

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Sustainable Energy Authority for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and statement of financial performance, 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 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 2022, 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 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 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 for 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 Section 16(1) of 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 Responsibilities for the Audit of 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 skepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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, misrepresentations or the override of internal control
- An understanding of internal control relevant to the audit was obtained 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 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
- 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 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 discussions 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 Audit observations on preparation of the financial statements

1.5.1 Non -compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance	Comment of the Management	Recommendation
(a) Since it had been accounted 03 fixed deposits of 06 and 08 months worth of Rs.150 million to be accounted as the current assets in terms of 76 paragraph of Sri Lanka Public Sector Accounting Standards 01 as investments, non-current assets had been overstated by such amount.	Even though some investments had been invested in the matured deposits which are less than one year, those had been invested on reinvesting basis and therefore, the action had been taken to show all investments under invested.	The action should be taken in compliance with Sri Lanka Public Sector Accounting Standards.
(b) Since 03 fixed deposits of 03 month worth of Rs.130 million to be accounted as cash and cash equivalents in terms of Paragraph 9 of Sri Lanka Public Sector Accounting Standards 02 had been accounted as investments, the non-current assets had been overstated by such amount.	Even though some investments had been invested in the matured deposits which are less than one year, those had been invested on reinvesting basis and therefore, the action had been taken to show all investments under invested.	-do-

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| (c) | The energy permit fee income of Rs.191.32 million received to Authority in the year under review for the renewable energy projects had been accounted as the income in the year under review without non-identification timely over permit period of time as per Sri Lanka Public Sector Accounting Standards 10. | The permit fee charged by the Sri Lanka Sustainable Energy Authority is a one-off fee. This permit fee is not an exchange transaction. Therefore, since it should be accounted as Sri Lanka Public Sector Accounting Standards 11, it had been accounted as the income for the year in which the money is charged. | The permit income should be accounted as the income over permit period of time timely as per Sri Lanka Public Sector Accounting Standards 10. |
| (d) | The fixed assets at a cost of Rs. 355 million and has a zero book value on 31 December 2022 were being further used and no action has been taken to revise it in terms of Sri Lanka Public Sector Accounting Standards 03. | The fixed assets register had been updated in 2023 and the necessary arrangement had been already taken to value the all assets. | The action should be taken in terms of Sri Lanka Public Sector Accounting Standards. |
| (e) | It had not been disclosed in relation to 263 dysfunctional equipment items on 31 December 2022 in terms of Sri Lanka Public Sector Accounting Standards 07. | This refers to the above answer (d). | The action should be taken in terms of Sri Lanka Public Sector Accounting Standards. |

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Since it had been accounted an advance amount of Rs.46.75 million which had been deposited in Punarin Divisional Secretariat for the payment of compensations for the acquisition of lands to Punarin Solar and Wind Power Project as the project expenses, the profit had been understated in the year under review by the same amount.	Since it is an expense incurred against the income of the year, an amount of Rs.46.75 million provided for the payment of the compensation for the acquisition of the lands for Punarin Project had been accounted as an expense incurred in 2022 for the project. The overall expected expenditure is Rs. 187 million and since a huge loss will be shown in the financial statements of the Authority in that year, it had been noted as an expense against to such income in the year of payment.	Since the relevant compensation had not been made at the end of the year under review, it should be shown as an advance in the financial statements.
(b) Due to not accounting survey charges and project feasibility study expenses of Rs.23.7 million which had been incurred	It had not been commented.	The transaction should be accurately classified and accounted.

by the Authority in the preceding years for Punarin Project as project expenses but accounting as work in progress, the retained earnings had been overstated by same amount at the end of the year under review.

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| (c) | The electric fence constructed around the land of Hambanthota solar power station in 2009 had not been accounted as fixed assets having valued. | In 2023 the electric fence had been revalued and the necessary arrangements had been taken to show it in the financial statements. | Having identified the all non-current assets, the action should be taken to account them. |
| (d) | A lease amount of Rs. 780,000 to be received for a crown land leased by the Authority in 2020 for small hydro power station had not been account ted. | The action had been taken to rectify this in the financial statements in 2023. | The amount receivable should be accounted having accurately identified. |
| (e) | Even though a letter had been submitted on 08 November 2022 by the Authority to the Indian Company Which was the developer of the relevant projects for the reimbursement of the expense of Rs.261.7million incurred by the Authority since 2017 for Punarin solar and wind power project and Mannar wind power project (second phase), it had not been reimbursed even at the end the year under review. Furthermore, it had not been entered into a formal agreement with the relevant company in relation to the expense reimbursements and the money receivable from such company had not been disclosed in the financial statements. | A letter had been forwarded to Indian foreign investment company for expense reimbursements and since an invoice had not been issued for that, the action had not been taken to be identified as an income in the financial statements 2022. | It should be formerly entered into agreement with the client and the suitable adjustments/disclosures should be made in relation to money receivable for the projects in the financial statements. |
| (f) | The application fee had been charged by Rs.30 million less for 600 MW by the Authority for renewable energy project | In terms of the instructions given the action will be taken to charge the outstanding application/ registration fee in addition to energy | The disclosures in relation to receivable registration fee should be made in the financial statements. |

which had applied for 700 MW. The fees had been charged less like that owing to non-verification by the Ceylon Electricity Board in relation to the exact capacity which can be connected to the central network and it had not been disclosed in the financial statements about the remaining registration fee to be charged.

permit fee when issuing the energy permit to Sri Lanka Sustainable Energy Authority.

