

Sri Lanka Sustainable Energy Authority – 2016

The audit of financial statements of the Sri Lanka Sustainable Energy Authority (SLSEA) for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of income, 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 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and 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 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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks 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 Basic 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 2016 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 Accounting Deficiencies

The following observations are made.

- (a) A land had been purchased in the year 2015 for the construction of a building by the Sri Lanka Sustainable Energy Authority spending a sum of Rs.45,856,451 (including taxes of Rs.4,856,451) on a long term lease basis and the following observations are made in that connection.
 - (i) The value of this land had not been disclosed in the statement of financial position separately as a lease property and action had not been taken to amortize the value of land up to 31 December 2016.
 - (ii) A sum of Rs.47,000,000 obtained from the Energetic Fund for the leasing of land had been recognized as a revenue receipt instead of a capital receipt and brought to accounts under other income in the statement of financial performance in the year 2015, resulting in an overstatement of surplus for that year by Rs.47,000,000.
 - (iii) Even though, the value added tax incurred on the land amounted to Rs.2,698,675, a sum of Rs.5,020,368 had been debited to the Energetic Fund and as such the balance of that Fund as at 31 December 2016 had been understated by Rs.2,321,693.
 - (iv) Even though a sum of Rs.3,936,978 had been withdrawn from the Energetic Fund Investment Account in the years 2015 and 2016 in respect of planning that building, it had not been debited to the Fund Account resulting the overstatement of the balance of Fund account as at 31 December 2016 by a similar value.
 - (v) Even though, a sum of Rs.47,000,000 had been withdrawn from the Energetic Fund, the total amount incurred on land amounted to Rs.45,856,451. The over withdrawn amount of Rs.1,143,549 had not been brought to accounts as a payable balance.

- (b) The land, 50 acres in extent acquired from the Mahaweli Authority on 28 July 2011 for the solar-power part in Hambanthota had not been assessed and brought to accounts even in the year under review.
- (c) Of a sum of Rs.60,000,000 received from the Treasury during the year under review as government grants, a sum of Rs.42,144,744 should have been recognized as income in the statement of financial performance for program expenditure, only a sum of Rs.41,247,949 had been brought to accounts as income.
- (d) Despite, the repayment responsibility of the loan of Rs.62,560,065 issued to the sustainable Energy Sector Project, phase 2 and improvement of Clean Energy and Network Efficiency Project implemented under the non-transferred Asian Development Bank Loan, had not been vested in the Authority, it had been shown in the statement of financial position under non-current liabilities by the Authority.

2.3 Unexplained Differences

The following observations are made.

- (a) The balance of the Energetic Fund as at 31 December 2016 amounted to Rs.293,257,237 whereas the balance of the related investment account as at that date amounted to Rs.306,628,315. Action had not been taken to reconcile and correct the difference of Rs.13,371,078.
- (b) Even though, a sum of Rs.1,231,353 should have been credited to the Security Fund account in the year under review in respect of interest income on Treasury Bills and Fixed Deposits only a sum of Rs.1,136,900 had been credited, thus observing a difference of Rs.94,453.

2.4 Contingent Liabilities

According to the decision of the Cabinet of Ministers dated 21 March 2008, the Ceylon Electricity Board had implemented the new charges method for the non-traditional renewable energy developers. Accordingly, it was decided that 90 per cent of the cost was born by the Ceylon Electricity Board under “Cost based tariff” method and the balance 10 per cent to be reimbursed from the Sustainable Energy Authority. Based on this decision a sum of Rs.897,025,999 payable to the Ceylon Electricity Board by the Sustainable Energy Authority as at 31 December 2010 had been disclosed under contingent liabilities in the financial statements but no any arrangements had been made to settle this amount by the Authority.

