

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Sustainable Energy Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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 responsibilities, under those standards are further described in the Auditor's Responsibilities 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 determine 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 matters related to going concern and using the going concern basis of accounting unless management either intends 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

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 auditor's 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 auditor's 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) In terms of Section 92 of Sri Lanka Public Sector Accounting Standard 7 relating to property, plant and equipment, information on property, plant and equipment costing Rs.340,629,707, fully depreciated as at the end of the year under review, that is still in use, had not been disclosed in the financial statements. However, action had not been taken to revise the estimated error of these assets in terms of Sri Lanka Public Sector Accounting Standard 03 and to disclose again thereon in the financial statements.	Action is being taken to revalue all fixed assets owned by the Authority due to lack of adequate information on fixed assets purchased by the Authority prior to the year 2015.	Action should be taken in compliance with Public Sector Accounting Standards.
(b) In terms of Section 42 of Sri Lanka Public Sector Accounting Standard 7 relating to property, plant and equipment, the land of 0.28 hectares in extent granted as a donation on 09 January 2017 to the Sarathchandra Rajakaruna Memorial International Centre – Indurana, had not been valued and indicated in the financial statements.	Even though requests had been made on several occasions to the Valuation Department with the intention of valuation of the said land, they had not issued the valuation report so far relating thereto.	Action should be taken in compliance with Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Amortized Differed Grant Income had been identified as an income in the statement of financial performance, which was understated by Rs.3,221,352. As such, operating income of the year under review had been understated by the same value while the balance of the Differed Grant Income Account had been overstated in the financial statements by the same value.	It is expected to rectify the error occurred in the computation of Amortized Differed Grant Income through the financial statements of the year 2020.	Action should be taken to rectify in accordance with Sri Lanka Public Sector Accounting Standards.
(b) The operating income and receivables for the Energy Fund of the year under review had been overstated in the financial statements by Rs.1,005,550 each due to an error occurred in accounting invoices twice.	Action has been taken to restate and rectify the balance shown as receivables in accounts receivable for the Energy Fund, in the financial statements of the year 2020.	Correct balances should be maintained by making relevant adjustments.
(c) Hire charges of Rs.2,299,935 paid for equipment relating to the Asian Development Bank Project of which works had been completed, had been indicated under work-in –progress of the financial statements from several years. Nevertheless, action had not been taken to rectify it even in the year under review.	Action has been taken to rectify it through financial statements of the year 2020.	It should be brought to account correctly under relevant assets by checking information concerned.
(d) A sum of Rs.301,918 had been credited to another advance account by mistake, which was classified under other current assets and thus, the advance account balance had been understated in the financial statements by the same value.	Action has been taken to rectify it through financial statements of the year 2020.	Balances of the ledger should be maintained correctly by making adjustments.

1.5.3 Lack of Audit Evidence

Item	Amount (Rs.)	Audit Evidence not made available	Comments of the Management	Recommendation
Payments made to the University of Colombo for providing consultancy services relating to the Pooneryn Hydropower Project	9,192,859	Vouchers and supporting documents	A request has been made to the University of Colombo to issue receipts for payments to the financial division of the Authority as soon as possible.	Action should be taken to make available to Audit without delay.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken even up to 31 December 2019 to settle advances of Rs.3,246,466 granted under the Knowledge Management Project for zonal education programmes in 03 provinces in the year 2016.	Relevant zonal education offices have been informed with a copy to the Secretary to the Ministry of Education, to take prompt action to settle these advances.	Immediately after the purpose for which advances had been given was completed, they should be supervised and settled by the relevant Division.
(b) A sum of Rs.1,094,015 included in advances receivable was brought forward for a period from 01 year to 04 years and the Authority had not taken action even up to the end of the year under review to recover those moneys or to take other appropriate measures therefor.	Action has been taken to recover these moneys or to eliminate from books.	Action should be taken to review and settle advances granted, immediately after completion of the relevant purpose.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Sums of Rs.2,953,225 indicated as other payments and creditors in accounts as at the end of the year under review and Rs. 277,256 indicated as deposits payable were brought forward over a period from 01 year to 04 years and over a period of 05 years respectively and the Authority had failed even up to the end of the year under review to settle them.	Necessary action has been taken to settle these moneys.	Action should be taken to settle within the periods of accounts by reviewing creditors and other payable balances.

