

## Sri Lanka Sustainable Energy Authority – 2017

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The audit of operations of the Sri Lanka Sustainable Energy Authority for the year ended 31 December 2017 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. The financial statements for the year 2017 which should be presented as per the Section 13 (6) of the Finance Act had not been presented even up to 15 August 2018. My observations, which I consider should be presented to the parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka relating to the functions of the fund during the year under review, appear in this report.

### 1.2 Responsibility of the Management for Financial Statements

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Management is responsible for the preparation and fair presentation of financial statements of the Fund 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.

## 2. Financial Statements

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### 2.1 Presentation of Financial Statements

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According to the Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the financial statements and the draft annual report should be furnished to the Auditor General within 60 days after the close of the financial year. However the financial statements for the year 2017 had not been furnished to the Auditor General even up to 30 August 2018.

### 2.2 Existence of Assets and Liabilities

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A summary of assets, liabilities, revenue and expenditure of the Authority shown in the audited financial statements as at 31 December 2016 is given below.

<b>Item of Financial statements</b>	<b>Amount</b>
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	<b>Rs.</b>
<b><u>Assets</u></b>	
Non- current Assets	1,080,797,130
Current Assets	417,284,131
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Total Assets	1,498,081,261
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**Equity and Liabilities**

Equity 1,372,782,112

**Liabilities**

Non- current Liabilities 79,404,647

Current Liabilities 45,894,502

Total Equity and Liabilities 1,498,081,261

Total Income 445,107,910

Total Expenditure 439,680,794

Surplus 5,427,116

**2.3 Accounts receivable and Payable**

When assigning management and assets of the Regional Center for Lightning (RCL) to the Lanka Electricity Board in November 2012 by the Sri Lanka Sustainable Energy Authority, an outstanding lease rent of Rs. 8,033,270 payable to the Bandaranayaka Memorial International Conference Hall Foundation had been paid and it had not been recovered from the Lanka Electricity Board up to 30 August 2018.

**2.4 Non - compliance with Laws, Rules Regulations and Management decisions.**

The following non- compliances were observed in audit.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non – compliance</b>
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a) Sustainable Energy Authority Act No.35 of 2007  ----- Section 46 (3)	Contrary to the objectives of the Energy Fund, a sum of Rs. 54,263,517 had been withdrawn by the Authority from investment of the Fund in the years 2015, 2016 and 2017 for purchasing a land to construct an office building for the Sustainable Energy Authority and for preparing plans for that building.
b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.  ----- i. Financial Regulation 454	Inventory books had not been maintained as per the financial regulations.

- ii. Financial Regulation 757 (1) Physical verifications of assets had not been carried out according to the relevant format.
- c) Treasury Circulars  
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- i. Circular No. 842 dated 19 December 1978 As per the Circular, the assets register had not been maintained properly and up to date in respect of fixed assets totaling Rs.1,961,896,952.
- ii. Circular No. IAI/2002/02 dated 28 November 2002 A fixed assets register had not been maintained in respect of computers, accessories and soft wares valued at Rs.14,973,433
- d) Public Administration Circulars  
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- Circular No. 28/2011 dated 12 December 2011 Although only the officers of the Sri Lanka Engineering Service are entitled for the professional allowances, a sum of Rs.7,980,000 had been paid by the Authority as professional allowances from August 2016 to May 2018 for officers who were not entitled to the Sri Lanka Engineering Service but engaged in the post of engineer of the Authority without obtaining the approval of the Management Service Department.

## 2.5 Transactions not Supported by an Adequate Authority

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The following observations are made.

- a) Out of the Funds received amounting to Rs.7,334,354 under the programme of “Switch Asia” from the “Uropan Union” a sum of Rs.3,135,202 had been paid as professional allowances for all officers of the Authority in the year 2010 and 2011 contrary to the terms of the Public Enterprises Circular No.95 of 04 June 1994. Even though the Secretary to the Ministry had directed on 03 December 2012 to recover this illegal payment back from the officers or responsible officers, it had not been done even up to 30 August 2018.
- b) Although a sum of Rs. 98,215 had been paid as salaries to the post of Director General under the category of HM 2-3 as per the Circular of the Department of Management Service No. 2/2016, according to the section 52 (4) of the Act without obtaining approval of the Management Service Department, a sum of Rs.250,000 per month had been paid to the new Director recruited for a period of 01 year on contract basis at the date of 01 December 2017.

### **3. Operating Review**

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#### **3.1 Performance**

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##### **3.1.1 Planning**

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The following observations are made.

- a) The responsibility of the Board of Directors is to prepare a corporate plan for a period of at least 3 years and to operate the Institute as to achieve proposed targets accordingly because the activities of the Institute should be managed with a short and long term vision. However a corporate plan had not been prepared by the Authority as per the paragraph 5.1.2 of the Public Enterprises Circular No. PED/12 dated 2 June 2003.
- b) Although an annual action plan had been prepared by the Authority, a report as at the end of the year under review by reviewing the progress had not been prepared.
- c) A human resource development plan had not been prepared by the Authority.

