

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Sustainable Energy Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and the Finance act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those standards is further described in the Auditor’s Responsibility for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority’s financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Scope of Audit (Auditor's Responsibility for the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Management’s Comment	Recommendation
(a) A sum of Rs.22,145,944 incurred for the purchase and installation of inverters to the Hambanthota Sola Power Station in the year under review had been written off against the income statement instead of being capitalized.	As instructed by the Auditor General, the expenditure incurred for the installation of inverters will be capitalized and presented with the financial statements of the year 2019.	Action needs to be taken in accordance with the Public Sector Accounting Standards and the depreciation policy of the Authority.
(b) Sums of Rs.1,036,803 and Rs.1,970,834 relating to the two projects namely National Appropriate Mitigation Actions (NAMA) and the Biomass project of the United Nation Development Fund which should have been adjusted against the revenue of the year 2016, had been shown as a payable amount further in the financial statements, resulting an overstatement of current liabilities by Rs.3,007,637.	Action has been taken to correct the entries stated as payable accounts to the NAMA and Biomass projects in the financial statements of the year 2019.	Being made relevant adjustments, the correct value of current liabilities needs to be shown in the Financial Statements.

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| <p>(c) Since the expenditure totaling Rs.1,290,079 related to the years 2016 and 2017 had been brought to account as expenditure of the year 2018, the expenditure of the year had been overstated by that amount.</p> | <p>Having being observed vouchers in this regard it is hoped to correct it with the financial statements of the year 2019.</p> | <p>The expenditure of the relevant year needs to be written off against the revenue of the relevant year itself and the system of getting vouchers of all divisions by the end of the year for the closing of accounts of the year of accounts needs to be formalized.</p> |
| <p>(d) Since the expenditure of Rs.1,296,000 incurred under the ST4 programme in the Strategic Division had been erroneously debited to other advances account, the expenditure of the year under review had been understated by a similar amount.</p> | <p>An expenditure of Rs.1,296,000 incurred under the ST4 programme of the Strategic Division had been erroneously debited to an other advance account. It will be rectified from the financial statements of the year 2019.</p> | <p>Correctness of every transaction posted to the Ledger should be checked by an another officer.</p> |
| <p>(e) Expenditure of Rs.4,360,584 on amortization and government grants had not been correctly adjusted in the cash flow statement. In the computation of working capital difference a sum of Rs.980,915 had been understated and the net cash flow from investing activities had been overstated by Rs.68,266. Therefore, it was observed in audit that the cash flow statement had not been correctly prepared in accordance with Sri Lanka Public Sector Accounting Standard 2.</p> | <p>It will be corrected from the cash flow statement of the year 2019.</p> | <p>Cash flow statement should be prepared in accordance with Accounting Standard 2.</p> |
| <p>(f) Assets valued at Rs.457,490 transferred from a complete United Nations Development Fund project had been shown in the register of fixed assets but that value had not been stated in the financial statements as fixed assets.</p> | <p>The corrected financial statements had been presented to audit.</p> | <p>It should be ensured that transaction posted to fixed assets register should be posted to the ledger as well.</p> |

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| <p>(g) Even though the payable deposits of Rs.5,049,485 obtained from developers by the Authority for the acquisition of lands (A current liability) had been stated in the financial statement as a long term, a sufficient evidence to establish the amount was not made available for audit.</p> | <p>The register of deposits obtained from the developers for the acquisition of lands is being prepared and updated.</p> | <p>A proper register needs to be maintained being posting the deposits keep by developers.</p> |
| <p>(h) Taxes on equipment amounting to Rs,2,299,935 relating to an Asian Development Bank Project had been included under the work in progress for several years and action had not been taken to verify and make adjustments in the accounts even in the year under review.</p> | <p>Action had been taken to rectify the equipment tax relating to the ADB project with the financial statements of the year 2019.</p> | <p>Only the transactions of the Authority needs to be posted in the financial statements.(Since separate accounts are prepared for projects)</p> |
| <p>(i) Even though, it was stated in the financial statements that the prior year figures are re-stated, it had not been done so. Intangible assets had been amortized but the amortization policy had not been disclosed in the financial statements.</p> | <p>Restated financial notes were presented to audit.</p> | <p>Amortization policy needs to be disclosed in the financial statements.</p> |

