

**1.1 Opinion**

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The audit of the financial statements of the Public Utilities Commission for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Public Utilities Commission as at 31 December 2019, 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 Opinion**

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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 opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 Commission'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 Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

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

#### **1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)**

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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 Commission'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 Commission'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 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Accounts Receivables and Payables**

### **1.5.1 Accounts Receivables**

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	The total amount of Regulatory Levy not being received as scheduled from 25 licensees including Ceylon Electricity Board was Rs.184,934,925 and a sum of Rs.82,126,309 including Rs.81,852,700 receivable from the Ceylon Electricity Board for the years 2014 and 2015 had not been recovered till September 2020.	Although the fees had not been paid on the due date, the amount receivable for the year 2019 by 30 June 2020 was only Rs.209,943. A request had been made to find a solution in discussion with the Secretary to the Ministry of Power and Energy through the intervention of the Secretary to the Ministry of Finance due to the failure of the action taken on a number of occasions to recover the amount of Rs.81,852,700 applicable for the years 2014 and 2015.	Every possible step should be taken to recover the amount receivable.
(b)	Although the Variable Registration Fees must be paid within 30 days of the completion of the relevant period, a sum of Rs.673,918 to be paid by a private company for the year 2014 had not paid to the Commission by September 2020.	It had been informed in writing that the amount due for the first half year of 2014 will be paid along with the fee for the second half year of 2020.	Every possible step should be taken to recover the amount receivable.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 99,358,522 and the corresponding surplus in the preceding year amounted to Rs. 106,029,515. Therefore, a deterioration amounting to Rs. 6,670,993 of the financial result was observed. Increasing revenue of the year under review by Rs. 4,167,614 or 1.2 per cent as compared with the preceding year whilst increasing expenditure in the year under review by Rs. 10,838,607 or 4.3 per cent as compared with the preceding year had mainly caused to this deterioration.

### 2.2 Trend Analysis of Major Revenue and Expenditure Items

The decrease in expenditure on local and foreign training and travel by Rs.5,286,552 and decrease in expenditure on other services by Rs.20,610,999 were 57 per cent and 48 per cent respectively as a percentage and contract services had increased by Rs.7,459,739 or 15 per cent.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the Commission had entered into agreements for consulting services by 31 December 2019, it had been accounted as accrued expenses without identifying accurately of the instance of liability of Rs.16,615,356 may create on unperformed service or payment of charges or obtaining of services by end of the year.	I agree to account as accrued expenses to amounts only payable for completed but unpaid contractual services and goods and services to be received since next year.	Accrued expenses should be accurately identified and accounted.
(b) Two mobile phones had not been taken back even as at September 2020 valued at Rs.125,998 were given to two members of the	After informing regarding this to the two members of the Commission, they were agreed to return the two mobile phones or to pay the relevant cost.	Asset management should be formal.

Commission who worked till 31 March 2019 as per the Board of Survey Report 2019.

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| <p>(c) A methodology had not successfully implemented within the organization during the year under review to verify whether fees have been paid based on accurate sales values when lubricant sellers pay the Variable Registration Fee to be paid to the Commission on the basis of their total sales invoice value on a biannual basis.</p> | <p>In previous years, there was uncertainty about the calculated fees due to non-submission of corporate sales figures in the company's letterhead and submission without the signature of a responsible person. There was strong protest for it due to the high cost has to be incurred to verifying sales values from an auditor.</p> <p>All institutions had been informed through the Ministry to submit sales figures in a letterhead as well as to have a responsible person sign and send reports.</p> | <p>Documents required verifying the accuracy of the fees should be obtained.</p> |
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### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Although the regulatory powers are vested with the Commission, the following are the instances of non-compliance with the rules and recommendations of the Commission due to non-provision of information and other requirements by the Ceylon Electricity Board as a licensee of transmission and a licensee of distribution.</p>		
<p>(a) Failure of the Commission to carry out the 10 tasks included in the Action Plan for the year 2019 as expected.</p>	<p>It could not be implemented due to lack of support from the Ceylon Electricity Board.</p>	<p>Appropriate steps should be taken to obtain the required data.</p>
<p>(b) In accordance with paragraphs 8.1 and 8.2 of the Methodology for charges issued by the Commission, although the charges and calculations levied by the licensees of the electricity power transmission and distribution for other services related to electricity supply except electricity charges should be submitted to</p>	<p>The plans and financial provisions relevant to the implementation of the electricity power (Transmission) Performance Standing Regulations had been</p>	<p>Action should be taken as per the charges system.</p>

the Commission before 15 November of each year and approved and published for the following year, action had not been taken as scheduled for 2019 and 2020. submitted and approved by the Commission. Accordingly, the adaptation phase is being implemented using the existing measurement system.

