Ceylon Electricity Board – 2018

--

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Electricity Board ("the CEB") and its Subsidiaries ("the Group") 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 consolidated financial statements, including a summary of 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 report to Parliament appear in this report. The financial statements of the Subsidiaries other than the Lanka Coal Company (Pvt.) Ltd and Sri Lanka Energies (Private) Ltd. were audited by the firms of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiaries and by me, while the financial statements of the Lanka Coal Company (Pvt.) Ltd. and Sri Lanka Energies (Private) Ltd were audited by me.

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

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's and Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

1.4 Audit Scope

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:

- 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, misrepresentations, 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 Board's and Group'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 Group'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 Group 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 Board and the Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board and Group has complied with applicable written law, or other general or special directions issued by the governing body of the Board and Group;

- Whether the Board and Group has performed according to its powers, functions and duties; and

- Whether the resources of the Board and Group 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 Consolidation

Audit Issue	Management Comment	Recommendation
The Qualified Opinions on the financial statements of the following companies for the year ended 31 December 2018 had been expressed by me based on the following observations.		
(a) **Lanka Coal Company (Pvt.) Ltd**		
i. The Company had been imposed a forfeiture of Rs. 205,000,000 by Sri Lanka Customs on non-declaration of correct transaction value of the coal imports during the period from 19 September 2016 to 09 April 2018 and the forfeiture was decided on 12 December 2018 prior to signing the accounts by the directors. However, provision had not been made for the contingent liability in the financial statement for the year under review.	This is identified as a contingent liability and makes required disclosure under Note 25 in financial statement of LCC by giving the reasons for not making provision.	Provision should be made for the liability in the financial statement.

ii.	Difference of Rs. 100,327,636 had been observed between the liability of Economic Service Charge shown in the return and the financial statements of the Company as at 31 December 2018.	This is an inadvertent under provision caused due to a delay in issuance of the VAT invoices by LCC. The delay was caused due to irregular receipt of bills/reimbursement receipts from service providers. LCC will pass entries for the under provision in 2019 since the invoices issued for 2018 as a whole by now.	Internal control should be strengthening to recognize the liabilities in the relevant period.
iii.	When importation of coal, a mark-up of 10 per cent added to the value at the point of Customs as a notional adjustment in ascertainment of the value for custom purpose which is not actually incurred. However, the Company had been added such 10 per cent mark-up amounting to Rs.3,723,718,278 to the revenue and later the Company had given such amount as discount to the debtor and charged to the cost of sale. As a result, the cost of sales and revenue had been overstated by similar amount.	LCC was given a directive to add the customs margin to cost in the issuance of VAT invoices to CEB. This pricing mechanism was adopted following a meeting held in the Ministry on 28th June, 2018 with the attendance of an official from Inland Revenue Department (IRD). IRD official is on record and minute having told that LCC's base value for VAT on invoices to CEB cannot be less than the value for customs purposes. The 10% is, therefore, added solely on the directive of IR official. Since then CEB has challenged the directive and written to IR by their letter dated 2018-09-07. The CEB is expecting a response from IRD to the letter. Until such time we add 10% customs margin to invoice but do not remit any excess output VAT to IRD in the interim pending issuance of a ruling by IRD. Hence the reason for the apparent overstatement of revenue.	Record should be maintained in accordance with the requirements of Sri Lanka Accounting Standards.
iv.	The Company had failed to recover the receivable balance amounting to Rs. 539,192,079 from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL) with regard to short delivery of coal from agreed settlement method even though six years had been passed and provision	Taurian Iron and Steel settlement was handled by a high level committee. The committee has not opined that the debt is bad and even the buyer has consented to settle the dues by supplying coal. According to information in our possession the settlement proposal has been submitted for determination by the Cabinet.	Immediate action should be taken to recover the outstanding balance.

	also had not been made for the impairment.	According to CSCL the decision of the cabinet of the Ministers is still awaited. Neither CSCL nor the committee report had opined that the balance was irrecoverable but rather there was no consensus as to the modality of settlement. Therefore, there is no evidence of impairment for a certainty.	
v.	Brought forwarded Economic Service Charges (ESC) receivable and Withholding Tax (WHT) receivable aggregating to Rs. 971,868, Income Tax payable amounting to Rs. 65,474,540 and Nation Building Tax (NBT) receivable amounting to Rs. 3,371,326 and Value Added Tax (VAT) receivable amounting to Rs.12,758,801 which could not be verified in previous year audit been charged against retained earnings as prior year adjustment. However, the nature of the prior period error had not been disclosed in the financial statements.	LCC has given descriptive notes (Nos. 21, 23) in the Financial Statements of LCC for the year 2018 about each individual amount mentioned above as follows. **<u>VAT</u>** Input VAT which has been accounted for as a receivable of Rs.12, 758,801 at the end of 2017 was adjusted to reflect the correct position. LCC has written to the Inland Revenue Department (IRD) inquiring to the possibility of receiving a refund of input VAT. IRD by their letter dated 2018-06-14 explained that in terms of section 22(5) of VAT Act No 14 of 2002 the input VAT paid by the company shall not be refunded. Accordingly, having obtained the Board permission at the meeting held on 2018-07-26 the above receivable amount was adjusted. **<u>NBT</u>** NBT paid by the company in the past had been accounted for as a receivable and stood at Rs.3,371,326 at the end of 2017. LCC being an importer and trader of coal is not entitled to claim refund of NBT paid. Therefore, Board permission was obtained at the meeting held on 2018-07-26 to adjust the above balance from the balance sheet. **<u>Income Tax</u>** The Inland Revenue Department confirmed in writing that the outstanding income taxes were only	The nature of the prior period error should be disclosed in the financial statements.

	Rs.2,049,484 and Rs,3,590,678 for the years 2014/2015 and 2013/2014 respectively. Therefore, tax payable of Rs.11,703,151 which was no longer necessary was adjusted with the approval of the Board of Directors at the meeting held on 2018-07-26. There was a further extra provision of Rs. 65,474,540 for income tax. This too was no longer necessary according to written confirmation of Income tax liability from IRD referred to above. Therefore, the excess provision was reversed with the permission of the Board leaving out the payable as per written confirmation from IRD. **<u>ESC/WHT</u>** Irrecoverable ESC and WHT totaling Rs. 971,868 also formed part of the approval received from the Board to write off long outstanding unsubstantiated tax balances.	
vi. Brought forwarded receivable balance of "Tax to be borne by Ceylon Electricity Board (CEB)" amounting to Rs. 12,241,774 shown in the financial statements had been charged against the retained earnings even without the Board approval. However, it could not be verified the accuracy of the accounting treatment since details are not made available for audit.	There is no long outstanding tax liability apart from income tax liability for the years 2014/2015 and 2013/2014 of respectively 2,049,484 and 3,590,678 as confirmed by IRD in writing. Therefore, the above receivable from CEB which does not correspond to payables for tax was written off.	Internal control should be strengthening for transactions and evidences should be maintained to ensure the accuracy of the transactions.
vii. VAT payable on reimbursement expenses amounting to Rs. 8,896,850 had not been accounted in the VAT control account. Hence, VAT liability had been understated by the similar amount.	As per the audit query itself these are re-imbursements for which LCC possess bills. There is no margin added for LCC services. The tax consultant's advice was that re-imbursement of expenses is not liable for VAT.	VAT should be paid when expenses are being reimbursed since this expense is due to the main business of the company.

viii.	A sum of Rs. 15,870,104 payable to Ceylon Shipping Corporation Ltd (CSCL) in respect of lightering charges which was paid by Ceylon Electricity Board (CEB) had been neither paid to CSCL nor presented as an advance received from CEB. Further, the Company had not accounted the aforesaid lightering charges as payable to CSCL though they have obtained the fund from CEB to settle the charge.	The above amount does correspond to VAT on lightering charges and not form part of charges for lightering service. LCC did not pay the amount to CSC because Inland Revenue issued a ruling making lightering liable for VAT @ 0%. In the meantime, customs department issued final VAT assessment up to shipment no 154 levying an additional assessment of Rs 67.7 million to the company. In order to avoid any recovery action by customs the above receipt was utilized to make a partial settlement of final VAT assessment. If LCC had not made this settlement there were indications of a possible clamp down on clearance of coal shipments.	The company should apply correct accounting treatment for transactions.
ix.	The balance confirmations and evidences relevant to verification of Rs.33,959,892 of Old Insurance Receivable from CSCL up to 154 shipment, Rs.66,307,336 of Ceylon Shipping Corporation Limited – Old payable, Rs. 18,075,801 of Misc Debtors, Rs. 4,677,508 of Receivable from CEB, Rs.1,760,500 of Other Receivable from CEB, Rs. 85,887,776 of Trade Creditors – Nobel Resources International Pte Ltd were not made available to the audit.	<u>Rs 66,307,336 old payable to CSC</u> This amount is held back from payable to CSC to compensate for old insurance receivable and excess VAT payment to Customs of respectively Rs. 33,959,892 and Rs. 26,506,919. Both these amounts are effectively the responsibility of CSC. <u>Old insurance CSC Rs 33,959,892</u> Minuted for CSC to absorb this insurance cost and CSC director has consented for set-off. These are respect of shipment nos. 79 to 154. The subject minutes can be made available for perusal. <u>Misc. debtors Rs. 18,075,801</u> Initial investigations revealed that the amount consists of overpayment to customs. Being further analysed. <u>Receivable from CEB Rs. 4,677,508</u> Amount left after settlement of the account with CEB in 2017. Being investigated to ascertain source/ origin.	Evidence should be available to audit to ensure the existence of the assets and liabilities.