##### **3.1.2 Operating and Review**

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The following observations are made in connection with achieving targets.

###### **a) Energy Audit and Providing Energy Services**

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The following observations are made in connection with hiring energy equipment to external parties by the Authority as per the Sri Lanka Sustainable Energy Authority Act No. 35 of 2007.

- i. Although equipment purchased during the period of 2008- 2012 are being used at present, those equipment had not been repaired. Therefore it could not be satisfied about the quality and the accuracy of the information obtained using this measuring equipment.
- ii. Out of the equipment mentioned above, actions had not been taken to dispose or repair the equipment identified as defective in the board of survey 2017 or to purchase modern equipment.
- iii. The rates for hiring energy measuring equipment had been decided by the Board of Directors of the Authority in the year 2010. However those rates had not been revised up to the year 2018.
- iv. Only one engineer and one engineering assistant were working in the staff of the Energy Service Section. As a result it was observed in audit that supplying of services and taking over equipment could not be carried out properly. Therefore supplying of services had dropped down and taking over the measuring equipment had to be done without examining. Hence some instances were observed that equipment had been taken over with defects.

- b) A total provision of Rs.74.787 million had been made from the sustainable Energy Fund for 3 Solar Energy Projects and 3 Solar Power Efficiency Improvement Projects which were expected to be implemented during the year under review. However total provision had been saved relating to 4 projects as at 31 December 2017 due to non-implementing of activities of 4 projects and performance of 2 projects were remained in a range of 2 to 0.2 per cent.

### 3.2 Management Activities

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The following observations are made

- a) A land had been obtained incurring a sum of Rs. 45,856,451 on 22 June 2015 from the Urban Development Authority under 30 years lease in order to construct a head office for the Institute. Due to entering in to an agreement without obtaining legal advice, a condition had been entered in to the agreement that if it is failed to complete development activities within 2 years, the ownership of the leased property will be transferred to the lessor. Although two and half years had lapsed as at 30 September 2018, only planning of the building had been done.
- b) A sum of Rs.160, 090 had been paid by the authority as gratuity to a resign employee who had been recruited on contract basis, the service period had exceeded five years and retired on May 2018. However annual provisions had not been made in this regard.
- c) The report relating to the investigation carried out in connection with deficiencies occurred in the salary conversion at the beginning of the Sustainable Energy Authority had been presented to the Authority on 03 February 2012. However recommendations included in the aforesaid report had not been implemented by the Institution up to now. According to that report the Secretary to the Ministry as the Chief Accounting Officer had informed to recover salaries and allowances amounting to Rs.2, 171,760 overpaid deviating the circular instructions since 01 October 2007 to 30 September 2011 from relevant officers. Nevertheless actions had not been taken to recover or rectify them by the Authority.
- d) According to an agreement entered into on 28 September 2007 a sum of Rs.7,956,800 had been paid to an external party in the year 2007 to develop 03 petro type electric vehicles within 18 months. However 10 years had been lapsed up to 30 August 2018, the developer had failed to develop even one vehicle and actions had not been taken by the Authority to get developed 03 vehicles or to get recovered the money paid.

- e) Wind Towers
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According to the MEASNET Site Assossonent Guideline 2 April 2016, data collected on continuous basis throughout a year are sufficient for creating wind power plant and obtaining data for 2-3 years is enough to examine the co-relation. Accordingly data had been obtained from 06 towers established before the year 2012. However preparing Energy resources maps regarding wind power and plans using those data had not been completed even up to 31 August 2018.

- f) According to the Cabinet Decision dated 21 March 2008 new fees tariff had been implemented by the Lanka Electricity Board under the “cost based tariff” for Non - traditional Renewable Energy Developers and accordingly it had determined to increase 90 per cent of the cost by the Lanka Electricity Board and the rest 10 per cent by the Sustainable Energy Authority. However actions had not been taken by the Authority to prepare any methodology to settle the sum of Rs.897, 025,999 payable to the Lanka Electricity Board as at 31 December 2010.

### **3.3 Idle and Underutilized Assets**

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The following observations are made.

- a) A sum of Rs.4,548,176 in which the rest of the amount received under the “Switch Asia Programme” in a current account and amount relating to Energy Fund more than Rs.150,000,000 in a saving account maintained in two state banks had been deposited without using for any investing activity over a number of years.
- b) A cab and a motor bicycle owned by the Authority had remained idle more than 03 years and the Lanka Automobile Society had recommended to dispose the said cab according to the assessment report dated 17 June 2015. However necessary actions had not been taken to repair or dispose those vehicles even up to 30 August 2018 and it was observed that the cab was decaying in an open space.
- c) Wind Towers of Sampoor and Mullipuram removed on the recommendation to re-establish had been transported to the supplier’s premises in Kappettiwalana area without any agreement and payments had been released to the supplier without having any document to confirm that equipment removed from those towers had been handed over to the Authority. Further the Authority had failed to take actions to reuse said removed property or any other suitable solution even as at August 2018.
- d) Equipment valued at Rs.915, 625 out of the equipment valued at Rs.1, 775,025 purchased in February 2016 for Nadukuda Wind Towers had not been taken to use until August 2018 and other equipment had been fixed in a delay of 11 months.