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Management Comment	Recommendation
<p>(a) Advances totalling Rs.13,348,087 had been given to zonal offices under the knowledge management project for zonal officers programmes in the year 2016 in respect of 9 provinces, of which advances totalling Rs.3,765,051 had not been settled even by 31 December 2018.</p>	<p>Letters had been referred to the relevant education zones and action has been taken to settle this money soon.</p>	<p>Immediately after the purpose for which advances had been given was completed, they should be supervised and settled by the relevant Division.</p>
<p>(b) A sum of Rs.1,093,512 includes under the advances receivable had been brought forward from periods 01 to 04 years and the Authority had failed to recover them even by the end of the year under review.</p>	<p>Necessary action is being taking to recover the advances receivable.</p>	<p>Advances given should be reviewed and action needs to be taken immediately after the competition of task.</p>

1.6.2 Accounts Payable

----- Audit Observations -----	----- Management's Comment -----	----- Recommendation -----
Of a sum of Rs.15,735,724 shown in the accounts as other payments and creditors by the end of the year under review, sums of Rs.6,952,796 and Rs.7,247,388 had been brought forward from over 5 years and 01 to 04 years respectively and the balance of Rs.73,044 included in the accrued expenses had been brought forward from the period of 8 years. Action had not been taken to settle them by the Authority even upto the end of the year under review.	Necessary action had been taken to settle and correct the other payment accounts, creditors accounts and accrued expenses accounts.	Being reviewed the creditors and other payable balances, action needs to be taken to settle them within the period of accounts.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

----- Reference to Laws, Rules Regulations etc. -----	----- Non-compliance -----	----- Management's Comment -----	----- Recommendation -----
(a) Section 46(3) of the sustainable Energy Authority Act No. 35 of 2007.	A total sum of Rs.65,794,255 had been withdrawn from the investment of Energy Fund, contrary to the objectives of the Fund to lease a land for 30 years for a construction of an office building to the Sustainable Energy Authority and to prepare a building plan thereof, during the period from 2015 to 2018.	The main building of the Authority is designed under the Theme 'Energy Plus'. It is a demonstrated building to show the people that buildings can be invented with energy economy and with the minimum use of natural resources. Since, it is a creation that the people can see the methodologies to use energy conservation methods practically by naked eye, it is disagreeable that the audit interprets this building as a creation of an office to the Sustainable Energy Authority, contrary to the objectives of the	Action needs to be taken in compliance with the Authority Act and the objectives of the energy fund.

Fund. Since the provisions are available in the Authority Act to make aware of the Public, expenditure can be incurred and all these expenses had been incurred subject to the approval of the Board of Directors.

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| <p>(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka. Paragraph 13.7 of Chapter II</p> | <p>If the appointing authority has appointed an officer for an acting post, he should not be paid an additional remuneration. Nevertheless, the Authority had paid a total sum of Rs.3,714,952 as acting allowances for acting posts during the period from 2013 to May 2019 and a sum of Rs.4,853,050 as fuel allowances and Rs.5,020,000 as transport allowances during the period 2015 to May 2019.</p> | <p>The Authority established and operated in 2007 by obtaining the services of the officers of the Energy Conservation Fund which was the predecessor. Even though a corporate plan in respect of the functions of the Authority for the next 3 years had been presented to the first meeting of the Board of Directors and got it approved, the approval of the relevant authorities could not be obtained for the scheme of recruitment to attract the human resources to the Authority in order to achieve the objectives of the Authority. The scheme of recruitment had already been prepared and named the posts. These acting appointments had been stopped now on a decision of the Board of Directors.</p> | <p>Action needs to be taken in compliance of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the circular instructions.</p> |
| <p>(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 454</p> | <p>Inventory books had not been maintained in terms of financial regulations.</p> | <p>Necessary action had been taken to maintain inventory books as per instructions of the Auditor General.</p> | <p>Inventory books need to be maintained in terms of financial regulations.</p> |

(d) Financial Regulations 757(1)	Assets had not been physically verified.	Action had been taken to carry out physical verification of assets based on the relevant forms as per instructions of the Auditor General in the year 2019.	Assets need to be physically verified as per financial regulations.
(e) Treasury Circular No. 842 of 19 December 1978.	Register of Fixed Assets for the total value of fixed assets amounting to Rs.978,732,975 had not been properly maintained and updated.	In order to formalize the register of fixed assets, a computer software had been purchased and it is expected to complete it by May 2020.	Register of Fixed Assets needs to be properly maintained and updated.
(f) Paragraph 9.3 of the circular No.12 of 02 June 2003.	A scheme of recruitments for all employees of the Authority had not been prepared and got it approved.	The scheme of recruitment had been prepared and submitted to the Department of Management Services for approval. The approval only from lower grade to the post of Management Assistant has already been obtained.	An approved scheme of recruitment needs to be prepared and get it approved.
(g) Public Administration Circular No.28/2011 of 12 December 2011.	Without obtaining the approval of the Department of Management Services and on the approval of the Board of Directors, a sum of Rs.10,751,000 had been paid by the Authority to the Engineers of the Authority as professional allowances during the period from August 2016 to 31 December 2018. (Only the officers in the Sri Lanka Engineers Service are entitled to this allowance)	Action is already taking to get the required cabinet approval therefore, through the Ministry.	Action needs to be taken in terms of the circular instructions.