1.6 Non-compliance with laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comment of the Management	Recommendation
(a) Section 5(i) of the Sri Lanka Sustainable Energy Authority No.35 of 2007.	The Authority had issued energy permit in the name of Authority for 05 projects of 21.3 MW enabling to create conflict of interest. The application fee of Rs.1.6 million for 03 projects and the permit fee of Rs. 5.75 million for 01 project of 10MW had not been charged.	Even though 05 projects had been commenced by the Authority itself with the intension of introduction of timely novel technologies in order to promote the renewable energy and the private sector is not keen to directly contribute for that owing to non-implementation of such project within Sri Lanka presently and incurring a massive capital cost for that.. Since the functions of the institute should be implemented in order to achieve the objectives of the Authority, it had been expected to start a pilot project for this purpose and the Authority had not the capability of incurring the capital cost for that. Therefore, the approvals had been obtained related to the development of these all projects in accordance with a joint scheme with the private sector in terms of the powers vested to the minister in charge of subject as per section 5(n) of the Act.	The action should be taken not to occur the conflicts with the regulatory activities and the application and license fees specified for the issued licenses should be charged.

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

- (i) Section 1.2 of
Chapter II
- After recruiting a worker on contract basis through a private company without approval of the Department of Management Services for the post of Bungalow Keeper which is not an approved post in the Authority, an amount of Rs.913, 239 had been paid as salaries and overtime in the year under review.
- Since this is a recruitment made through Sri Lanka Energis, the money has to be paid as per the methods of that institute.
- The action should be taken in terms of the provisions of the Establishments Code.
- (ii) Section 1.4 of
Chapter XXXIII
- The statements with the conditions and the provisions approved by the minister had not been submitted with the requests made to the Attorney General for the preparation of the draft of the lease agreement for the lease of the land by the Authority. Moreover, even though the lease period of the lease agreement of lease prepared and approved by the Attorney General's Department is 02 years, it had been leased for a period of 20 years when leasing a land for mini hydro power station.
- Under Section 18(4) of Authority Act, the final approval for the project should be granted for 20 years and since the lease of land for such project should be covered the relevant period of time, an agreement had been signed for 20 years.
- The action should be taken in terms of the provisions of the Establishments Code and since it had not been specified the direct provisions in Authority Act in relation to the period of lease of the land, the approval of Attorney General's Department has to be obtained again for amending 02 years period of lease approved by Attorney General's Department as 20 years.

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| (c) | Financial Regulations of the Democratic Socialist republic of Sri Lanka

Financial Regulations 751 and 753 | Even though it had been mentioned that 20,000 LED bulbs had been purchased in February and March 2022 by incurring Rs.3.84 million by the Authority with an objective of distributing to other areas including Siyabalanduwa, such bulbs had not been formally issued to the responsible officers by showing in the inventory books. Similarly, any document which had been verified the distribution of those bulbs to the people had not been presented to the audit. | An internal investigation will be carried out having studied the facts required for this matter and the necessary action will be taken to be submitted to the Auditor General in due course. | The action should be taken as per the Financial Regulations and the internal investigation activities should be immediately completed and the action related to the facts disclosed from that should be taken. |
| (d) | Guidelines issued by Assets Management Circular No.04/2018 dated 31 December 2018 | The fair value had not been accounted having valued the fixed assets quinquennially by the Authority. | The fixed assets register had been updated in 2023 and the necessary arrangement had been taken to value the all assets. | The action should be taken as per circular provisions. |

2 Financial Review

2.1 Financial Results

The operational result for the year under review amounted to a surplus of Rs.225.8 million and the corresponding surplus for the preceding year amounted to Rs.181.8 million. Accordingly, it had been observed an improvement of Rs.44 million in the financial result. An improvement of Rs.182 million in application fee related to the renewable energy projects in the year under review had mainly caused for this improvement. Similarly, the project expenditure had increased by Rs.148.5 million as compared with the previous year.