		<u>Other receivable CEB</u> <u>Rs. 1,760,500</u> Amount left after settlement of the account with CEB in 2017. Being investigated to ascertain source/ origin. <u>Trade creditors Noble</u> <u>Rs. 85,887,776</u> Part of the amount under drawn by jNoble Resources Intl. Pvt Ltd due to expiry of LC validity.	
(b)	The Qualified Opinion on the financial statements of the Sri Lanka Energies (Pvt) Ltd had been issued by me mainly based on the non-compliances with Sri Lanka accounting standards including following matters.		
i.	The company had invested a sum of Rs. 7,364,447 as at 31 December 2014 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag with joint venture, Amtrad Holdings (Private) Limited and the joint venture agreement has been terminated and the asset has been idling due to non-availability of a business partner. Although the Board of Directors of the Company had decided to handover the asset to Ceylon Electricity Board and communicated said matter to the General Manager on 10 November 2016, the asset was not taken over by Ceylon Electricity Board by 15 July 2019. However, it was unable to obtain sufficient appropriate evidence on the recoverability of the costs incurred in this regard. And the Group had not	This investment in Ash Brick Project worth of Rs. 7.3 mn was a long outstanding qualification which was addressed by the audit and management committee of SLE to write a letter to CEB stating to acquire these land and buildings after a proper valuation and based on this said advise SLE could obtained valuation through the valuation department of Sri Lanka for a value of Rs. 2.6 mn which was confirmed through a letter by the valuation department dated on 31st May 2019. Will adjust the impairment loss in this.	The Group should be done impairment in relation to the Investment made on this project.

	done any impairment in relation to the Investment made on the above project.		
ii.	As per bank statement, term loan interest and penalty charges for the year under review were Rs.14,410,173. However, only a sum of Rs. 12,960,397 had been charged as interest and penalty charges. As a result, profit of the year under review had been overstated by Rs. 1,449,776.	Total financial expenses indicates as Rs.15,744,485 out of that Rs.12,836,150 was for interest on loans where the rest indicated the bank charges leasing interest and exchange Loss.	Record should be kept as per the details in bank statement.
iii.	The staff of the Company had been engaged in administrative activities of the subsidiaries and a sum of Rs. 21,556,883 incurred there on had been considered as staff administration expenses of the Company without being reimbursed, during the year under review.	As the subsidiaries have not been generating adequate surplus during the year the principle of charging management fees have not been effected. SLE will adhere this concept from 2019.	Expenses incurred by the company on behalf of the subsidiaries should be reimbursed.
iv.	Notes had not been provided in the financial statement for deferred tax assets, fixed deposits, income tax provision and retirement benefit liability.	Based on the decision had taken by the previous Board of Directors income tax & deferred tax calculations of SLE were handed over to an independent audit firm. Financial statements for year 2018 were finalized prior to receiving the said independent calculation due to the limited time frame and provision of Rs.875,214 was entered only as a provision of finalizing the financials. By now the said independent calculation received and SLE is in the process of finalizing the same.	Notes should be provided in the financial statement for deferred tax assets, fixed deposits, income tax provision and retirement benefit liability to understand the financial statements for users.

v. The Company had not provided sufficient appropriate evidence for other receivables, advance and prepayments, accrued expenses, retirement benefit obligation and lease creditors amounting to Rs.704,076 , Rs.797,264 , Rs.1,193,739 , Rs.466,223 and Rs.4,312,917 respectively. Therefore, it was unable to verify the accuracy of such balances in audit.	The said balances were submitted to the audit with the reply made for the draft opinion. This interest receivable is a long outstanding which need to be written off and SLE seeks Board approval for same.	The Company should provide sufficient appropriate evidence for other receivables, advance and prepayments, accrued expenses, retirement benefit obligation and lease creditors for the auditors to avoid audit qualifications.

1.5.2. Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The auditor of the Trincomalee Power Company Limited (TPCL) has emphasized the following matter on its financial statements. The company, which operated with the sole purpose of developing a 500 MW Coal Power Plant in Sampur has ceased the development activities of that Power Plant and the expenses previously capitalized has been written off during the year under review. Instead, Cabinet approval has been received to setup a 50 MW Solar Power Plant by TPCL on the same land provided to construct the Coal Power Plant in Sampur. Further, Cabinet approval has also been granted to develop a 500 MW LNG Power Plant at Kerawalapitiya. However, any improvement in respect of the development activities of the above power plants had not been carried-out even as at the end of year under review. Accordingly, this indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern.	Cabinet approval has been granted to develop 50 MW solar power project as proposed coal power project site in Sampur and development of a 500 MW LNG power project in west coast of Sri Lanka. On consultation of BOI, a Directive from the Secretory Ministry of Power, Energy and business Development has been given to undertake 500 MW LNG power project. Joint Venture Share Holder Agreement (JVSHA) for the LNG power project was signed on 2019-10-25. CEB, NTPC Ltd and Board of TPCL have previously decided to effect necessary changes to above JVSHA in preparing JVSHA for solar power project. It is expected that joint venture partners (Ceylon Electricity Board and NTPC Limited India) will take necessary steps to sign JVSHA of solar power project before 2019-12-31. It has been decided at the Board meeting held on 2019-06-28 that infusion of funds should be done on signing of JVSHA for solar power project for the initial development of project activities.	Necessary action should be taken to implement the new proposals to minimize deficit of power and emergency power purchases.

1.5.3 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) LKAS 2- Inventories and LKAS 16 – Property, Plant and Equipment		
The CEB is applying the standard cost method for valuing of labour, material and overhead costs of its capital and maintenance jobs, instead of applying the actual costs as per the provisions in the above Standards**.** As a result, the favourable material price variance and labour and overhead rate variances aggregating to Rs.5,532,199,136 and unfavourable stores price variance of Rs.1,356,322,492 arisen thereon had been brought to the financial statements. As a result of that, the operating results, assets, liabilities and equity of the CEB have been significantly affected due to high financial involvement in relation to the capital jobs. However, the impact to the financial statements thereon could not be ascertained in audit due to non-availability of required information relating to those capital jobs.	Other than the Distribution Division assets which are transferred from WIP all other Property plant and Equipment (Land, Building, Motor Vehicle, Machinery, and Office Equipment) are valued at actual cost which complies with the recommendations of LKASs. LKAS 02 -"Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the result approximates the cost". The reason for using the standard cost method for valuation of inventory by CEB is that, there should be a standard cost base to each customer in any area irrespective of the price changes of the materials. Further, large number of inventory items being used for line construction and other business activities where it is practically difficult to find actual cost. Labour rate is calculated based on actual average direct labour cost and it is absorbed to capital and maintenance jobs. Overhead rate is calculated using directly attributable overhead related to respective capital or maintenance jobs. The PUCSL guidelines for "Methodology for Charges" also defined that "Each licensee shall calculate Standard Prices for all items of material used for the provision of electricity supply services in the operational area. The standard prices so calculated shall be valid for a period of one year starting from 01st January to 31st December of any year"	Actual Cost or approximate cost base should be applied when valuing the stock.

		The present system does not support to split the price variances related to the capital jobs and the maintenance jobs due to the high volume of such jobs in the Distribution Divisions. This issue has been highlighted and discussed at the process study for the proposed ERP system. Action will be taken to find a solution for this issue with the implementation of ERP system in the future. A committee appointed to study the most appropriate method for valuation of inventory has recommended to apply “Weighted Average pricing method”. Meanwhile CEB is in the process of implementing ERP system with the Weighted Average inventory valuation method. When ERP system introduce in CEB these issues will be eliminated. Further until implementation of ERP system the committee has proposed to review the standard price bi-annually in order to further minimize the gap between actual price and standard price. Action had been taken to eliminate the labour rate variance from financial statements of Distribution Division 04 with effective from 2019. Inductions were issued to other three Distribution Division for the implementation of the same.	
(b)	LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors		
(i)	The spare parts worth Rs.302,590,349 and Rs.2,375,852,430 had been accounted under operational expenses and capital expenses respectively as per the instruction given by the Additional General Manager (Generation) without taking a firm policy decision by the	The Circular No:-GHQ/AGM (G)/Circular /2018/01 dated 2018-09-17 was issued on “Spare Parts of Generation Division – Demarcation of Capital Expenditure and Operating Expenditure” with effect from 2019-01-01. Action has been taken to record the transaction adhering to this circular with effect from 2019-01-01.	Transaction should be recorded adhering to the circular no. GHQ/AGM (G)/Circular /2018/01