2.5 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.8,033,270 receivable from the Ceylon Electricity Board for the Regional Centre for lighting had not been recovered even up to 27 September 2017.
- (b) Action had not been taken to settle the balance of Rs.565,688 receivable for the period over one year and less than 4 years included in the accounts receivable as at the last date of the year under review, advances of Rs.3,480,844 given to external parties and advances totalling Rs.16,397,978 given for four active projects of the Authority during the year under review, even up to 31 December 2016.
- (c) Of a sum of Rs.11,645,917 shown in the accounts as accrued expenses as at the end of the year under review, sums of Rs.7,269,482 and Rs.352,704 had been brought forward for ever 5 years and 4 years respectively. Action had not been taken to settle them or to take any other appropriate action even up to the end of the year under review by the Authority.

2.6 Transactions not supported by adequate authority

A sum of Rs.3,135,202 out of a sum of Rs.7,334,354 received from European Commission under the "Switch – Asia Programme" had been paid to all officers of the Authority as Professional Allowances in the years 2010 and 2011 contrary to the provisions of the Public Enterprises Circular No.95 of 04 June 1994. The order to recover this irregular payment from the officers concerned or from the responsible officers, given by the Secretary to the Ministry on 03 December 2012 had not been carried out even up to 30 September 2017.

2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non-compliance
---	-----------------------

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

Section 46 (3)

Contrary to the objective of the Energy Fund, a sum of Rs.50,936,978 had been withdrawn during the years 2015 and 2016 for the purchase of a land to construct an office building for the Sustainable Energy Authority and to prepare building plan thereto from the investment of that Fund

- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Section 13.7 of Chapter II and Section 12.2.6 of Chapter VII
- Despite the appointing authority had not formally recruited, without the approval of the Secretary to the Ministry, a total sum of Rs.2,180,886 had been paid as acting allowances from the year 2013 to 2016.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Financial Regulation 756
- A Board of Survey had not been carried out as at 31 December of the year under review in respect of the assets of the Authority.
- (d) Treasury Circular No.842 of 19 December 1978.
- A register of fixed assets in respect of the assets totalling Rs.1,869,975,742 had not been maintained in accordance with the circular.
- (e) Circular No.IAI/2002/02 of 28 November 2002.
- A register of fixed assets for the Computers, accessories and software valued at Rs.14,885,933 had not been maintained.
- (f) Public Enterprises Circular No.PED/12 of 02 June 2003.
- The draft annual report for the year 2016 had not been presented to the Auditor General along with the financial statements of the year under review.
- (g) Public Enterprises Circular No.PED/50 of 28 July 2008 and PED 2015/01 dated 22 May 2015.
- Fuel allowances totalling Rs.2,600,000 had been paid to 06 officers who were acting in the higher posts from 2013 to 2016 and a sum of Rs.1,650,000 as transport allowances to 3 posts of Head of Divisions during the period from 2015 to 2016 had been paid without the approval of the Board of Directors and contrary to circulars.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the year under review had been a surplus of Rs.6,463,693 as compared with the surplus of Rs.52,410,929 for the preceding year, thus observing a deterioration of Rs.45,947,236 in the financial results of the year under review as compared with the preceding year. Recognition of a sum of Rs.47,000,000 received as capital receipts in the previous year as revenue receipts had mainly attributed to this deterioration.

In analyzing the financial results of previous four years and the year under review, there were continuous surpluses and it had improved 71 per cent between the years 2012 and 2013. After being adjusted the taxes paid to Government and depreciation provided, the contribution of the Authority had increased by 15 per cent. However, the contribution in the year 2014 had decreased by 5 per cent as compared with that of the year 2013, but it had increased by 17 per cent in the year 2015 as compared to the year 2014.

4. Operating Review

4.1 Performance

In terms of the Sri Lanka Sustainable Energy Authority Act No.35 of 2007, the main objects of the Authority are as follows.

- (i) Identify, assess and develop renewable energy resources with a view to enhancing energy security.
- (ii) Identify, promote, facilitate, implement and manage energy efficiency improvement and energy conservation programmes for use of energy in domestic, commercial, agricultural, transport, industrial and any other relevant sector and
- (iii) Promote Security reliability and cost effectiveness of energy delivery by policy development and to ensure that, adequate funds are available to implement its objects consistent with minimum economic cost of energy and energy security.

In the achievement of the above objects the following observations are made.