3 Operating Review
3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>(a) Even though it had been informed to the Chairman of Authority by the letter No.PE/IA/22/VOL11 dated 03 December 2012 sent by Secretary of Ministry of Power and Energy to recover the professional allowance of Rs.3.1 million paid to the workers of Authority in contrary to Public Enterprises Circular No.95 of dated 04 June 1994 and Public Finance Circular No.PF/PE/5 dated 11 January 2000 in 2010 and 2011 from the money received to the Authority under a foreign project, the relevant money had not been recovered even up to September 2023.</p>	<p>The action will be taken to recover as per the instructions of the Secretary of Ministry and the officers who had been specifically engaged for such program will be given as per the letter No. SMRC/FIN/SLSEA/2021 dated 27.07.2021 sent by Secretary of State Ministry.</p>	<p>The action should be taken to promptly implement the instructions given by the chief Accounting Officer.</p>
<p>(b) An amount of Rs.7.8 million had been given to a private company by the Authority for the manufacturing of 03 electric vehicles in 2007-2009. The false information related to this had been provided to Committee on Public Enterprises held on 7 December 2012 by the Authority and it had been decided at the committee meeting held on 4 January 2013 headed by Auditor General to take the disciplinary action against the officers connected to this task and inform the actual situation in relation to this matter to Committee on Public Enterprises through Chief Accounting Officer. However, no disciplinary action had been taken against the relevant officers and pertinent task had not been completed even in</p>	<p>Subsequently the issue on this project had been referred to National Arbitration Council, it had been decided by Council on 21.11.2022 to be solved this issue by providing a one model to the Authority as a tool for promotion of electric vehicles technology based on the discussions held. Accordingly, this process will be carried out.</p>	<p>The necessary action should be taken to identify the responsible persons in relation to irregular payments and take disciplinary action against them and report the actual situation of this transaction to Committee on Public Enterprises.</p>

September 2023.

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| (c) | In terms of Section 8 of Sri Lanka Sustainable Energy Authority No.35 of 2007, a renewable energy resources development plan should be prepared as per the potentiality of renewable energy resources in each area and publish in the government gazette on the approval of the cabinet of ministers. Even though 16 years had elapsed from the establishment of the Authority, such plan had not been published in the gazette even in September 2023. | The renewable energy development plan completed as per the public opinions in trilingual had been submitted on 26 November 2021 for the approval of the cabinet of ministers which is required to be published in the gazette to the Secretary of State Ministry of Solar Power, Wind and Hydro Electricity Generation Project Development. | The action should be taken in terms of the provisions of the Act. |
| (d) | Even though the lands in extent of 11.4 hectares had been acquired by the Authority during 2011-2022 for 13 mini hydro power stations under Section 30 of the Act, the annual lease amounts had not been charged after formally leasing or transferring the tenure of such lands acquired in terms of section 32 of Act. | The 16 plots of lands out of 45 on which the tenure had been acknowledged by the Authority had been accurately leased and it is informed that the action will be taken to recover the exact lease amount with outstanding lease amounts having registered in Register Office after completion the title investigations under Section 9 of the Act in relation to remaining 29 plots of land. | Once the lands had been acquired for the relevant projects, the lease agreements should be immediately entered enabling to charge the lease amounts by the government since that date after registering such lands as government lands. |

3.2 Operating Inefficiencies

Audit Observations	Comments of the Management	Recommendation
(a) Even though the application fee of Rs.280 million had been charged for 1,268 renewable energy projects of 6,128MW from 2007 to 2022 by Authority, the energy permits had not been issued even up to August 2023 to the pertinent applicants .Furthermore, no necessary arrangement had been taken to promptly issue the energy permits to the applicants who had submitted the complete documents and to	Had not commented.	The measures should be taken to immediately issue the energy permits to the applicants who had fulfilled the all qualifications and the temporary approvals of the applicants with shortcomings should be cancelled and the opportunity should be given to the alternative

identify and cancel the provisional approval of the applicants who had sent the incomplete documents in terms of Section 3.5 of the Extraordinary Gazette Notification No.2261/18 dated 04 Januarys 2022.

applicants with the capability for that.

3.3 Uneconomic Transactions

Audit Observation

The approval of the procurement committee with powers for that had not been obtained having prepared a total cost estimate as per 4.3 of Government Procurement Guidelines when constructing a building with the energy efficiency by the Authority for the head office. An amount of Rs.23.3 million had been incurred for the design plans of the building up to 2020. Moreover, the approval of the cabinet of ministers had not been granted for the construction of this building up to December 2023 and the construction activities couldn't be commenced due to that reason. Accordingly, the above-mentioned expenditure had become an uneconomic transaction. A land had been obtained from Urban Development Authority on 30 years lease in Battaramulla area in 2015 by incurring Rs.41 million for this purpose. As per condition No.1.8 of relevant lease agreement, the construction activities had not been commenced within 03 months from the date of agreement and failure to complete the construction within 2 years, it had been observed that the ownership of the lease property will be transferred to Urban Development Authority again.

Comment of the Management

As per the notice made by Secretary that the necessary measures should be taken to establish the head office of the Authority outside the Authority as per the guidance of the Ministry, this plot of land had been obtained on lease basis in 2015. A cabinet memorandum for obtaining approval related to construction of building had been submitted to the cabinet of ministers on 18.02.2022. Due to Covid pandemic and the prevailed economic crisis in the country, it had been decided to postpone this project as per the instructions given by the secretary of Ministry. The steps had been taken to submit a Board of Directors paper by Authority in order to revise the lease conditions.

Recommendation

- (i) In terms of the Government Procurement Guidelines, the procurement activities should not be commenced without a formal approval and the responsible persons in relation to incurring uneconomic expenses should be identified.
- (ii) The action should be taken to amend the conditions of the lease agreement not occurring disadvantage to the Authority.