	Board of Directors of the CEB. Hence, the reasonability of the basis applied for such classification could not be accepted in audit. Further, the basis applied for the classification had not been disclosed in the financial statements.		
(ii)	The useful lifetime of fully depreciated non-current assets which are being continuously utilized by the CEB had not been reviewed as mentioned in the accounting policies. For instance, fully depreciated four power stations and 1,116 numbers motor vehicles costing Rs.32,241,176,427 and Rs. 1,848,341,889 respectively are being still used without estimating the real life time.	Non-current assets of Generation Division, such as power plants are unique and complex in nature and there is no specific institution / guideline to carry out the reassessment of the life of the assets & Valuation. This issue will be further study. Fully depreciated Motor Vehicle using without revaluing The action will be taken to appoint a Committee to study the policy and to streamline the process.	The useful lifetime of fully depreciated non-current assets which are being continuously utilized by the CEB should be reviewed as mentioned in the accounting policies.
(c)	LKAS 16 – Property, Plant and Equipment		
	The fixed assets amounting to Rs.170,908,049,775 in the Transmission Division had not been physically verified during the year under review.	Action has been taken to physically verify the fixed assets of the Transmission Division.	The fixed assets should be physically verified in each year as per the LKAS 16.
(d)	LKAS 27- Provisions, Contingency Liabilities and Contingency Assets		
	Recoverability of Rs.2,312,756,993 invested in financial instruments by Employee Provident Fund (EPF) of the Board is doubtful due to non-existence of those financial instruments. The CEB is the custodian trustee of the Employee Provident Fund and therefore, ultimate responsibility for contingencies (if any) is remained with the Board. However, no provision or disclosure had been made in	As per the Paragraph 3.10 of the Conceptual Framework for Reporting Entity, A reporting entity is an entity that is required, or chooses, to prepare financial statements. Accordingly, the CEB Provident Fund is a separate entity managed through Rules of Provident Fund (Gazette no.1321/18 – 2003 -12-31). Provident Fund Rules required the Fund to prepare separate Financial Statement. Further, as per the clause 21(ii) of the Provident Fund rules "as at end of each financial year of the Board the	Provision or disclosure should be made in the financial statements of the Board regarding this contingent liability.

the financial statements of the Board regarding this contingent liability.	Committee shall make up the accounts of the Fund and furnish the same to the Board. In so making up the accounts of the Fund, the Committee with the advice of the Auditors of the Fund may create such reserves and make such provisions as the may think advisable”. Therefore ultimate responsibility for contingencies (if any) is remained with the Fund. Accordingly, required disclosures had been made in the financial statements of the Fund regarding this contingency.	
(e) LKAS 38 – Intangible Assets The amount of Rs.56,281,125 spend to purchase and develop software had not been identified as intangible assets as per the requirement of the standard and disclosure had not been made in the accounting policies.	Action has been taken to record the software as intangible assets as per the requirements of the Standard and disclosures will be made of the Financial Statement.	Software Purchased and developed should be identified as intangible assets as per the requirement of the standard and disclosure should be made in the accounting policies.

1.5.4 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Recoverability of investments made by the Pension Fund of the CEB amounting to Rs.403,717,966 and interest thereon amounting to Rs.16,045,328 were in doubt due to non-existence of those financial instruments. However, neither adjustment nor provision had been made in the financial statements in this regard.	Civil Case has been filed by CEB against Entrust Securities PLC in the District Court of Colombo under the Case Numbers DMR/1029/2018 to recover the Face Value and the Defaulted Coupon Interest Payments therein. The case has been fixed for Summons Returnable and the next hearing date is October 01, 2019. Further a settlement plan is being negotiated with Central Bank of Sri Lanka in which CBSL proposed to repay 50% of the Invested Amount with the Defaulted Coupon Payments and settle the remaining balance	Provision should be made in the financial statements in this regard.

		in Four (04) equal installments. In response to the said proposal, Chairman-CEB, Mr. W.B. Ganegala, by his letter dated October 4, 2017, expressed CEB's consent to the said proposal without prejudice to the right of the CEB to institute any legal action against Entrust Securities PLC to recover any unpaid value of the total investment. Subsequent to the said letter, several reminders have been sent inquiring the current status of the aforesaid Settlement Plan in response to said letters, CBSL has mentioned that the proposed settlement plan has been referred to Monetary Board of CBSL for approval.	
(b)	A debit balance of Rs.1,410,889,819 (stock shortage) and a credit balance of Rs.39,522,766 (stock excess) had remained in the Stock Adjustment Account for more than one year without being cleared.	Action has been taken by the respective division to clear the stock adjustment account frauds, shortages which are on legal action. Updates were given as Annex 01	Action should be taken to clear the stock excess and shortages within short period from the occurrence.
(c)	As per the decision No. 10/2434/423/034 of the Cabinet of Ministers, the CEB should repay the loan and interest thereon for the loan amount of Rs.159,184,187,965 obtained for the construction of Lakwijaya Power Plant to the General Treasury. However, the CEB had not paid or made provision for the above payments although the External Resources Department had paid an amount of Rs.3,281,749,986 during the year under review and Rs.21,966,051,905 up to 31 December 2017 as interest for the said loan to the lending bank. Therefore, loss for the year under review and retained earnings as at 31 December 2018 had been	By considering the outcome of key performance indicators of Financial Statements of Ceylon Electricity Board, the decision was taken by the General Treasury at the meeting held on 11th July 2018 as of total debt of Lakvijaya Power Plant to be converted to equity of GOSL. Therefore, it was unable to regularize by the General Treasury due to non-availability of budget allocations provided to Department of State Accounts during the year 2018. However, action has been taken to covert repayments & interest amounting to Rs. 20,499,241,722.25 to equity	Necessary action should be taken to adjust the books of CEB once the written direction received from Department of Treasury Operations or to pay the outstanding balances.

understated by Rs.3,281,749,986 and Rs.25,247,801,891 respectively.	which General Treasury has paid EXIM Bank of China during the year 2019. The CEB will take action to adjust the books of CEB once the written direction is received from Department of Treasury Operations.	
(d) The expenses incurred by the CEB on behalf of Employee Provident Fund maintains by the CEB amounting to Rs.41,421,524 had been treated as expenses of the CEB without being treated as receivable and as such, the loss for the year under review had been overstated by similar amount.	According to the clause 20 (i) of the Provident Fund Rules published under the Ordinary Gazette Notification No. 1321/18 dated 31st December 2003, Expenses of managing and administering of the Provident Fund including expenses directly attributable to the buying and selling of Investments shall be a charge on the funds of the BOARD, unless otherwise decided by the BOARD from time to time. Therefore inclusion of expenses pertaining to CEB Provident Fund, amounting to Rs. 41,421,524.00, into CEB's Financial Statements is in accordance with the aforesaid CEB Provident Fund Rules. Hence, it is not required CEB to record Provident Fund expenses as receivables in the Financial Statements of CEB.	CEB should amend the Employee Provident Fund rules and action should be taken to recover the expenses incurred by the CEB in administration of the fund.
(e) The jobs carried out by the CEB for supply, maintenance and repair of power generators, lifts and air conditioners of the government institutions prior to the year 2013 had been valued at cost, and accounted them accordingly, instead of accounting based on their invoice values. As a result, the receivables and retained earnings shown in the financial statements had been understated by Rs.66, 987,761.	It had been the practice of units coming under the purview of DGM (W&AS) serving the engineering estimates to government institutions in relation to the annual maintenance jobs carried out by CE (Power Plants), CE (AC & Ref.) and CE (Lifts), and recording the actual cost incurred by CEB until the estimated value is being recovered from the relevant government institutions, as the	The jobs carried out by the CEB for supply, maintenance and repair of power generators, lifts and air conditioners of the government institutions prior to the year 2013 must be valued at invoice values, and accounted them.

government institutions are very much reluctant to make the payments due to CEB on annual maintenance jobs. As a result, the CEB started issuing an invoice on quarterly basis to its clients for the work done from 2015.

However, persistent efforts have been taken to recover at least the cost incurred by CEB from the government institutions that were outstanding from year 2005 and it was unsuccessful.

Finally, due to the inability of taking legal action against the government institutions to recover the dues, as cited by the Attorney General, a full bad debt provision had been made in the Statement of Comprehensive Income of 2017 in this regard.

Recording the previous transactions (prior to 2013) in the Financial Statements of 2018 at its invoiced value instead of the cost, as mentioned in the Audit Report, the net result on the Financial Statements would be insignificant even after converting the transactions that made prior to 2013, because of increasing the provision for overdue receivables by the same amount, in order to make the full provision to be on par with the receivables as of 2018.

As such, it is not agreeable with the statement that the receivables and retained earnings shown in the Financial Statements had been understated by Rs. 66,987,761.