(a) Energy Audit

As one and only government institution which provides Energy Services in Sri Lanka, the Sustainable Energy Authority has a direct responsibility in respect of Energy Auditing and Energy Efficiency improvements. As such the Authority should have a competent staff including Engineers, Technology Officers and complex measuring equipment. Nevertheless, the staff in this Energy Service Division had decreased to one Technological Officer in the year under review and as a result of utilizing measuring equipment purchased in the years 2008 and 2010, supply of services had declined.

- (b) A licence (No.EP-325530) had been issued to the Western Power (Pvt) Company on 23 May 2014 for a electricity generation project with 10 Mega votes by Solid Waste in a land at Meethotamulla, 3.5 acres in extent, belonged to the Urban Development Authority. This project had not been commenced even at the end of the validity period of licence of 2 years, that was 22 May 2016. Even though, this type of projects should have been expedited as a remedy to the disposal of Solid Waste, the Authority had not supervised adequately after being issued the licence.

The Chairman had informed me that until being resolved the situation such as protests made by dwellers against the acquiring of proposed land for the construction of a power station which was beyond the control of the Authority and the project proposer, a provable progress could not be expected.

- (c) In terms of Section 21.1 of the Sri Lanka Sustainable Energy Authority Act No.35 of 2007, it is the duty of the Authority issue licenses to the companies which import and install solar power generation systems and to check whether they are operated qualitatively and reliable. Nevertheless, a sufficient test had not been carried out in respect of the quality and provision of services of the solar power generation systems imported and installed by the license holding companies.
- (d) An agreement had been entered into with a private company on 14 July 2008 for the construction of 10 wind measuring masts and this construction work should have been completed within one year. However, as equipment in the mast had become inoperative in collecting data from 9 masts which had been completed by the year 2012 data in certain towers had not been continuously collected due to non- visiting to the relevant places. Furthermore, the preparation of wind power resources map and the design had not been completed by using this data.
- (e) The construction of one wind meter tower for which a total sum Rs.1,410,250 had been spent as cost of equipment and processing charges and a mobilization advance of Rs.416,875 paid in the year 2011 had been halted half way and action had not been taken to complete the construction work even by 30 September 2017. Utilisation of equipment furthermore which had been purchased before 6 years and the recovery of processing cost is problematic in audit.

4.2 Management Activities

The following observations are made.

- (a) A land had been purchased on 30-year-leasing basis from the Urban Development Authority for the construction of Head Office of the Authority, spending a sum of Rs.45,856,451 on 22 June 2015. As a result of entering into lease agreement without legal advice, a condition that the failure to complete development work within a period of 2 years, ownership of the lease property would be transferred to the lessor. Even though 2 years had elapsed by 30 September 2017, design part of the building had not been completed.
- (b) A gratuity of Rs.782,260 had been paid to a senior manager who retired on 25 December 2016. Deviating from the Management Services Circular No.02/2016 dated 25 April 2016 it had been calculated by adding adjustment allowance as well. As such an overpayment of Rs.94,990 had been made.
- (c) The investigation report on errors occurred in the conversion of employees salaries since the inception of the Sustainable Energy Authority had been presented to the

Authority on 03 February 2012 but the recommendations made in that report had not been implemented up to now. According to that report, the Secretary to the Ministry, as the Chief Accounting Officer had ordered to recover the overpayment of Rs.2,171,760 made for the period from 01 October 2007 to 30 September 2011 deviating circulars from the relevant officers but no any action in that regard had been taken by the Authority.

(d) Development of three prototype electric vehicles

According to an agreement entered into on 28 September 2007, a sum of Rs.7,956,800 had been paid to a private party in the year 2007 for the development of three prototype electric vehicles within 18 months. However, the developer had failed to complete even a single vehicle upto 30 September 2017, after a lapse of over 8 years and necessary action had not been taken either to return 3 vehicles having being developed 02 or to take legal action to get the paid amount refunded.

4.3 Idle and Underutilised Assets

The following observations are made.