1.8 Cash Management

Audit Observations	Management Comment	Recommendation
The balance of the money received under the 'Switch Asia' programme amounting to Rs.4,548,176 remained in a current account of the People's Bank since the year 2011 and a sum over Rs.150,000,000 relating to the Energy Fund had remained in a	With the approval of the Board of Directors and the Treasury it is expected to invest this money.	Be invested with the relevant approval.

savings account of the National Savings Bank for several years without being invested fruitfully.

2. Financial Review

2.1 Financial Result

The operation of the year under review had resulted in a surplus of Rs.91,854,384 as compared with the surplus of Rs.49,834,339 in the financial results of the preceding year thus observing an improvement of Rs.42,020,045 in the financial result. The increase of operating income had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Management's Comment	Recommendation
<p>(a) Even though assets and management of the Regional Centre for Lighting (RCL) had been entrusted to the Ceylon Electricity Board by the Sustainable Energy Authority of Sri Lanka in November 2012, it had not been appropriately entrusted and as such, the rent amounting to Rs.8,033,270 paid to the Bandaranayake Memorial International Conference Hall Foundation by the Authority could not be recovered from the Ceylon Electricity Board even up to 31 December 2019.</p>	<p>A board paper had been submitted to recognize the rent of regional centre for lighting as the expense of the Authority. Future action will be taken in accordance with the recommendation of the Board of Management.</p>	<p>Appropriate action needs to be taken being inquired from the relevant authorities.</p>
<p>(b) Of a sum of Rs.7,334,354 received from the European Commission under the 'Switch Asia' programme, a sum of Rs.3,135,202 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 given by the</p>	<p>According to the instructions of the Audit and Management Committee, a board paper had been presented and got the approval for the recovery of this money.</p>	<p>Expedite the implementation of the decision of the Board of Directors.</p>

Secretary to the Ministry on 03 December 2012 to recover this illegal payments from the relevant officers or from the officers responsible for this payment, had not been executed even by December 2019.

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| <p>(c) According to the report of the investigation carried out in respect of errors caused in the revision of salaries of the employees from the beginning of the Sustainable Energy Authority, the over payments of salaries and allowances made during the period from 2007 to 2011 amounted to Rs.2,171,760. The Authority had not taken action to recover the overpaid amounts from the relevant officers or to correct it even up to now.</p> | <p>A committee with the approval of the Board of Directors had been appointed to absorb the employees in accordance with the new scheme of recruitment of the Authority. One of the main functions of this committee included that this issue should also be studied. This committee report is due to be submitted to the Board of Directors.</p> | <p>Expedite to obtain the report of the committee appointed by the Board of Directors and to obtain the approval for implementation.</p> |
| <p>(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 to develop 3 proto type electricity vehicles within 18 months in the year 2007. Nevertheless, proper action in this regard had not been taken by the Authority, though 12 years had lapsed up to 30 December 2019.</p> | <p>Legal advice from the Attorney General's Department had been obtained to succeed this expenditure allocated in this project and the assistance of an independent Arbitrator had been obtained for a settlement. The related party has suggested that the project could not be completed as per the agreement and to invent a vehicle which can demonstrates all trine patterns instead. It is expected to refer this proposal to the Board of Directors and to get its approval.</p> | <p>Action needs to be taken on legally agreed conditions.</p> |

3.2 Operating Inefficiencies

----- Audit Observations -----	----- Management Comment -----	----- Recommendation -----
<p>It was observed in audit that two activities stated under works in progress valued at Rs.10,333,800 were not functioning for several years and no expenditure whatsoever had been</p>	<p>Work of the wind modules tower at Baganwanthalawa had been completed during the year 2019 and it will be disclosed in the financial statements of the year 2019 and its</p>	<p>Programmes need to be subjected to regular supervision and action should be taken to</p>

incurred thereon in the year 2018. The Authority had not taken action to complete these programmes or to take an appropriate course of action.

value amounted to Rs.2,377,000. The expenditure incurred for the invention of electronic motor vehicles amounted to Rs.7,596,800 and it had now been referred to the arbitration.

complete them or to take appropriate action.