(f) The amount of Rs.5 billion paid to the General Treasury as levy in the year 2016 is shown as other debtors instead of being charged to the equity statement.	In this regard General Manager – CEB requested clarifications from the Director General (Treasury Operations) with a copy to the Director General Public Enterprises, by his letter no. CEB/FM/GN/584 and dated on 2019-09-03. Director General, Department of Public Enterprises has given instruction by her letter no. PED/I/CEB/2/11/iii and dated on 2019-10-16 to treat Rs. 5Bn as Management fee paid to the Treasury and accordingly such cost will be accounted in the books and amortize over 10 years periods. (Annex 02)	The amount of Rs.5 billion paid to the General Treasury as levy in the year 2016 should be charged to the equity statement.
(g) The difference of Rs.253,187,075 was observed between receivable balance of the Lanka Coal Company and the payable balance of the financial statements of the Board due to record of coal purchases on Performa invoice. As a result, the cost of sales had been understated and loss for the year had been overstated by same amount.	This issue was addressed by the audit query 2016 (POE/C/CEB/FA/2016) and both parties (CEB/LCC) agreed to use value of Performa Invoice until final Tax Invoices are issued by LCC. Therefore, the outstanding balance as at 31.12.2017 was zero. But, LCC has changed this criteria to actual invoice basis in 2018. The reason to the difference is this change.	Records should be kept on invoice value of expenses and same accounting treatment should be applied by both parties.
(h)The CEB had not paid or made the provisions for the interest due to the General Treasury amounting to Rs.2,557,474,111 as per the conditions in Sub-loan Agreements and an additional interest ranging from 1 per cent to 2 per cent per annum have to be paid on delaying the above interest payment.	The provision for the interest payable to Treasury on project sub loans as per the terms & conditions of Sub Loan Agreement signed between Ceylon Electricity Board & General Treasury for the year 2018, has not been accounted by CEB as per decision taken at the meeting held on 11th January 2018 at the Department of Public Enterprises. It was agreed to convert into equity all the sub loans made to the CEB through	The CEB must be paid or made the provisions for the interest due to the General Treasury as per the conditions in Sub-loan Agreements.

		the General Treasury after 31st December 2014 which were not converted as per the Cabinet decision taken on 18th March 2015. Subsequently, this matter has been discussed with meeting held on 3rd October 2019 at the Chairmanship of Director General, Department of Public Enterprises, and debt outstanding in the CEB's books and resolving the issues connected to accounting for debt to equity conversation. Due to non-availability of budget allocation in the state department. It was decided that on receiving concurrence of Director General, the debts outstanding will be converted to equity. Further it was also agreed that other than any of the above sub loans, all the loans and credits arrangements except the Puttalam Coal Power Loans are to be considered as Grant to CEB. Accordingly, the General Treasury has converted loan repayments (Installments & Interest) of Rs.20, 499,241,722.25 of Puttalam Coal Power Plant for the year 2019 as equity of GOSL and CEB has informed by Department of Public Enterprises to make necessary accounting adjustments for the loan outstanding of CEB Books (Annex 03).	
(i)	The CEB had not made provisions for the amount of Rs.432,223,807 for the power purchased from the Moragahakanda Mini Hydro Project for the year 2018. Hence	Noted	Internal control should be developed to identify the cut off for recording transactions.

loss for the year had been understated by same amount.		
(j) The disbursement amount of Rs.358,235,012 made during the year under review as per the record of Department of External Resources in relation to two projects had not been taken into accounts in preparation of the financial statements. As a result, work in progress and liabilities had been understated by same amount.	Disbursements during the year 2018 had been accounted based on the ERD statements. However, this amount has been omitted to account in year 2018 due to nonappearance in the ERD statement obtained for accounting purpose. This was later discovered and accounted in August 2019 as a disbursement Clean Energy and Network Efficiency Improvement project. – Rs.12,800,693 This project is handled by Project Division and Distribution Division 02. Based on Project Division records, it is assured that all the disbursements have been accounted for the year 2018.	All the disbursements should be taken in to account when preparing the financial statements to identify the actual work in progress.

1.5.5 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) A difference of Rs.783,963,130 was observed between the balance of Rs. 46,029,135,981 shown as payable to the Ceylon Petroleum Corporation in the financial statements of the CEB as at 31 December 2018 and the corresponding balance of Rs. 46,813,099,111 shown as receivable in the financial statements of the Ceylon Petroleum Corporation as at that date. The Chairman of the CEB states in this regard as follows. ***"As per the decision taken at the meeting chaired by the Secretary to the Treasury on 30 September 2013,***	The issue has been taken up to the Audit Committee of the Ministry of Power and Renewable Energy for a settlement.	Action should be taken to solve the matter with discussion of Ceylon Petroleum Corporation.

it was decided to pay interest on overdue invoice value (beyond the credit period) with effect from 20 April 2013. However, the delayed interest payment of Rs.753, 610,829 was relevant to fuel purchase before 20 April 2013 by the CEB. Therefore, it is not required to carry out reconciliation for this difference since the CEB does not liable." However, this dispute had not been cleared even as at 31 December 2018 though it has been reiterated in audit reports since 2013 continuously.		
(b) Un-reconciled differences aggregating Rs.36,888,821 was observed between the balances of finalized bulk trade debtors as at 31 December 2018 shown in the billing system of the Distribution Divisions 01, 02, 03 and 04 and the corresponding amount shown in the financial statements of the year under review due to omission of some balances in billing system and as well as in the financial statements.	The process of recording billing transaction in the CEB billing system and the financial transactions record in the General Ledger will not be agreed at any given date. Distribution Divisions carry out a reconciliation to determine the reasons to such differences. Heavy supply debtor's ledger balance includes active debtors, finalized debtors. However billing report extract from IT branch, includes only active debtors balance. Therefore difference between billing report extract from IT branch balance and the ledger balance is mainly due to finalized debtors.	Action should be taken to reconcile the ledger balances with the system balances in each and every month.

1.6 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) CEB had made emergency power purchases (1,441 GWh worth of Rs.39,555 million) for the period of April 2016 to December 2018 without applying Tender procedure as per the requirement of Subsection 4 C (ii) of Section 43 of Sri Lanka Electricity (amendment) Act, no. 31 of 2013.	Cabinet approval has been obtained for this procurement.	Tender procedure should be applied when purchasing the power from Independent power producers.

(b)	According to the court decision given under case no.CA/WRIT/193/2015, the circular no.2014/GM/46/Pers dated 27 November 2014 is illegal, null and void. Therefore salary payment and other circulars issued based on this circular is illegal. According to the sample audit, there was an overpayment of Rs.833,453,051 for the period from 2015 to 2018 approximately, without taking into account the effect of allowances, Overtime payment and days' pay, bonus, PAYE Tax, Tax on Tax, EPF, ETF and Pension payment, leave encashment, interest on loans paid based on the incremental salary. However, CEB is continuing its salary payment under this illegal circular on Cabinet decision.	By the query itself mentioned that the said amount was paid in between year 2015 – 2018 and the court has given the verdicts on April 02, 2019. After receiving the verdict, CEB has stopped the salaries of respective employees with effect from April 2019 and an allowance was paid on recoverable basis instead of said salary until getting a Cabinet approval on payment of salaries. Further, CEB sought the legal opinion on the said judgement from the Hon. Attorney General and CEB is taking necessary steps to comply with the judgement liaising with the Ministry of Power, Energy & Business Development.	CEB should follow the court decisions.
(c)	Various staff allowances had been paid from time to time to the staff of the CEB on the approval of the Board in contrary to the decision taken by the Cabinet of Ministers on 14 November 2007 and the provisions in the Management Services Circular No. 39 of 26 May 2009. At the audit test checks, it was revealed that such allowances totaling to Rs.1,873 million and Rs.1,930 million had been paid in the year 2018 and 2017 respectively.	Cabinet approval has been received on 2008-09-04 for the payment of Allowances to the CEB employees as per the recommendations of the salaries and cadre Commission. However, it is not clear which allowances are referred under this item, and therefore a comprehensive answer is not possible. Moreover a reply has been sent to the Auditor General regarding the same query. Management Services Circulars are generally not used in CEB unless they are adopted by the Board. However, Board approval has been obtained for payment of each and every allowance.	The CEB should comply with the Circular requirements in payment of allowances to the staff.
(c)	Instead of granting vehicle loans at the rate of interest ranging 10 per cent to 14 per cent as per the Public Enterprises Circular No 130 of 08 March 1998, the CEB had granted these loans at an interest rate of 4.2 per cent. Further, it was observed that the staff loans have been paid	Vehicle loans for CEB employees were granted as per terms and conditions stipulated by the Board Decisions at concessionary rate of interest. Further CEB has not adopted the Public Enterprise Circular issued	The CEB should comply with the Circular requirements in payment of loans to the staff or approval from Department of Public Enterprise

without any control even though the CEB faces severe liquidity problems.	under this topic. Moreover, the staff loans have been paid as a benefit for the employees of CEB. Without such reward management scheme, CEB cannot maintain the employees' morale towards their works.	should be obtained for any deviations.
(e) The board had increased the pension payment and contribution to the fund and implemented the medical allowance for the pensioners without legalizing the amended rules as per the requirement of rule no.18 of the Pension fund Regulations established on extraordinary Gazette No. 1321/18 dated 31 December 2003. As a result of that, pension liability of the Board has been increased by Rs. Rs.2, 939 million.	As per the rule 23.4, the allowance had been increased to pensioners in line with pension increase approved by the board at the time of salary increased to employees of CEB . The pension contribution had been optionally increased by 1% from 7% to 8% with the agreement of commissioner general of Labour by his letter dated 18th February 2009 and subsequently it was informed to all heads of paying units by GM's Circular number 2008/GM/21/FM dated 11th November 2008. The Board of CEB has approved the amended rules in order to implement the medical scheme on reccomendation made by sub-committee which was appointed by Chairman, CEB, through the Management Committee of Pension Fund, With the necessary approval of commissioner Labour & Commisioner of Inland Revenue in terms of 18 "Amendments of Rule" of Pension Fund rules. The rules approved by board of CEB were forwarded to ministry to gazette on 1st Septembar 2014. it was second time resubmitted to ministry on 16th October 2017 .with reference to letter dated 16th February 2018 sent by secretary , ministry of power & renewable energy this matter was taken to observation of present board, the board has	CEB should legalize any amendments to the rules of the fund before any of the payment been made to avoid the additional cost to the CEB.

granted its concurrence to amend the rules of the pension fund on 13th August 2018 as approved by the board at its meeting held on the 11th September 2013 & 23rd october 2013 and thereafter, it was again forwarded to ministry on 15h September 2018 to gazette.

