 1994 and the Public Finance Circular No.PF/PE/5 of 11 January 2000.

Even though it had been instructed to the Chairman of the Authority by the then Secretary to the Ministry of Power and Energy by his Letter No.PE/IA/22/vol- II of 03 December 2012 to recover this payment either from all officers or from the Chairman of the Authority, action had not been taken to recover even up to 30 September 2016.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Authority for the year under review had resulted in a surplus of Rs.8,284,743 as compared with the corresponding surplus of Rs.12,624,363 for the preceding year, thus indicating a deterioration of Rs.4,339,620 in the financial result in the year under review as compared with the preceding year. Even though the expenditure in the year under review had decreased by a sum of Rs.15,442,220, the decrease of other income by a sum of Rs.19,162,534 had been the main reason for this deterioration.

In considering financial results of 04 preceding years, even though a financial deficit had indicated in the year 2011, a financial surplus had been indicated from the year 2012 to the year under review. Although this surplus had been improved up to the year 2013, thereafter it had been continuously deteriorated up to the year under review. However, even though the contribution of the Authority had continuously increased in considering personnel emoluments, taxes paid to the government and depreciation, it had been slightly deteriorated by 7 per cent in the year 2014 and it had again improved by 2 per cent in the year under review.

## **4. Operating Review**

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### **4.1 Operating Activities**

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A sum of Rs. 7,888,000 had been paid in the year 2009 to develop three prototype electric vehicles within 18 months from 28 September 2007. Nevertheless, the developer had failed to complete even a single vehicle even when it had elapsed 7 years and necessary action had not been taken either to return the 03 vehicles having being developed or to take legal action to get the paid amount refunded.

### **4.2 Idle and Underutilized Assets**

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Two cabs out of the 16 vehicles belonging to the Authority remained idle and had been halted in the vehicle yard from around 1 ½ years and a sum of Rs.113,103 had been spent on 26 January 2015 for the insertion of tires to one vehicle. The other vehicle had been removed

from running due to reasons such as not having a driver, excessive fuel consumption and being inconsistent with the road system.

#### **4.3 Delayed Projects**

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Sums of Rs.416,875, Rs.576,500 and Rs.833,750, totalling Rs.1,827,125 as mobilization advances, equipment cost and site inspection fees respectively, had been paid in the year 2011 for the construction of Kabaragala Wind Measuring Mast. These constructions had not been completed by even by 30 September 2016 and the function of obtaining the expected data by constructing Masts could not be achieved due to this delay.

#### **4.4 Human Resources Management**

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The following observations are made.

- (a) An approved recruitment procedure of the Authority had not been prepared in terms of paragraph 9.3 of the Public Enterprises Circular No.12 of 02 June 2003.
- (b) The cadre approved for the Authority by the Department of Management Services had been 136 and the actual cadre as at 31 December 2015 had been only 106. As such, 30 vacancies existed in the cadre and among them there were key posts such as 2 Directors, 4 Divisional Head posts and 11 managerial posts. Therefore, it was observed that it had been a fetter in achieving the main objectives of the Authority.
- (c) Twenty- eight files on foreign training provided within the year 2015 were subjected to audit and reports that should be presented by the officer at the end of the training had not been presented in 26 files of them.

### **5. Accountability and Good Governance**

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#### **5.1 Internal Audit**

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Even though it is essential to carry out an internal audit in terms of the provisions of Financial Regulations 133 and 134 and the Circular No.DMA/2009(1) dated 09 June 2009 of the Department of Management Audit, a Division consisting of officers attached to that function itself including the Chief Internal Auditor, had not been established.

#### **5.2 Budgetary Control**

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The following observations are made.

- (a) A sum of Rs.79,369,233 out of a sum of Rs.134,243,000 allocated in the year under review for projects, programmes and activities had been spent and the balance of Rs.54,873,767 or 41 per cent remained underutilized. Accordingly, it was observed that action had not been taken to utilize allocated money effectively for the achievement of the relevant objectives.

- (b) A provision of Rs.10,000,000 for capital expenditure had been made by the Budget and only a sum of Rs.5,254,951 of that had been spent. As such, it was observed that a sum of Rs.4,745,049 out of capital allocations or 47 per cent had remained underutilized.
- (c) Even though provisions had not been made by the Budget for the acquisition of lands and buildings, it was observed that a sum of Rs.49,185,376 out of the capital savings had been spent therefor in the year under review.
- (d) In comparing the budgeted expenditure with the actual expenditure for the year under review, significant variances ranging from 10 per cent to 104 per cent were observed relating to 32 items of expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

## 6. **Systems and Controls**

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

### **Areas of Systems and Controls**

### **Observations**

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(a) Budgetary Control	Not utilizing as an instrument of control by preparing realistically.
(b) Assets Management	Valuation, documentation and protection of property, plant and equipment, and not utilizing the resources of the Authority effectively for the achievement of the objectives.
(c) Control of Debtors	Not promptly collecting debtors and other receivables and not accounted.
(d) Human Resources Management	Not managing human resources in terms of the extent and role for the achievement of the objectives of the Authority.
(e) Implementation of Projects	Not implementing the functions of the projects towards their objectives for the achievement of the expected objectives of the projects.
(f) Computerized Ledger System	Not introducing computerized ledgers enabling the analysis of expenditure incurred under various Expenditure Heads.
(g) Accounting	Not preparing journal entries.