

Atomic Energy Authority - 2014

The audit of financial statements of the Atomic Energy Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 32(3) of the Atomic Energy Authority Act, No. 19 of 1969. My comments and observations which I consider should be published with the annual report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and 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.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 -1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgements, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Atomic Energy Authority as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)

The following observations are made.

- (a) According to the accounting policies of the Authority, the financial statements had been prepared on the basis of SLPSAS. However, it was observed that both SLPSAS and Sri Lanka Accounting Standards (LKAS) had been applied for the preparation of financial statements of the year under review.
- (b) The Authority had not revalued its property plant and equipment to ensure that the carrying amounts did not differ materially from their fair value, which would be determined at the balance sheet date, as stipulated in **SLPSAS 7 – Property, Plant and Equipment**. Further, historical cost of the fully depreciated assets, which had been continuously used, as at 31 December 2014 was Rs. 129.39 million.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs. 15 million had been received from the Ministry of Technology and Research to settle the financial obligations of the Government of Sri Lanka to the International Atomic Energy Agency (IAEA) in respect of Regulatory Budget (RB) payable amounting Rs. 16,826,190 for the year under review and the previous years. However, the Authority had settled only a sum of Rs. 14,864,257 by using that funds and accordingly, the balance due as at 31 December 2014 was Rs. 1,961,933. Further, the grant received from the Ministry and the amount paid by the Authority to settle the dues had not been accounted for, and only the balance of the funds received from the Ministry amounting to Rs. 136,049 had been shown under trade payable in the financial statements for the year under review.
- (b) The total purchase cost of the 250 KCi of Cobalt 60 source, which had been used in the Multi-purpose Gamma Irradiation Facility (MGIF) Project, amounting to Rs. 121,144,190 had not been taken in to the accounts of the Authority, and instead, a sum of Rs. 33,156,406 incurred by the Authority during the year 2014 and the decay cost amounting to Rs. 14,052,726 had been accounted in the MGIF Project Account and shown in the financial statements under the receivable from the Ministry of Science and Technology (MGIF Project) Account as at the end of the year under review. Further,

the amount shown in the financial statements as receivable from the Ministry had not been got confirmed. However, the income generated from the MGIF and the other expenditure incurred by the Authority in respect of that facility in the year 2014 amounting to Rs.44,008,113 and Rs. 35,020,267 respectively had been taken into the financial statements of the Authority. Hence, the transactions of the MGIF for the year 2014 had not been fairly reflected in the financial statements.

2.2.3 Unexplained Differences

A difference of Rs. 276,517 in respect of property plant and equipment had been observed between the amount shown in the financial statements and the amount shown in the fixed assets register and the reasons for the difference were not explained to audit.

2.2.4 Accounts Receivable and Payable

Out of the trade receivables of Rs. 4,803,479 as at the end of the year under review, a sum of Rs. 1,867,801 were remained outstanding for a period ranging from one to nine years without being recovered.

2.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) The documentary evidence for the verification of scientific equipment and unusable items aggregating Rs. 9,639,453 included under the advance payment for scientific equipment and non-current assets respectively in the financial statements had not been furnished to audit.
- (b) Details and records relating to custody, distribution and usage of radioactive materials amounting to Rs. 13,952,795 and some other similar materials (the value of which had not been identified) handed over to the Authority in the year 2012, and details of services provided using them were not made available to audit.
- (c) International Atomic Energy Agency (IAEA) expects the Authority to complete the Projects within the given time period with the coordination of relevant Recipient Institutes and Counterpart(s). However, information relating to the utilization of funds approved by the IAEA was not made available to audit. Hence, exercising of control over the following areas by the Authority was not ensured in audit.
 - (i) Activities of the Projects approved by the IAEA and recording and reporting of the progress thereof.
 - (ii) Efficient and effective allocation and utilization of funds provided by the donor agencies for approved Projects.
 - (iii) Present performance relating to implementation of Projects.