- (a) A balance of Rs.4,548,176 from the receipts under the “Switch-Asia” Programme had been retained in a current account in the Peoples Bank since 2011 and a sum over Rs.150,000,000 had been retained in a Savings Account in a State Bank since several years. This money had not been utilized for any investment activity, in order to earn an income.
- (b) A cab motor vehicle belonging to the Authority had been idling for about 2 ½ years and any action had not been taken to get it repaired or to dispose of even up to 30 September 2017.

4.4 Personnel Administration

The following observations are made.

- (a) An approved scheme of recruitment had not been prepared and get it approved in terms of paragraph 9.3 of the Public Enterprises Circular No.PED/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 2016 had been only 103. Accordingly, 33 vacancies had existed, consisting of 3 posts of Directors, 4 posts of Divisional Heads and 12 Management posts.

The Chairman had informed that a revised organizational structure had been prepared by using the number of approved posts from 2007 up to now, having being made minor revisions thereto and it had been referred to the Ministry of Power and

Renewable Energy to be forwarded to the Department of Management Services for approval.

- (c) Deviating from paragraph 13.1 (b) of Chapter 11 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and without the approval of the Board of Directors which is the appointing authority, the chairman of the Authority had appointed the three directors fallen vacant and 3 of the four Divisional Heads as stated above for acting in those posts.

4.5 Resources given to other government institutions

The Divisional Head (Technology Promotion) and Acting Director (Strategies) had been released on full time basis to the post of Director (Technology) of the Ministry of Power and Renewable Energy since 15 February 2016, contrary to the Public Enterprises Circular No.PED/12 of 02 June 2003 and without the approval of the Cabinet of Ministers. A sum of Rs.1,404,828 had been paid as salaries to him up to May 2017 by the Authority from the date of release.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The statement of Management responsibility on the presentation of accounts had not been included in the financial statements, in terms of paragraph 3 of Public Enterprises Circular No.PED/45 of 02 October 2007.

5.2 Corporate Plan

A Corporate Plan in terms of Paragraph 5.1.2 of Public Enterprises Circular No.PED/12 of 02 June 2003 had not been prepared.

5.3 Action Plan

Out of the allocation of Rs.280,421,124, according to the action plan for projects, programmes and activities, only a sum of Rs.111,236,670 or 40 per cent had been utilized. Accordingly, the Authority had failed to perform the activities in the action plan efficiently and fulfilling the expected objects adequately.

5.4 Internal Audit

As non-availability of a Chief Internal Auditor in the year under review, a sufficient internal audit had not been carried out as per the audit plan.

5.5 Budgetary Control

The following observations are made.

- (a) A provision of Rs.6,000,000 had been made for the capital expenditure from the Budget but only a sum of Rs.2,549,041 had been spent. As such, a sum of Rs.3,450,959 or 58 per cent had not been utilized for relevant activities from the budgetary provisions. Even though, no budgetary provisions were made, an expenditure of Rs.4,238,165 had been incurred on improvement of buildings and lands by utilizing those savings as well.

- (b) As compared the budgeted recurrent expenditure in the year under review with the actual expenditure, considerable variances, ranging from 17 per cent to 161 per cent were observed in 9 items of expenditure and as such it was observed that the budget had not been used as an effective instrument of management control.

6. Systems and Controls

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

Area of Systems and Control

Observations

- | | |
|--------------------------------|--|
| (a) Accounting | (i) Non following accounting standards, existence of omissions and non-reconciliations.

(ii) The computerized ledgers had not been maintained enabling to analyze the expenditure incurred under various expenditure heads. |
| (b) Financial Control | Existence of idle cash balances. |
| (c) Debtors Control | Non-collection of debtors and other receivables without delay. |
| (d) Human Resources Management | Human Resources not efficiently managed in terms of functions and extent in the achievement of objects of the Authority. |
| (e) Implementation of Projects | Non-implementation of project activities for the achievement of the expected objectives of the projects efficiently and expeditiously as planned. |
| (f) Budgetary Control | Budget not utilized as an instrument of financial control, having being prepared realistically. |

(g) Assets Management

- (i) Valuation and documentation of property, plant and Equipment not systematically carried out and they have not been utilized efficiently in order to achieve the objectives of the Authority.
- (ii) Not taking action to replace the old measuring equipment with modern equipment and dispose of non-usable equipment.