- (c) The Generation Summery, Actual System Dispatch and Daily Dispatch schedule to be provided daily by the Ceylon Electricity Board to advise the government and take necessary steps for regulating by monitoring the performance, trends, changes in demand, etc. in the electricity power field had not been submitted to the Commission from May 2018 to 31 December 2019. A case had been filed in the Fort Magistrate's Court under reference number 12857/19 in this regard and this case is still pending. Action should be taken to obtain information from the responsible parties.
- (d) The company had introduced an Incident Reporting System to report accidents related to electrical functions and the Ceylon Electricity Board had not entered data into this system after May 2018. Agree. Trade union actions had caused to prevent providing information to this computerized system. Action should be taken to obtain information from the responsible parties.

### 3.3 Delays in Projects or Capital Works

Audit Observation	Comments of the Management	Recommendation
Although it was planned to implement 123 activities valued at Rs.339,265,000 in the year 2019, desired targets could not be achieved in 49 activities valued at Rs.104,461,143. The observations are as follows.		
(a) Electricity Affordability Survey - AP19/CP/TEA/07 It was also included in the 2019 Action Plan due to failure to complete in 2018 and was scheduled to be completed by 30 April 2019. The final report and related works had not completed by the end of September 2020.	The interim report was submitted on 27 July 2020 by conduct this survey. The final report is requested to be submitted before 15 December 2020.	Action should be taken to reap the expected benefits within the expected period.

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| <p>(b) Study of Sustainable Water Resource Management for Drinking Purposes - AP19/CP/COA/05</p> <p>The works which was scheduled to be completed in 2019 had not been completed even by September 2020.</p>   | <p>Paragraph is accepted.</p> <p>It was not possible at the planned period to select a suitable consulting firm through the procurement process as these activities affect the public very sensitively. The interim report was presented on 20 July 2020 by conducted a workshop at the Sri Lanka Institute of Development Administration (SLIDA). The draft of the final report has been informed to be provided before September 30.</p> | <p>Action should be taken to reap the expected benefits within the expected period.</p> |
| <p>(c) Study of estimating the external cost of thermal power generation.</p> <p>The Commission had entered into an agreement with a consulting firm for the above study on 17 October 2018 and although the agreement was extended at the request of the consulting firm, the final report was not submitted until September 2020.</p>  | <p>Accepted</p> <p>The delay had caused due to taking longer time than expected to gather data and information because this is the first time such a study has been conducted in Sri Lanka</p>   | <p>Arrangements should be made to finish the functions within the expected time.</p>    |
| <p>(d) Implementing a Set of Rules on Electricity Power (distribution) Performance Standards.</p> <p>Under the Electricity power (Distribution) Performance Standing Orders mentioned in the Extraordinary Gazette Notification No. 1975/44 dated 13 July 2016, the responsibility was wasted to the Commission to formulating and implementing the Performance rules. Accordingly, those functions to be activated out not less than 36 months after the order comes into force, although</p> | <p>As the data provided by the Ceylon Electricity Board is not at the level that can be approved by the Commission, although discussions and reminders were held by informing that the revised report is requested to be submitted to the Commission for approval by meetings were held several times to inform about the amendments to be made, it had failed to provide revised reports.</p>   | <p>Arrangements should be made to finish the functions within the expected time.</p>    |

nearly four years had passed since the orders were declared, even the adaptation phase which was scheduled to be completed in 2018 had not yet been completed.

- (e) As stated in Section 2 of the Public Utilities Commission of Sri Lanka Act No. 35 of 2002, although action was taken to amend the Sri Lanka Electricity Act No. 20 of 2009 to be enable to electricity power industry to obtain the services of this Commission among the public utility industries assigned to the Commission, the legal background for the petroleum and water industry was not prepared in that way. It only acts as a shadow regulator for the petroleum industry according to a Cabinet Decision.
- Paragraph is accepted. The draft of the National Water Supply and Drainage (Amendment) Act, which incorporates the policy framework relevant to the water service industry had been submitted to the Legal Draftsman's Department and forwarded to the Attorney General's Department for legal approval.
- The objectives of the establishment of the Commission should be brought to the attention of the responsible parties.