1.7 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
(a) Assets Management		
(i) Long delay in completing the capital works in the Distribution Divisions.	(i) The process of transfer of the competed jobs is one of the regular monitoring activities by the respective Provincial DGMs and the Divisional AGMs at their executive team meetings.	Necessary action should be taken to transfer the completed jobs immediately.
(ii) Delay in survey, valuation and protection of lands of the CEB scattered Island wide.	(ii) Present progress of survey and valuation of CEB lands as at 2019-10-28 is as follows Summary of Major Lands (Land extent greater than 5 perch)	Expedite the survey and valuation process of land of CEB.

S/N	Division	Total Valuation Amount (Rs)	Number of Land Identified	No. of Lands valued
1	Distribution Division 01	142	202	4,701,083,600
2	Distribution Division 02	275	362	2,172,974,000
3	Distribution Division 03	107	123	3,325,787,400
4	Distribution Division 04	127	148	3,289,450,000
5	Asset Management	4	5	5,718,828,500
6	Transmission Division	61	118	6,885,541,300
7	Generation Division *	1	1281	126,700,000
Total		**717**	**2,239**	**26,220,364,800**

	• Boundary re-opening and re demarcation works completed for Castlereigh reservoir premises (980 A 2R 13.5P), Laxapana Power Station and Building site premises (202A 2R 39.3P), Aniyakanda CEB premises (3.6973 ha) and kolonnawa CEB premises. • Boundary re-opening and re-demarcation works going on for Kelanithissa CEB premises and Maussakele reservoir premises. • Obtained 1476 No of ownership documents such as Deeds and vesting Certificates. • Regulation of Land acquisition process in Upper Kothmale Hydropower Project and Lakvijaya Power Station.	
(iii)Maintenance of updated database for vehicles.	(iii) Assets Management Division maintains vehicle database of CEB and regular update it according to the details received from CEB branches. Updated summery as at 2019-10-03 is attached (Annex 06)	Database of the Asset management should be updated on time.
(b) Inventory Control		
(i) Maintenance of stock records properly.	(i) Follows Generally Accepted Accounting Principles (GAAP). For stock valuation in Generation, Assets Management and Transmission Divisions use FIFO while Distribution Division follows standard pricing method. All stock related transaction records are maintained through the inventory module in the MITFIN System.	Goods receipts and issues should be recorded properly.
(ii) Establishment and maintenance of appropriate controls over the coal stock handling to avoid stock shortages and excesses.	(ii) Regarding the subject matter, the Electronic weigh scale at Conveyor "0" has been refurbished as below: 1. All worn out/damaged mechanical components were replaced. 2. Necessary Electrical/I &C parts were replaced. 3. Dynamic calibration with I & C section is in progress. 4. The Instrumentation & Control Section is in progress.	Coal stock should measure at the receipt and stock taking should be done at the end of the year to recognize the real stock value.
(c) Project Management and Control Completion of the project within the time frame.	All the project activities and reporting requirements are being monitored by the AGM Project division.	Project implementation should be done as planned.

(d) Accounting System

Continuously restate the financial statements of the CEB since the year 2013 due to weaknesses in the internal controls remained in the accounting system.	Action will be taken to strengthen the internal control system to avoid the restate the Financial Statements.	Action should be taken to strength internal control system to avoid the restatement of the Financial Statements.

(e) Operational Manual

Manuals had not been updated on time to smooth the operations of the Board.	CEB will comply with the requirement.	Update the manual on time to smooth the operations of the Board.

1.8 Accounts Receivable and Payable

1.8.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Out of trade debtor balance of Rs.19,038,547,212 as at 31 December 2018, a balance of Rs.3,754,841,442 relating to both ordinary and bulk supplies had remained outstanding for over one year and out of them Rs.1,827,399,804 had remained unrecovered for more than five years. Further, an amount of Rs.423,764,624 is remained as unidentified since 2012.	CEB has taken adequate actions to recover the long outstanding debtor balances •Legal actions were taken to debtor balance amounting to Rs.841Mn •The Committee were appointed to resolve dispute balances amounting to Rs. 385Mn •Written off actin is being taken to against the debtor balance of Rs. 125Mn •All the outstanding accounts were finalized and continuous recovery actions were taken such as sending reminder letters, forward to arbitrations, etc.	Around 20 per cent from the total debtor balance is outstanding more than one year. Hence immediate action should be taken to recover the finalized customers.
(b) A sum of Rs.32,765,469 due from the Lanka Electricity Company (Private) Limited (LECO) had remained outstanding for more than five years without taking any recovery action.	After obtaining board approval, outstanding balance of Rs. 32,765,469 was written off from the books of accounts.	Any dispute should be solved without continuing to long period.

(c)The following other receivable balances aggregating Rs.2,505,752,812 had remained unrecovered for more than five years as at 31 December 2018.

Name of Debtor	Amount Rs.	Description
General Treasury	225,000,000	Recovering cost of street lightening & maintenance
Wood Group Gas Turbine Ltd.	8,264,352	Payments made for constructing an access road to the West Coast Power Plant.
Ministry of Power and Energy	6,142,277	Payments made for the opening ceremony of Kerawalapitiya Combined Power Plant.
Sri Lanka Sustainable Energy Authority	897,025,999	Tariff adjustment paid by the CEB to the Mini Hydro Developers.
AES Kelanithissa (Private) Ltd.	1,368,961,445	Amount to be recovered on payment of price differences.
Northern Power (Private) Ltd.	358,739	Amount to be recovered from augmentation job completed in 2011
Total	2,505,752,812	

Recovering cost of street lightening & maintenance.
The balance is the receivable from the Treasury (such as collection of Street lighting & hiring transformers) and it is expected to set off against the interest & loan repayments on the project loans as per direction given by General Treasury.
Payments made for constructing an access road to the West Coast Power Plant.
As no such company is exist in the country at present and with the reply of legal officer referred above, a decision was taken to write-off the balance and will proceed in the future.

This payment is made to the Fagioli of Italy for the use of their trailer to transport Wood Group Gas Turbine from Colombo Port to Pannipitiya Site. This payment is not relating to the West Coast Power Plant. Correspondence is available with DGM (EP) Transmission.

Payments made for the opening ceremony of Kerawalapitiya Combined Power Plant.
Chairman to the CEB has requested from West Coast Power (Pvt) Ltd by his letter CEB/CH/BS/Aud. Gen/17 dated July 18, 2018 to settle this amount. But no response was received this regard.

Tariff adjustment paid by the CEB to the Mini Hydro Developers.
Action will be taken after receiving the decision of the committee

Internal control should be strengthen to recover the expenses for any jobs at the time of transaction taken place.

appointed by the Secretory to the Ministry of power, Energy and Business Development on 2019-10-10(Annex 04)

Amount to be recovered on payment of price differences.

With reference to the letter dated 19th March 2012, addressed to the chairman of Ceylon Electricity Board, the secretary of the Ministry of Power & Energy has informed that with effect from July 2011 retail prices applicable to auto diesel will be applied for auto diesel already supplied and to be supplied in future for power generation to CEB/IPP. And CPC will re –adjust the invoices accordingly.

As CEB has an agreement with AES Kelanitissa (Pvt) Ltd. and fuel price is a pass through cost of the power producers' it could be recovered after CPC credit that benefit to the Power Producers only.

However, Ceylon Petroleum Corporation invoiced the fuel prices as Rs. 76/-per liter from October 2011 onwards but not revised the previous invoices.

