

Sri Lanka Atomic Energy Board - 2015

The audit of financial statements of the Sri Lanka Atomic Energy Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in 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 the Section 13(1) of the Finance Act, No.38 of 1971 and Section 76(3) of the Sri Lanka Atomic Energy Act, No.40 of 2014. My comments and observations which I consider should be published with the Annual Report of the Board 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 Auditing 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 judgment, 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 Board'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 Board'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 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 Establishment of the Sri Lanka Atomic Energy Board

The Atomic Energy Authority established under the Atomic Energy Authority Act, No.19 of 1969 had been repealed with effect from 31 December 2014 and Sri Lanka Atomic Energy

Board and Sri Lanka Atomic Energy Regulatory Council had been established with effect from 01 January 2015 under the Sri Lanka Atomic Energy Act, No.40 of 2014. The promotion and encouragement of the utilization of the nuclear science and technology for the purposes of national development are done by the Sri Lanka Atomic Energy Board. The net assets of the Atomic Energy Authority valued at Rs.864,205,322 had been vested in the Board at the establishment of the Board.

1.5 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 Sri Lanka Atomic Energy Board as at 31 December 2015 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

According to the Sri Lanka Public Sector Accounting Standards 07, when there are significant differences between the carrying value and the fair value of items of property, plant and equipment those should be revalued. Nevertheless, the assets which had been valued at cost over the long period had not been revalued at the time of vesting in the Board.

2.2.2 Accounting Policies

The basis of depreciation of the Cobalt 60 Source shown under the property, plant and equipment had not been disclosed in the financial statements. The depreciation of the Cobalt 60 Source, recognized in respect of the year 2013 before the commencement of commercial activities of the Gamma Centre under the Atomic Energy Authority in the year 2014, amounting to Rs.10,044,000 had been brought to account as deferred expenditure. Even though it had been stated under the disclosures in the financial statements that the said amount will be written off against the future earnings, either that expenditure or a part thereof had not been written off against the income earned in the years 2014 and 2015. That amount had been shown as a deferred expenditure even in the Statement of Financial Position as at 31 December 2015 without recognizing a specific policy on the write off.

2.2.3 Unexplained Differences

The following observations are made.

- (a) Reconciliation of the value of the property, plant and equipment appearing in the financial statements with the value appearing in the Register of Fixed Assets revealed a difference of Rs.280,406.
- (b) Reconciliation of the income in the statement of financial performance of the National Centre for Non-destructive Testing presented with the financial statements with the relevant schedules revealed a difference of Rs.817,434.

2.2.4 Lack of Evidence for Audit

The transfer of 07 items of fixed assets of book value amounting to Rs.190,768,275 of the Atomic Energy Authority had been transferred to the Sri Lanka Atomic Energy Board on 01 January 2015 without carrying out a physical survey. As such confirmation of the existence of those assets could not be obtained in audit.

2.3 Accounts Payable

Action had not been taken during the year under review for the settlement of a sum of Rs.16,601,305 payable to the Employees' Provident Fund.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following Laws, Rules, Regulations and Management Decisions were observed

Reference to Laws, Rules and Regulations

Non-compliance

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 371(2)

Even though the sub-impressts should be settled immediately after the completion of the purpose, an audit test check revealed that advances granted in 19 instances from January to August of the year under review had been settled after delays ranging from 47 days to 320 days.

- (b) Public Enterprises Circular No.95 of 14 June 1994

The Board had paid a sum of Rs.1,950,000 as Incentive Allowance for the year 2015 to its employees without formulating an Incentive Allowances Scheme and obtaining the approval of the General Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Board for the year under review had resulted in a deficit of Rs.20,985,772.

4. Operating Review

4.1 Performance

According to the Sri Lanka Atomic Energy Act, No.40 of 2014, the objectives of the Board are the promotion and encouragement of the peaceful application of the nuclear technology and provide services using that technology, conduct of researches in that connection, the promotion of new strategies and providing assistance in that connection, supply of services for protection from radiation and engage in activities involving ionizing radiation and complementary techniques for commercial and other purposes.

4.2 Management Activities

The following observations are made.

(a) The Multipurpose Gamma Irradiator Facility Centre had been constructed as a Board of Investment Project at a cost of Rs.746.6 million on a land obtained on a 30 year lease by the Ministry of Science and Technology. That Centre had been vested in the Board in the year 2015 and the following observations are made in that connection.