### **3.4 Staff Administrations**

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The following observations are made.

- a) According to the paragraph 9.3 of the Public Enterprises Circular No: PED/12 dated 02 June 2003, a recruitment procedure had not get prepared and approved for the Authority.
- b) The cadre approved by the Department of Management Services for the Authority as at 31 December 2017 was 136 and the actual cadre was 103. Accordingly 33 vacancies were remained and vacancies of 03 Director Posts, 04 posts of Divisional Heads and 12 posts of Management were included in it.

- c) Appointments had been made in acting basis for the above vacancies of 03 Directors and 03 Divisional Heads out of 04 by the Chairman in the years 2013 and 2014 without obtaining the approval of the Board of Directors as the Appointing Authority of the permanent posts deviating the terms of paragraph 13.1 (b) of chapter 11 of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. Contrary to the paragraph 13.7 of chapter 11 and paragraph 12.2.6. of chapter VII of the Establishment Code a sum of Rs.2,903,361 had been paid as acting allowances from the year 2013 to the year 2017.
- d) According to the Public Enterprises Circular No. PED/50 dated 28 July 2008 and Public Enterprises Circular No.PED/01/2015 dated 25 May 2015, without obtaining the approval of the Board of Directors a sum of Rs.2, 610,880 had been paid as fuel allowances since the year 2013 to the year 2016 whilst a sum of Rs.4, 210,000 had been paid as transport allowances for the period since the year 2015 to the year 2017 to a Director included in the 03 Divisional Heads posts.
- e) All activities such as maintaining wind towers, collecting data from towers, preparing data from soft wares and maintaining files had been limited to one technical officer at the commencement of the year 2017. As a result performance targets could not be achieved as planned for the year 2017 and it was observed that there was a risk to the future performance.

#### **4. Sustainable Development**

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##### **4.1 Achieving Sustainable Development Goals**

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According to the “2030” Agenda for Sustainable Development Goals of the United Nations, proper criteria had not been identified through the action plan to measure the progress and variations between the targets and achievements of affordable and pure energy supply.

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

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##### **5.1 Procurement and Contract Process**

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###### **5.1.1 Procurement**

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The following observations are made in connection with preparing procurement plan by the Authority for the year.

- a) Although a sum of Rs.341.409 million had been estimated from the Procurement Plan for the year 2017, out of the Procurement, planned, Procurement activities valued at Rs.94.476 million had only been made during the year. Accordingly it was observed that the requirement of the institute had been over estimated by the Authority when preparing the Procurement Plan.

- b) Although time frames had been identified in the Procurement Plan, Procurement had not been made systematically within those time periods.
- c) According to the Procurement Plan of the year 2017, even though it had been planned to carryout 50 supplies, only 06 supplies had been carried out.

## 6. **Systems and Controls**

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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.

<u>Areas of Systems and Controls</u>	<u>Observations</u>
(a) Accounting	Computerized ledgers not being introduced as possible as to analyze expenditure incurred, under the various expenditure heads.
(b) Financial Control	<ul style="list-style-type: none"> <li>I. There were non performing cash balances</li> <li>II. Proper delegation of work not been made relating to prepare salary registers, checking and signing salary cheques.</li> <li>III. Authority for signing cheques had been delegated without enacting any financial limit when naming officers for signing cheques.</li> <li>IV. Activities relating to checking payment vouchers, signing cheques, preparing salary registers and preparing bank reconciliations not being assigned to separate people</li> <li>V. Signatures not being put for checking and approving journal vouchers and confirmations for journal entries not been attached to the voucher.</li> </ul>
(c) Debtor Administration	Debtors and other receivables not being collected without delay.
(d) Human Resources Management	Human Resources not being managed efficiently as balancing the amount and activities for achieving targets of the authority.
(e) Implementation of Projects	Project activities not being implemented efficiently and immediately as planned for achieving expected objectives of the projects.



- (f) Assets Management
  - I. Evaluation of Property plant and equipment, and documentation not been carried out properly and not being utilized efficiently to achieve objectives of the Authority.
  - II. Inventory registers not being maintained.
  - III. Fixed assets register relating to receiving and issuing not being maintained among divisions.
- (g) Management of Information Systems
  - No proper procedure to secure data and information.
- (h) Vehicle Administration
  - Fuel consumption not being tested after the year 2014.