Therefore, it was recorded as amount receivable from CPC. But, it was corrected in the month of February 2015 and recorded as receivable from AES Kelanithissa (Pvt) Ltd. But CEB can recover it from AES Kelanithissa (Pvt) Ltd, once CPC adjust the fuel price difference and offe

Amount to be recovered from augmentation job completed in 2011

This is a receivable balance, related to an augmentation job completed by CEB for Northern power in the year 2011. Balance has been remained in books as the PPA has

	prevented these costs to be deducted from the monthly bills. This is to be invoiced to Northern Power.	
(d)A sum of Rs.714,965,435 due from Lanka Coal Company had remained outstanding for more than five years without taking any recovery action.	This balance will be cleared after the legal actions taken by Lanka Coal Company against M/s Liberty Commodities Ltd and M/s Taurian Iron and Steel Company. Still, the decision is pending.	Legal action should be taken immediately to recover the cost and avoid the opportunity cost.
(e)A sum of Rs.153,734,062 shown under other receivables of Asset management division is remained without being recovered for more than five years. Out of that amount Rs. 146,090,787 is to be recovered from the government institutions and CEB had not taken necessary action to recover at the initial stage of the transactions.	This amount represents the dues from Govt. Institutions for annual maintenance works of generators, Air Conditioners and lifts owned by the government institutions that had been carried out by CE (Power Plants), CE (Air Conditioning & Refrigeration) and CE(Lifts) of Asset Management Division. In the case of Annual Maintenance, the transaction value will be recovered after the maintenance work is completed and not at the initial stage as mentioned in the Audit Report. DGM (W&AS) has taken tremendous efforts such as sending reminders, terminating the existing maintenance contracts with the Govt. institutions etc., to recover the overdue balances and as a result, the govt. receivables could be reduced to Rs. 146 mn by end of 2018, and this could be further reduced to Rs. 139 mn by April 2019. AGM (AM) has requested the Chief Internal Auditor to carry out a system audit on the overdue receivables and awaiting the audit report. Further actions will be taken on this matter once the audit report is received.	Action should be taken to recover receivables at the time of transaction taken place.

1.8.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	A sum of Rs. 4,834,319,648 Payable to china machinery Engineering Corporation was remained more than one year without being settled.	Outstanding payments for the year 2014 and 2015 were settled. Payments for the year 2016, 2017, and 2018 are pending. CEB releases only USD 2 million per month considering the present financial situation.	Action should be taken to settle the liabilities to avoid any dispute with service provider.
(b)	The amount of Rs.2,713,788,005 is shown as Trade creditors without being settling more than one year.	Action has been taken to ensure the possibility of settling those outstanding balances.	Action should be taken to settle the liabilities to avoid any dispute with suppliers.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 28(3) of Sri Lanka Electricity Act, No.20 of 2009	The CEB had not paid interest for consumer deposits as specified in the act and according to the computation made by audit based on the rate reported by the Public Utility Commission of Sri Lanka for the year 2018, the interest to be paid thereon was Rs.1,562 million and un paid accumulated interest as at 31 December 2018 was Rs.3,526 million.	As per the clause No. 3 (d) and No. 30 of SL Electricity Act No. 2009 the electricity tariff shall be sent by PUCSL. However the prevailing electricity tariff is not generating sufficient cash to run the business of CEB. The relevant clause in the Act as follows; 3(1) the function of the Commission shall be to act as the economic, technical and safety regulatory for the electricity industry in Sri Lanka, and – (d) To regulate tariffs and other charges levied by licensees and other electricity undertakings, in order to ensure that the most economical and efficient service possible is provided	The Board should comply with the requirements of the act.

to consumers;

30 (1) this section shall apply to –

Tariffs or charges levied by the transmission licensee for the transmission and bulk sale of electricity (hereinafter referred to as “transmission and bulk sale tariffs”); and

Tariffs or charges levied by the distribution licensee for the distribution and supply of electricity (herein after referred to as “distribution and supply tariffs”)

(2) Transmission and bulk sale tariffs and distribution and supply tariffs, as the case may be, shall, in accordance with conditions specified in the relevant license –

Be set by the relevant licensee in accordance with a cost reflective methodology approved by the commission;

Permit the relevant licensee to recover all reasonable costs incurred in the carrying out of the activities authorized by its license on an efficient basis,

Be approved by the Commission in accordance with the policy guideline approved by the Cabinet of Ministers under section 5; and

Be published in such manner as may be required by the Commission, in order to ensure public knowledge.

As per Clause No 28 (3) of SL Electricity Act No.20 of 2009 each Distribution License (DL) has to pay the interest for securities deposits to its customers. The relevant clause in the Act. is as follows;

Clause 28 (3) “Where any sum of money is provided to a distribution licensee by a way of security in pursuance of this section. The licensee shall pay interest on such sum of money at such rate as may from time to time be fixed by the licensee with the approval of the commission, for the period in which it remains in the hands of the licensee.”

Presently CEB is not receiving sufficient cash collection to run its business and as a result CEB is using the security deposits of its customers as a part of its working capital and balance working capital is obtained from bank overdrafts, short term loans etc.

The benefits obtains by utilization of security deposits of its customers as its working capital by CEB i.e. saving in interest on bank overdraft is distributed among all its customers by way of reduced tariff. In other word CEB has distributed more than Rs.1,562 million among all its customers for the year 2018 which is the estimated value given in draft audit report based on if the security deposits is deposited in a bank the interest that would have been earned.

If as per this clause if DL’s going to pay the interest on security deposits it will be an added financial burden for DL’s and additional cost to

		the industry. Hence we have recommended the complete deletion of clause No 28 (3) from SL Electricity Act No 20 of 2009 to Ministry and requested Ministry to take further action on this regard.	
(b)Ceylon Electricity Board Act, No. 17 of 1969			
i.Section 47(2)(a)	The CEB may establish and maintain a Depreciation Reserve with the General Treasury in order to cover the depreciation of the movable and immovable property of the CEB. However, in contrary to that requirement, the CEB had established a Depreciation Reserve in its financial statements by transferring Rs.1 million per annum up to 31 December 2000 and thereafter no movement had been taken place. A sum of Rs.23 million being accumulated on that date had been carried forwarded in the financial statements continuously without any review.	Under section 47 (2) (a) the Board established a depreciation reserve in Financial Statements in order to cover depreciation of movable and immovable property of the CEB. Since CEB is incurring Continuous losses this account has not been updated in many years. However, by taking in to your comments once the CEB makes profit, then Rs. 1 Mn. per annum will be transferred to depreciation reserve account to update the depreciation Reserve Account.	Considering the asset base, reserve should be maintained to replace the assets.
ii. Section 46 and Section 11(a) and (b) of Part II of the Finance Act, No. 38 of 1971	The CEB had invested only Rs.8,070 million as at 31 December 2018 in the Insurance Escrow Fund although it was stated that a contribution of 0.1 per cent of the total value of the gross fixed assets as at the end of each year since 1989 should be transferred to that Fund.	It is accepted that theoretically insurance fund reserve account balance and investment in Escrow Account balance are reconciled at a given date. As per the books as at 2018-12-31 insurance reserve balance stood at Rs. 16,304 Mn where as insurance investment	Considering the asset base, reserve should be maintained to recover any losses for the assets.

	Account stood at Rs. 8,070 Mn. This difference has arisen mainly due to non-investment in Insurance Investment Escrow Account due to CEB is experiencing adverse cash flow situation from many years. Even in the year concern (2018) CEB incurred loss of Rs. 30,458 Mn. As a result of this CEB runs at an average 6Bn – 7Bn overdraft and having Bank Loan of nearly Rs. 80 Bn. Therefore, it is not worthwhile to obtain overdraft / Loan facility and invest in Escrow Account. However, action will be taken to investment equal of 1% of the gross fixed assets in insurance reserve investment account once the CEB Liquidity position and cash flows are improved.	

1.10 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
The Cabinet of Ministers has taken decisions on 13 December 2007 at the time of salary revision and on 20 May 2015 at the time of consideration of Collective Agreement, to shift the Pay As You Earn (PAYE) tax liability to employees. However, the CEB had paid the PAYE tax of Rs.4,210,046,371 from its owned fund without deducting it from the salaries of the respective employees during the period from 2010 to 2018 in contravening to the above decisions taken by the Cabinet of Ministers. The amount so paid during the year under review was Rs.915,698,241 and indicating an increase of 35 per cent as compared with the previous year.	The PAYE Tax liability of CEB employees has been borne by the CEB since its employees were made liable for PAYE Tax. This was informed to the Ministry of Power & Renewable Energy and Salaries and Cadre Commission on several times and discussions were also held with Trade Unions. However, no consensus was reached regarding reverting it back to employees. The Collective Agreement signed on 2018-01-04 has been published by the Extra Ordinary Gazette No. 2068/5 dated 2018-04-23. It appears now a violation of the collective agreement to change the agreed remuneration and would create further legal repercussions.	Action should be taken to recover PAYE tax from employees.

Further, the value of non-cash benefits specified by the Commissioner General of Inland Revenue in the Gazette Notification No.1706/18 dated 20 May 2001 should be considered when calculating the PAYE tax of each employee. However, the CEB had not taken into account the non-cash benefits such as provision of quarters, apartments and motor vehicles for private use etc. for this purpose.	Further, the value of non-cash benefits specified by the Commissioner General of Inland Revenue in the Gazette Notification No.1706/18 dated 20 May 2001 should be considered when calculating the PAYE tax of each employee. The instructions was issued through 2018/GM/39/FM, Accounts Circular No 526 to take the non-cash benefits such as quarters, apartments and motor vehicle for private use etc. for the PAYE calculation. Since the instructions was issued with the implementation of the new Inland Revenue Act in 2018, it will take reasonable period to comply with this by all the Divisions of the CEB.	Action should be taken to consider all the non- cash benefits in the calculation of PAYE tax.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre-tax loss of Rs. 28,865 million and the corresponding pre-tax loss of Rs. 46,011 million. Therefore an improvement amounting to Rs.17,146 million of the financial result was observed. The reasons for the improvement are fuel cost and power purchases were decreased by 28 per cent and 5 per cent respectively due to increase the generation of hydropower by 59 per cent. Further, operational and maintenance expenses of the Generation, Transmission and Distribution Divisions had been increased by 18 per cent, 44 per cent and 19 per cent respectively therefore, due to increase of personal cost, interest on bank overdraft & loans and interest on CPC delayed payments were increased by Rs.8,050 million or 27 per cent, Rs.4,636 million or 68 per cent and Rs.1,466 million or 68 per cent respectively as compared with the previous year.