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

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance
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(a) Public Finance Circular No. 02/2014 of 17 October 2014	The existence of fixed assets in some Sections such as Sri Lanka Gama Centre (SLGC) and National Centre for Non-Destructive Testing (NCNDT) of the Authority as at 31 December 2014 had not been verified.
(b) Section 7.4.4 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance	A Training Committee (a sub-committee of the Board of Directors) had not been established by the Authority to formulate the procedures relating to selection of individuals for local/foreign training. Further, there were instances that the Board members had participated in repeated overseas visits instead of allowing the most suitable officers to participate.
(c) Management Services Circular No. 05/2014 dated 21 November 2014.	The employees who work in Government Corporation which have recorded a loss during the previous financial year and failed to reduce the loss as compared to the last financial year were only entitled for Rs.2,000 of bonus for the year 2014. However the Authority had paid Rs. 13,500 per employee as bonus and the total amount so paid for the year 2014 without considering the instructions in the Circular was Rs. 1,705,364.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority during the year under review had resulted in a deficit of Rs. 25,596,777 as compared with the corresponding deficit of Rs. 15,176,945 for the preceding year, thus indicating a further deterioration of Rs.10,419,832 in the financial results.

Even though, the total revenue had been increased by Rs.50,637,815 or 38.5 per cent during the year under review, the increase of total expenditure as compared with the preceding year by Rs.61,057,648 or 41.6 per cent was the main contributory factor for this deterioration in the financial results.

4 Operating Review

4.1 Management Inefficiencies

(a) Sri Lanka Gamma Centre

Multipurpose Gamma Irradiator Facility (MGIF) Project was initiated by the Authority as a BOI Project with the approval of the National Planning Department of the General Treasury in the year 2006 and located within the leased out premises to the Ministry of Science and Technology for 30 years at the Biyagama Export Processing Zone. The commercial activities of the Project had been commenced in February 2014 and the following observations are made in this regard.

- (i) The Authority had not entered into a memorandum of understand (MOU) or an agreement with the BOI as the lease holds right of the land is still remaining under the Ministry of Science and Technology. The amount incurred by the Ministry for this Gamma Centre was Rs. 746.6 million.
- (ii) The ownership of the Centre had not been transferred to the Authority even up to 31 August 2015.
- (iii) The Project had obtained only the ISO 9001:2008 Quality Management System which is sufficient only for providing services to the suppliers who providing products for the local market. However, the Project was unable to obtain the international quality standard certificate (ISO 13485:2003 Quality Management System) which required to achieve the international quality standards requirements particularly to provide services to suppliers who cater to the international market relating to the medical devices. Accordingly, the provision of services by the Project was not focused the entire requirement of the country. It was further observed that there were some other institutions functioning in the market providing same services at high quality level.
- (iv) Even though the designed activity of the radioactive source of the Project was 3,000 Curies (kCi), it had been used only the radioactive source of 250kCi. Therefore, it was observed that the total capacity had not been optimally utilized by the Project.
- (v) The approved cadre was not aligned with the designed Human Resource (HR) requirements of the Project and therefore, expected level of operations and marketing targets could not be achieved.

4.2 Idle and Under Utilized Assets

A computer software package purchased for a sum of Rs. 389,375 during the year 2011 for the purpose of stores automation had been fully depreciated as at 31 December 2014. However, that software package had never been used for the intended purpose.

4.3 Matters in Contentious Nature

The Authority had paid a sum of Rs. 2,153,424 for the opening ceremony of the Sri Lanka Gamma Centre, which was organized by the Ministry of Technology and Research in contrary to the provisions in Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines for Good Governance

4.4 Fruitless Expenditure

Fifteen items of radioactive materials amounting to Rs. 1,440,000 had been purchased during the year under review. Nevertheless, the similar materials were made available in the stocks of the Authority without being utilized.

4.5 Human Resources Management

39 vacancies in different categories of the permanent staff, including 4 in Senior Grades, 23 in Secondary Grades and 12 in Primary Grades were observed at the end of the year 2014, which showed the failure of the Authority to maintain a realistic cadre level by reviewing periodically.

5 Accountability and Good Governance

5.1 Internal Audit

The Internal Audit Division consists of only one officer, and some other additional works had also been assigned to the Internal Auditor. Accordingly, it was observed that the internal audit functions had not been appropriately designed and implemented to monitor the internal control system of the entity.

5.2 Audit Committee

Instances of non-responding by the Board of Directors for the recommendations of the Audit Committee were observed.

5.3 Procurement Plan

Even though a procurement plan had been prepared by the Authority, it had not been in line with the Action Plan and the Budget prepared by the Authority for the year under review.

5.4 Budgetary Control

Significant variances were observed between the budgeted and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6 Systems and Controls

Significant deficiencies observed in systems and controls 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.

- (a) Control over Property, Plant and Equipment
- (b) Debtors and Other Receivables
- (c) Compliance with Laws, Rules, etc.
- (d) Procurements
- (e) Utilization of Resources
- (f) Human Resources Management
- (g) Assets Management
- (h) Budgetary Control