3.3 Underutilization of Fund

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
(a) The budgeted expenditure and the actual expenditure of those 4 projects in the year under review amounted to Rs.526,135,593 and Rs.350,391,197 respectively. Thus it was observed that a sum of Rs.175,744,396 or 33 per cent of the total provision was saved.	In the execution of many foreign aids projects, expenditure needs to be incurred within the actual period but this position is arisen due to delay in reporting these expenses. Action will be taken to report these expenses within the period in due course.	Budget needs to be periodically reviewed and there should be a methodology to obtain the expenses by the Finance Division without delay.
(b) Even though provisions of Rs.17,000,000 had been made under 6 main functions in the Action Plan for the year 2018 on ODSM programme, only a sum of Rs.8,876,452 had been spent therefrom and a sum of Rs.8,123,548 or 48 per cent was saved. Of the total expenditure incurred, administrative expenses including office building rent amounted to Rs.5,957,701 and the expenditure incurred for the project was only Rs.2,918,751.	The Line Ministry had approached to implement this programme in the year 2017. The execution responsibility rest with the National Operating Committee, and the Authority only contributes to provide administrative functions to its secretariat. Even though we have given various reasons to get the cadre to get the cadre approved to establish the management unit for this programme, the Line Ministry as well as the Department of Management Services had not approved those posts up to now. Under these circumstances, this programme is implemented with the contribution of certain officers in the service of the Authority. Therefore, since the obstruction to use required human resources to the programme, the allocation of provision could not be utilized in full.	Employment of sufficient human resources to improve the performance needs to be done soon with the Ministry.
(c) A provision of Rs.25,000,000 had been made for the Indurana International Promotion Centre Project for the year 2018 and only a sum of Rs.6,392,059 or 26 per cent thereof had been spent as at 31	Even though Rs.5 million had been allocated for Indurana Project, it had been spent for the preliminary works of the construction of 'Indurana Rajakarana Memorial International Small Scale Electricity Training	Funds need to be utilized periodically.

December 2018. Since a sum of Rs.18,607,941 or 74 per cent had not been spent for the project, it was observed that the provisions made for the project had not been effectively utilized.

Centre'. As Rs.15 million had been approved by the Board of Directors for the construction of Training Centre it was decided to complete it under the 2019 construction stage 2. It was planned to complete the first stage in the year 2019.

3.4 Delays in projects or Capital Works

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
According to the Lease agreement entered into between the Urban Development Authority and the Sustainable Energy Authority bearing No.631 of 22 June 2015, a land, 75 purchase in extent had been obtained from Baththaramulla Area on 30 year lease basis. In the examination of its progress by December 2019, only the plan had been designed by spending a sum of Rs.5,984,915 but action had not been taken to begin construction works.	Even though it was planned, and provisions are requested, the Authority has to take decision on the decisions taken by the Government. Accordingly, primary approval had been granted to construct this building, the approval of the National Planning Division needs to be given. Since, the former government had taken a policy decision in 2019 to stop this construction works temporary, our request had also been thrown away.	Since nearly 5 years had lapsed attention needs to be paid for an alternative action.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
In terms of Public Enterprises Circular No.PED12 dated 02 June 2003, the approved financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts but the financial statements for the year 2018 had been presented to audit on 04 November 2019, after a delay of 8 months.	Since there was no head of the Financial Division of the Authority in the year 2018, the presentation of financial statements was delayed. The report was delayed. The report of the Auditor General for the year 2017 was issued on 05 July 2019. As such, financial statements of the year 2018 had been prepared by including the recommendations of the Audit report of the year 2017. It is intended to present the financial statements relating to the year 2019 on time.	Financial statements need to be submitted in terms of the circular, as at the specific date.

4.2 Corporate Plan

Audit Observation	Management Comment	Recommendation
In terms of paragraph 5.1.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003 a corporate plan with a short term and long term vision for the affairs of the Authority should be prepared at least for a period of 3 years. Accordingly, the Board of Directors had not taken steps to operate the Authority, enabling to achieve the proposed targets.	It is the intention to proper the corporate plan in compliance with the energy policies after being formulated them. The Energy Policy had already been published and the preparation of the corporate plan had been initiated accordingly.	A corporate plan needs to be prepared in accordance with the circular.

4.3 Annual Action Plan

Audit Observation	Management Comment	Recommendation
Even though an annual action plan is prepared by the Authority, its progress has not been reviewed and a report had not been prepared at the end of the year under review.	The progress of the Action Plan of the year, 2019 had been reviewed and a report had been prepared by the end of the year. It is hoped to submit it to the Auditor General.	Progress of the action plan needs to be reviewed and a report to be prepared.