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

With Reference to Laws, Rules, Regulations etc.	Non-compliance Rs.	Comments of the Management	Recommendation
(a) Section 46(3) of the Sustainable Energy Authority Act, No. 35 of 2007	A total sum of Rs.48,678,878 had been withdrawn from investments of the Energy Fund, contrary to the objectives of the said Fund to lease a land for 30 years for construction of the Head Office building of the Sustainable Energy Authority and to prepare building plans thereof, during the period from 2015 to 2019.	The main building of the Sustainable Energy Authority has been designed under the Theme 'Energy Plus' and it is a demonstrated building to show the people that buildings can be invented with energy economy. "It is further informed that all these expenses have been incurred on the approval of the Board of Directors."	Action should be taken in compliance with the objectives of the Sri Lanka Sustainable Energy Authority Act and the Energy Fund.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka Paragraph 13.7 of Chapter II	Contrary to that, a total sum of Rs.13,588,002 had been paid as acting allowance, fuel allowance and transport allowance for acting posts from the year 2013 to May 2019 and action had not been taken to recover those moneys from responsible parties.	A Paper has been forwarded to the Board of Directors on 22/09/2020 for seeking the approval of the Board of Directors as the Appointing Authority. A sub-committee has been appointed by Boards of Directors for solving these problems.	Action should be taken in compliance with the Establishments Code of the Democratic Socialist Republic of Sri Lanka and circular instructions.

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| (c) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 454 | Inventory books had not been maintained in terms of Financial Regulations. | Action has been taken to maintain the new computer software subsequent to revaluation of assets. | Inventory books should be maintained in terms of Financial Regulations. |
| (d) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 757(1) | Assets had not been physically verified at the end of the year under review and the report thereon had not been presented to the Auditor General. | Physical verification on assets has been completed. | In terms of Financial Regulations, assets should be physically verified and the report thereon should be presented to the Auditor General. |
| (e) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 395(c) | Monthly Bank Reconciliation Statements had not been prepared relating to 05 bank current accounts maintained by the Authority. | Monthly Bank Reconciliation Statements have been prepared and attached herewith for your information. | Action should be taken in terms of Financial Regulations. |
| (f) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 396(d) | Action had not been taken in terms of the said Financial Regulation with regard to cheques valued at Rs.1,260,442 of which validity has expired. | Arrangements have been made to send letters thereon to transactors. | Action should be taken in terms of Financial Regulations. |
| (g) | Treasury Circulars Circular No.842 of 19 December 1978 | The Register of Fixed Assets had not been maintained in an updated manner for fixed assets valued at Rs.864,995,252. | Action has been taken to maintain the said Register in a proper and updated manner by installing software on computer subsequent to revaluation of fixed assets. | The Register of Fixed Assets should be maintained in a proper and updated manner in terms of the said Circular. |
| (h) | Public Enterprises Circulars Circular No. 12 of 02 June 2003 | A detailed register on expenses on overtime had not been presented monthly to the Board of Directors. | Action has been taken to present it to the Board of Directors. | Action should be taken in terms of the Circular. |

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| (i) | Public Administration Circulars Circular No. 28/2011 of 12 December 2011 | The Authority had paid a sum of Rs.14,861,000 as professional allowance from August 2016 to 31 December 2019 for officers holding the post of Engineer of the Authority, not falling into the category of Sri Lanka Engineering Service. | After referring to the Cabinet approval therefor, the Secretary to the Cabinet of Ministers had sought recommendations of the National Salaries and Cadre Commission on 29.10.2019. | As the said allowance is entitled to the Sri Lanka Engineering Service, such payments are illegal. |
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1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
The balance of the money received under the “Switch Asia” Programme amounting to Rs.4,548,176 had been deposited in a bank current account since the year 2011 and a sum over Rs.150,000,000 relating to the Energy Fund had been deposited in a savings account for several years without being invested effectively.	Action has been taken in terms of provisions in the Establishments Code relating to cash under the “Switch Asia” Programme and submitted for approval of the Secretary to the Ministry.	Action should be taken to invest effectively under relevant approval.

1.9 Information Technology (IT) General Control Systems

Audit Observation	Comments of the Management	Recommendation
Even though accounting has been commenced through a computerized accounting system by the Authority in the year under review, it was observed that General Controls relating thereto have not been implemented.	Using the computerized accounting system has been commenced in the year 2019 and as such, control systems could not be implemented in the said year.	General control systems should be introduced.