However, the value addition of the CEB for the year under review after taking into account the personnel emoluments, tax expenditure and depreciation aggregating Rs. 73,406 million was Rs. 57,541 million and it had increased by Rs. 29,495 million or 105 per cent as compared with the previous year.

2.2 Ratio Analysis

2.2.1 Working Capital Management

The Working Capital of the CEB as at 31 December 2018 was reflected as a negative figure of Rs. 37,987 million whereas the previous year negative balance was Rs. 55,683 million. Hence, working capital of the year under review had been increased by 32 per cent as compared to the previous year.

2.2.2 Debt to Equity

Equity balance of the CEB as at 31 December 2018 had been decreased by 8 per cent as compared with the corresponding decrease of 11per cent due to continuous net loss of the CEB. Further, 23 per cent or Rs.297 billion of the total capital employed by the CEB as at 31 December 2018 had been financed through borrowings. Further, the Debt to Equity Ratio of the CEB had increased to 88 per cent in the year under review from 64 per cent in the previous year.

2.2.3 Profitability

The average cost per unit of the year under review was Rs.19.12 as compared with Rs. 20.34. in the year 2017 and sold at an average price of Rs.16.29 per unit (previous year average selling price was Rs. 16.26 per unit). Accordingly, the gross loss per unit of the year under review was Rs. 2.83 and it was 31 per cent decrease as compared with the previous year average gross loss of Rs 4.08. per unit. The following table shows the tariff category and the contribution per unit (kWh) of electricity sold in the year under review as compared with the previous year.

Category	**Contribution per unit (kWh)**	
	2018	**2017**
	Rs.	**Rs.**
Domestic	(5.52)	(6.86)
Religious	(11.84)	(13.13)
General Purpose	4.66	3.40
Hotel	(1.50)	(2.61)
Industrial	(4.40)	(5.57)
Government	(0.89)	(2.08)
Bulk Sup. to LECO	(3.59)	(4.55)
Street Lighting	(19.12)	(20.34)
Contribution	**(2.83)**	**(4.08)**

Accordingly, the tariff category of General Purpose was only the positive contributor to the total contribution of the year under review. The tariff on industrial and domestic category were the highest negative contributor to the total contribution of the year under review and the tariff on religious, hotel, government, sales to LECO and street lightening had also shown unfavorable contributions thereto.

3. Operational Review

(i) Power Generation and Direct Cost (Other than Distribution and Transmission)

Although the main objective of the CEB is to supply of power at low cost to the country, the CEB was unable to achieve this objective due to unfavorable conditions in the Power Purchase Agreements, high cost incurred for generation of Thermal Power and less contribution from Wind and Other Non-conventional Renewable Energy Sources.

Further, Significant delays were observed in implementation of the activities included in the Long Term Generation Plan and the Transmission Plan of the CEB. As a result, the CEB had made emergency power purchases which were negatively affected to the least cost objective of the CEB.

The position of power generation in 2018 as compared with the previous year is given below.

Source	**2018**	**2017**	**Increase/(Decrease)**	
	GWh	**GWh**	**GWh**	**%**
Hydro	6,381	4,004	2,377	59
Thermal	3,629	5,045	(1,416)	(28)
Coal	4,764	5,103	(339)	(7)
Wind	326	367	(41)	(11)
Other Non-Conventional Renewable Energy	185	152	33	22
Rooftop Solar	88	-	88	-
Total	**15,373**	**14,671**	**702**	**5**

Accordingly, thermal and wind power purchase during the year under review had been decreased by 28 per cent and 11 per cent respectively while increasing of hydropower generation by 59 per cent due to the favorable whether condition in the country.

(ii) Direct Cost

A source wise analysis of direct cost of the year 2018 as compared with previous year is given below.

Description	**2018**		**2017**	
	Rs. million	**Percentage**	**Rs. million**	**Percentage**
Fuel	41,553	21	57,842	27
Coal	38,823	20	37,505	18
Power Purchase Coal	84,497	44	89,254	42
Operation and Maintenance	13,812	7	11,727	6
Depreciation	14,744	8	14,476	7
Direct cost	**193,429**	**100**	**210,804**	**100**

According to the above information, it was revealed that the hydro power generation had increased by 59 per cent and as a result of that cost of power purchases and fuel cost for the year 2018 had been decreased by Rs.4,757 million and Rs.16,289 million or 5 per cent and 28 per cent respectively as compared with the previous year while operational and maintenance cost of the project had been increased by 11 per cent during the year under review. Further, it was revealed that, the fixed cost of power generation is unavoidable in term of conditions in the power purchase agreements and as a result, the CEB is unable to achieve one of its most important objectives of supplying power at least cost to the general public.

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
Significant delay (April 2016 to May 2019) was observed in procurement of 50 nos.1 MW transportable Generators (estimated procurement value is Rs.3 billion) and the main objective of procuring these Generators, mentioned in the Cabinet memorandum had been deviated. Operations of these generators are at a lower level due to some specification approved by Technical Evaluation Committee had not been considered by the procurement committee**.**	50 Nos of 1MW containerized transportable generators with 25 Nos, Containerized transformers and 25 Nos. Containerized fuel tanks procured as per the instruction of SCAPC and Cabinet memorandum number 17/2363/727/050/TBR dated 2017-10-16. Accordingly, Diesel Generator (DG) sets were received as per the specifications specified in the tender document with certain improvements agreed by either party. The generators were installed and commissioned for commercial operations at Thulhiriya (1MWx10) on 25th January 2019, and Kolonnwa Site 01,(10X1MW) & Kolonnawa Site 02 (10X1MW) on 22nd & 26 th March respectively , Mathugama (12X1MW) on 7th April and Mathugama (8X1MW) on 2nd May 2019.	When major capital assets procured, feasibility study should be carried out and more attention should be paid on technical aspects to achieve the objectives.

	The installed DG sets were in operation. The contractor, as per the contract, is attending operational and maintenance issues encountered during operation. The contractor has not been provided the technical analysis of the failures encountered, in order to ascertain the root cause of failure. Up to now some of the failure analysis reports have been provided and attended to the most of breakdowns and rectified and provincial taking over certificates for all 50 Generator set have been issued.	

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) An amount of Rs. 1,931,142,380 is shown as deficit of the coal stock during the year under review. However the physical stock taking had not been carried out even the Board of survey team had been appointed. Hence it was unable to verify the accuracy of the coal stock available as at 31 December 2018.	The Coal stock verified as at 2018-12-31 by the verification team appointed by PPM (LVPP) and actual GRN/Issues quantities were adjusted to that balance up to 2018-12-31 since 2018-12-14. The ledger has been adjusted according to physical stock.	Procedure should be established to measure the stock at the receipt and physical verification should be done at the end of the year.
(b) Even though the CEB had sold electricity to LECO and purchasing fuel from Ceylon Petroleum Corporation for several years, there were no sales and purchase agreements entered between those two parties in order to ensure the smooth operations with these two Institutions.	Even though the Board had sold electricity to LECO and purchasing fuel from Ceylon Petroleum Corporation for several years, there are no sales and purchase agreements entered with those two parties. A committee with the participation of high ranking	Agreement should be entered to avoid any disputes among these organisations.

	officers of both CEB and LECO has prepared a draft agreement and has sought Attorney General's (AG) opinion on the same. This committee has made required amendments as per AG's opinion and has submitted "final power sales agreement" to AGM (Transmission). General Manager, CEB has written to General Manager. LECO on the report furnished by the committee. On the same letter, GM CEB suggested to take this matter at a Board meeting of LECO. However CEB has not been able to get any feedback from LECO as of now, regarding the process within LECO that has taken place regarding this matter even though a reminder has been sent on 2017-08-29. LECO has written to PUCSL in this regard by their letter dated 2018-07-24 stating that the Regulation on Electricity Trading Arrangement is required to formulate the power purchase agreement between LECO & CEB.	
(c) A sum of Rs.125,736,811 had been deducted by the lending agency in 2018 as commitment charges from the loans given for implementing the foreign funded projects of the CEB due to un-utilization of the funds in timely manner. However, the accuracy of the commitment charges cannot be verified due to non-availability of calculations.	Commitment charge is common to all projects and it cannot be avoided even the project is on schedule due to stringent loan covenants in the loan agreements. Commitment and interest charge are not a part of loan for the first three projects of the schedule and Treasury is	Project activities should be implemented as planned to avoid additional commitment charges.

	incurring the commitment charges on behalf of the Government. As CEB, we are not in a position to record such commitment charges until it is notified by Treasury. Thus, the figures cannot be verified without the receiving the information’s from Treasury. For the rest of the projects, commitment charges have been recorded in the books of accounts after extracting from ERD statements. Commitment charge is part of the loan for these projects and disbursement made by lending agencies are shown in the ERD statements. However, it was noticed that the figures shown in the Project division accounts are not tallied with the Auditors figures for some projects. This might be due to some projects have multiple tranches and parts and different tranches / parts are handled by different divisions of CEB. Therefore figures shown by auditor might be a total accumulated figure combining different parts of the projects.	
(d) The CEB had to purchase 362 GWh of electricity in the year 2018 since the continues delay in construction of power plants and proper implementation of Least Cost long term Generation Plan. Further, a court case had been filed against CEB on the construction of 300 MW LNG power plant in	There was 362 GWh of energy deficit in the year 2018. But according to actual records the Gross generation was 15,917GWh and the Net generation was 15,305GWh in the year 2018. The total Energy deficit due to lack of generation was around	CEB should comply with Least cost long term Generation plan to achieve least cost objectives.