- (i) The chief customer who contributed 97 per cent of the income from sale of services in the year 2015 was lost by the Centre and the machinery operations of the Centre had been ceased from 28 January 2016. The income for the first quarter of the year 2016, as compared with the first quarter of the year 2015, had decreased by 72 per cent. As the Gamma Centre had depended on a single institution for the sale of services, the Centre had encountered a risky situation regarding the future operations. An adequate course of action had not been adopted to identify the potential future risk and to identify and encourage the alternate customers in the future.
- (ii) Even though the operations of the Centre had been closed down as (i) above, any clear decrease in its recurrent expenditure as compared with the expenditure of the operating period was not shown. The allowances such as the special overtime, holiday pay, etc. paid to the employees for operating periods had been paid continuously without the approval of the Department of Management Services.
- (iii) The attention of the Government had not been paid to direct the orders of the Government institutions to the Sri Lanka Gamma Centre for irradiation facilities by utilizing the resource of the Sri Lanka Gamma Centre which is the only government institution having irradiation facility and explore the possibility of saving foreign exchange.

(b) The following observations are made in connection with the relocation of the building complex of the Board at the Malabe Information Technology Park.

(i) Even though a Project Director had been appointed from August 2015 for the relocation activities, he had been paid salaries and other allowances amounting to Rs.516,946 up to 31 December 2015 without entering into an agreement containing the particulars of his functions and terms and conditions of service.

(ii) All activities related to the construction of buildings for relocation had been completely ceased with effect from June 2015 due to the objections raised by the people of the area that the activities of the Board may result in problems to the environment and adverse impacts on the health of the general public. As the construction work had been ceased over a period of about 10 months up to the date of audit resulting a delay in the relocation work, the possibility of creating the following adverse situations was observed.

- Delays caused to the proposed New Kelani Bridge Project due to the delay in relocation of the Board from Orugodawatta to Malabe resulting in raising the cost of that Project and the delaying benefits accruing to the general public from early completion of the Project.
- In view of the delay in broadening of the activities of the Board the benefits that would accrue to the country through the utilization of nuclear science and technology would also be delayed.

(c) A sum of Rs.820,000 had been paid by 31 December 2015 for the new Accounting Software System introduced to the Board. Action had not been taken even up to 24 May 2016 to get the system examined by a Consultant to find out whether it is functioning properly. Even though a manual set of books should be maintained until the employees are competent to carryout the work with the software system, the parallel run had not been maintained according to the books for the year 2015. As such an assessment of the errors of the software system could not be obtained.

4.3 Transactions of Contentious Nature

Procurement work had been done and supplier had been selected for the supply, transport and install Cobalt 60 Source 250KCi for the improvement of the capacity of the Sri Lanka Gamma Centre and a sum of Rs.125,000,000 for that had been received on 28 December 2015 from the Department of Treasury Operations. Nevertheless, ordering for the Cobalt 60 Source had been stopped by the date of audit on 27 April 2016 for economic reasons as the Centre had been deprived of the major customer's order instead of the expected improvement of the orders. Even though the Treasury had specifically emphasized that the provisions of Rs.125,000,000 should be utilized only for the intended purpose, money had been deposited in a Savings Account on 18 January 2016 on the approval granted by the Board of Directors on 08 January 2016 without obtaining the approval of the Treasury.

4.4 Idle and Underutilised Assets

The Computer Software Package for automation of the Stores purchased by the Atomic Energy Authority in the year 2011 for Rs.389,375 had been fully depreciated by 31 December 2014 and that had been eliminated from use without making any use of the system.

4.5 Staff Administration

The following observations are made.

- (a) Even though the approval for two senior level posts of Director Finance and Director Administration had been obtained on 04 December 2015 for making two Independent Divisions for Finance and Administration of the Board, those two posts remained vacant up to 15 October 2016. The duties of those posts had been covered by the Senior Deputy Director (Finance and Administration) holding an unapproved post. The independence of the Divisions had not been ensured.

- (b) Even though a post of Plant Operations Manager had been approved for the Sri Lanka Gamma Centre, the operation and maintenance of the plant had not been subjected to the supervision of a professionally qualified officer as that post remained vacant.

5. Accountability and Good Governance

5.1 Internal Audit

An adequate part of the Internal Audit Plan had not been covered as adequate staff had not been assigned to the Internal Audit Division.

5.2 Procurement Plan

Even though the Board had prepared a Procurement Plan, that was not in conformity with the Action Plan and the Budget prepared.

5.3 Budgetary Control

The budget had been revised in 5 instances during the year under review. Variances ranging from 32 per cent to 294 per cent had existed between the budgeted expenditure and the actual expenditure under 14 Objects. As such it was observed that the budget had not been made use of as an instrument of effective management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

(a) Fixed Assets Control

(b) Staff Administration

Observations

An adequate attention had not been paid for the valuation, recording and protection of the property, plant and equipment and for the efficient utilization of the resources of the Board.

Duties had not been properly assigned among the employees and action had not been taken to settle the existing salary anomalies.