2. Financial Review

Financial Results

The operations of the year under review resulted in a surplus of Rs.43,440,808 as compared with the corresponding surplus of Rs.116,219,249 for the preceding year thus observing a decrease of Rs.72,778,441 in the financial result. The decrease of Rs.84,916,706 in the income from registration of solar power projects was the main reason therefor.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The assets and management of the Regional Centre for Lighting had not been properly entrusted to the Ceylon Electricity Board in the year 2012 by the Sri Lanka Sustainable Energy Authority. As such, the Authority had failed to recover the outstanding rental of Rs.8,033,270 paid to the Bandaranaike Memorial International Conference Hall Foundation (BMICH) from the Ceylon Electricity Board up to December 2020.	A letter has been forwarded to the Ministry and the Treasury requesting permission to identify the outstanding rental of the RCL (Regional Centre for Lighting) as an expenditure of the Sri Lanka Sustainable Energy Authority.	Appropriate action should be taken after consulting the Department of National Budget.
(b) Out of the 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 as professional allowances to all officers of the Authority in the years 2010 and 2011 contrary to provisions of the circular.	Action has been taken in terms of provisions in the Establishments Code relating to financial provision for the “Switch Asia” Programme and submitted for approval of the Secretary to the Ministry.	As it is an illegal payment, action should be taken to recover it.
(c) According to the report of the investigation carried out in respect of errors occurred in the revision of salaries of the employees from the beginning of the Sri Lanka Sustainable Energy Authority, the Authority had failed to recover salaries and allowances amounting to Rs.2,171,760 overpaid from	The committee appointed by the Board of Directors for formulating the absorption process was informed to study the above errors as a function thereof and to include it in the report and the approval of the Board of Directors has been received on 22.09.2020 for the said compiled report.	Obtaining necessary approval for implementing the report of the committee appointed by the Board of Directors.

the year 2007 to the year 2011 from the relevant officers or to correct it.

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| <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, the Authority had failed to take proper action to complete it or to recover the loss thereof, despite an elapse of 12 years up to 31 December 2019.</p> | <p>According to discussions of an independent arbitrator, the relevant party has proposed to create a vehicle which can display all three types and it has been submitted for the approval of the Board of Directors.</p> | <p>Action should be taken legally on agreements.</p> |
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3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Four three wheelers operated by solar power received to the Authority as a grant under a pilot project implemented by the Korea Energy Agency and the Authority have been handed over to the BMICH as the implementing agency on 13 December 2019. However, an agreement had not been entered into for collection of data relating to the pilot project. Moreover, it was observed that the project had not been utilized effectively for achievement of expected objectives.</p>	<p>The expected level of progress for the year 2020 could not be achieved due to the present situation. The engineers have been provided with training and necessary guidance.</p>	<p>In the achievement of objectives of the pilot project, action should be taken by entering into agreements.</p>

3.3 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
(a) The budgeted expenditure and the actual expenditure relating to the 04 main projects of the Authority for the year under review were Rs.207,400,000 and Rs.131,129,145 respectively, thus observing savings of Rs.76,270,855 representing 37 per cent of the total provision.	A problematic situation had arisen due to the Easter Attack on April 2019 and the methodology of spending monies (whether in terms of Financial Regulations of Sri Lanka or in accordance with methodologies of the UNDP) for the Biomass Energy Project and as such, expected objectives could not be achieved.	Budget should be reviewed periodically and a formal methodology should be prepared to get down details on expenditure to be incurred, to the Finance Division without delay.
(b) Provision of Rs.17,000,000 had been made for the year 2019 for the Indurana International Promotion Centre Project and it was observed that 55 per cent or Rs.9,405,534 of that had not been utilized during the relevant period.	Even though the said monies were allocated and they could not be spent during the relevant year, this project has been completed by now.	Monies estimated annually should be utilized within the relevant project period without delay.

3.4 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
According to the lease agreement No.631 of 22 June 2015 entered into between the Urban Development Authority and this Authority, only the plans had been prepared by spending a sum of Rs.23,290,653 up to the end of the year 2019 of the land of 75 perches in extent obtained for a sum of Rs.45,856,451 for the Authority on lease basis for a period of 30 years. However, action had not been taken to commence constructions.	Constructions could not be commenced according to the Government policy.	As there had been a long delay in commencement of constructions, attention should be paid relating to sources of providing alternative funds.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
The approved financial statements should be furnished to the Auditor General within 60 days after the closure of the financial year. However, the financial statements for the year 2019 had been furnished on 08 September 2020, with a delay of about 06 months.	The preparation of financial statements and obtaining approval of the Board of Management had delayed due to dearth of employees, maintaining accounts in both methods such as in books of accounts and in the computerized accounting system and due to the COVID 19 pandemic.	In terms of circular provisions, attention should be paid to prepare and furnish financial statements as due.

4.2 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
A Corporate Plan should be prepared at least for a period of three years with a short term and long term vision for the affairs of the Authority and accordingly, the Board of Directors had not taken steps to steer the Authority so as to achieve proposed targets.	A Corporate Plan was prepared for a period of 05 years and submitted to the Board of Directors. The Board of Directors had pointed out to pay due attention on investments necessary for development of sustainable energy in the country in the ensuing periods and action has been taken accordingly to obtain consultancy services.	A Corporate Plan should be prepared in terms of the circular.

4.3 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
The progress of the Action Plan prepared by the Authority had neither been reviewed nor a report prepared thereon as at the end of the year under review.	A performance report was prepared for the year under review.	The progress of the Action Plan should be reviewed and a report prepared thereon should be submitted to Audit.