Kerawalapitiya by the Lakdhanavi (Pvt) Ltd for not following the procurement guidelines.	0.8GWh during the year 2018.	
(e) A special investigation had been carried out by the Internal Audit Branch in respect of stock shortage of Rs.52,550,929 identified in 2014 under project of Uthuruwasanthaya in April 2017. However, no disciplinary action had been taken against the officer who is responsible for the shortage amount of Rs.6,220,855 out of Rs. 52,550,929 even up to the date of this report. Further, a court case (Case no B/1164/15) had been filed against other officer in Magestrict Court, Trincomalee by the Criminal Investigation Department in 2015 in this regard. Further, information relating to current situation of the court case was not made available for audit.	Stock Shortage (2014) – Rs. 46,330,071.90 Mr. U.P. Udara Gunarathne (P.F. No: 37475) 1) Store Keeper has been interdicted. Disciplinary inquiry has been initiated and its in progress. Waiting for court decision (Case No. B/1164/15). 2) Disciplinary inquiry has been initiated against the Material Coordinating Officer of the project and is in progress. 3) A Letter of Demand has been issued by the Legal Officer of the CEB to Richardson Projects (pvt) Ltd to recover Rs. 28,231,000 including the 25% Board charges due from this company to CEB for acquiring payments totaling to Rs. 22,584,800 fraudulently without delivering the materials. 4) A sum of Rs. 8,538,845 has been identified to make adjustments against the remaining balance of Mr. UdaraGunarathne, Store Keeper. However, verification of this recovery adjustment is being further investigated and finalized.	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.

5) Further verifications with thorough scrutinization of stock material transactions are being carried out by now in an expeditious manner to identify any further adjustments against this loss. So, the debtor balance of this loss would further reduce.

6) After the special investigation carried out by the Internal Audit Branch, appropriate preventive actions (installed of a new security camera system, repaired the entire fence around the stores, installed a new security lighting system throughout the stores, employed the CEB security personnel instead of private security personnel and drastically reduced the stock levels in the stores and maintain a minimum stock level) have been taken to maintain a healthy stock management and control system in this stores continuously.

7) Excluding the loss indicated in clause 3 above (i.e. Rs 22,584,800), the remaining balance of loss material amount is reduced from Rs. 23,745,272 to Rs. 15,150,417 after confirmation of the adjustment.

8) According to the balances in clause 7 and clause 3, the final debtor balance of Udara Gunarathne would be reduced to Rs. 37,791,227.

9) The total cost of the project is Rs. 11,414,760,869 and the total loss of the materials is Rs.37,791,227. Therefore, the percentage material loss in the project is 0.33%.

Stock Shortage (2015) – Rs. 6,220,855.50
Mr. AsankaJayakodi (P.F. No. 37432)
Rs.4,212,810 has already been cleared. Balance Rs.2,008,045 remaining until the decision of the inquiry committee appointed by the DGM (NP) by his letter No. NP/DGM/HRO/Inquiry dated 2017-05-04 and the report has been submitted to DGM (NP) by 2019-10-03 as agreed by the Chairman of the Committee. Accordingly, DGM (NP) has recommended to recover the shortage amount of Rs.2,510,057 (including board charge) from the Store Keeper [Mr.J.A.M.AsankaJayakodi (PF No.37432)] via his letter No.NP/ DGM/ HRO/ INQUIRY dated 2019-10-09.

(f)	The prompt actions had not been taken by the Board up to 16 August 2018 against the person who was liable for stock shortages of Rs.3,674,861 which had been occurred during the period of 20 November 2006 to 20 February 2012, in Asset Management Division (Power Plant) even the formal investigation was completed. Further, the same employee had committed a fraud in another office of the CEB and his duty has been terminated after recovering Rs.99, 155 as the value of the fraud prior to the aforesaid fraud.	The above balance has been resulted from stock shortages of two store keepers Mr. R B Wedagedara. This was referred to the Audit committee and the Committee directed GM, CEB to conduct an inquiry on the responsible officers listed in the Audit Report for the above fraud at the meeting held on 2019- 06-28.	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.
(g)	An officer who was liable for the stock shortage of Rs.3,789,893 had been allowed to retire on 15 October 2011 without being recovered the loss as recommended by the committee appointed for investigation. Further, the above material amount had remained in the books of account without being taken any remedial action.	The above balance has been resulted from stock shortages of two store keepers Mr. N P L Samarasinghe. This was referred to the Audit committee and the Committee directed GM, CEB to conduct an inquiry on the responsible officers listed in the Audit Report for the above fraud at the meeting held on 2019- 06-28.	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
A sum of Rs.2,051,605,881 representing 11 per cent of the total consumable stock of Rs.17,936,845,512 had been shown in financial statements as slow moving, non-moving and damaged stock as at 31 December 2018. Maintaining this much of non-moving and slow moving stock may cause the increase in damages, storage cost and fraud etc.	The breakdown of the percentage of slow moving, non - moving and damaged consists as follows **Percentage%** Non moving 05 Slow moving 04 Damaged 02 11 Most of the stocks are non-perishable nature, these stock items of CEB are spare parts and material items used for electricity generation, transmission and distribution. These slow or non-moving items are to be kept in stock for any emergency situation due to the nature of the business and to avoid stock out situation. Therefore out of 11%, nine percent of stock is non-moving and slow moving those stock items may not dispose though it is slow or non-moving. Action on the disposal of damaged stock (as 2% of stock value) is an annual activity carry out by respective head of the unit/branch. The action taken and the present position is given in Annex 05.	Remedial action should be taken to reduce the non moving and slow moving stocks to avoid the damages, additional storage cost and making room for frauds.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Scheme of Recruitments and Promotions (SOR) of the CEB had not been updated for a longer period.	Revised SORP was submitted to the Board for approval in June 2016. The Board has requested the Management to circulate the draft SORP among all the CEB Trade Unions for their views and suggestions. Accordingly, reviewed SORP after considering the suggestions of Trade Unions, was submitted to the Board in 2017. However, again Board has requested the Management to review this SORP and a Committee was appointed accordingly. This situation remains the same to date.	Immediate action should be taken to develop the Scheme Of Recruitment.
(b) Even though the key post in the HR Division is DGM (Personnel), required qualifications and experience for that post had not been specified in the Scheme of Recruitments and Promotions (SOR) and keeping the posts open to other services, especially, for electrical engineers.	This matter was taken at the COPE and the Committee appointed by Secretary, Ministry of Power & Renewable Energy on the COPE recommendations have revealed that it is effective the DGM (Personnel) position be held by a senior Electrical Engineer of DGM level.	Qualification and experience of the department head should be included in the Scheme of Recruitment.
(c) According to the existing SOR, 50 per cent of the total cadre of Human Recourse Officers (HRO) is filled from externally and that percentage is planned to increase year by year gradually up to 85 per cent. However, it was not observed a clear promotion path for the employees who are externally recruited, in the promotion scheme as two engineers covered the functions of the Divisional	Since CEB is a fully engineering based organization, it is vital to hold the key positions by engineers who can understand the pulse of the organization and workforce. Therefore the two highest positions of Personnel Branch are hold by engineers because they are entrusted with the responsibilities of managing the organizational HR functions according to work delegated by	Scheme Of Recruitment should be amended to provide a clear promotion path for the employees who are externally recruited.

	Head over a longer period of the CEB's history.	GM, CEB. These two engineers perform the tasks and duties entrusted by GM. Therefore, these posts have not been a hindrance for the promotions of the officers those who are in HR Field. Further considering the significance of these two posts, GM CEB has recently appointed an engineer for one of these posts who has obtained a post graduate qualification in HRM.	
(d)	Experience which is required for the direct recruitment of Human Resource Manager (HRM) and Human Resource Officer (HRO) is 06 years in the field of HR in an organization having more than 100 employees. It is observed that aforesaid experience is inadequate as compared the staff strength need to be handled in the CEB.	This issue was addressed in the revised draft SORP which was submitted to the Board.	Approval for the amended Scheme Of Recruitment should be obtained immediately.
(e)	Two key posts namely Chief Legal officer and Electrical Engineer (DCC) NCP are vacant for a long period.	Arrangements have been made to call applications though a paper advertisement to fill the Chief Legal Officer vacancy. Electrical Engineer (DCC) NCP vacancy will be filled after the new recruitment of the Electrical Engineer is completed.	Key posts should be filled within shorter period to maintain operations of the organisation effectively and efficiently.