

## **Ceylon Electricity Board Provident Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of financial statements of the Ceylon Electricity Board Provident Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss and other comprehensive income, the statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statement, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 23(iii) of the extraordinary Gazette No. 1321/18 read in conjunction with provisions of National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Fund give a true and fair view of the financial position as at 31 December 2022, 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**

I expressed qualified opinion 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 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 Fund'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 fund or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Auditor's Responsibility for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism 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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standards (SLAS/SLFRS)**

<b>Non-Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) As per the Conceptual Framework for Financial Reporting published in the Sri Lanka Accounting Standards Bound Volume-2020, all the expenses and assets attributed to the reporting entity should be recognized and presented in the financial statements of the reporting entity. However, operating expenses amounting to Rs.51.82 million which was directly attributable to the Provident Fund for the year under review and fifty-nine items of fixed assets amounting 7.06 million utilized by the Fund, had not been recognized or disclosed in the financial statements for the year under review.	The reporting of the matter within the conceptual framework of financial reporting will be implemented in the ensuing financial year onwards.	Should be complied with the Sri Lanka Accounting Standards.

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| <p>(b) The recoverability of the investment made in Entrust Securities PLC of which total receivable as per the financial statements including default interest is Rs.2,772.76 million is in doubt due to securities relating to the investments were not available under the name of the Fund in the Central Depository System. Further, that matter had been disclosed under the note 11.2 to the Financial Statements. However, an impairment provision of Rs.615.28 million had only been made in the financial statements by the end of the year under review instead of making full provision in terms of the Section 5.5 of the Sri Lanka Accounting Standard on Financial Instruments (SLFRS 09) after analyzing the expected credit loss of the investment.</p> | <p>As litigation is going on the subject matter and an investment reserve has been created against any impairment loss on the said investment through the annual income statement of the Fund instead made a provision for the same. As end of the end of 31st December 2022, the reserve was at Rs. 2,157,483,000.</p>  | <p>-Do-</p> |
| <p>(c) A notice of additional assessment for corporate income tax of the Fund for the year of assessment 2018/2019 had been issued by the Inland Revenue Department on 27 May 2022 and as per the assessment, an amount aggregating to Rs. 731.83 million shall be paid as balance tax payable, interest payable and penalty payable. However, the Fund was not agreed with the assessment and requested an administration review on the matter. However, this dispute was not settled even up to the end of the year under review and the dispute had not been disclosed in the financial statements of the Fund for the year under review in terms of the Section 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12)</p>                                  | <p>The assessment has been issued by an oversight due to non updation the RAMIS of IRD and IRD was properly conveyed. Hence PF will not be liable to pay interest payable and penalty payable on WHT payment. Hence, no contingent liability and no requirement to disclose the nature of the contingent liability as per section 86 of the Sri Lanka Accounting standard on provisions, contingent liabilities and contingent assets (LKAS 37).</p> | <p>-Do-</p> |
| <p>(d) Similarly, as per the letter sent by the Inland Revenue Department on 01 February 2022, the Fund was informed to register for Value Added Tax on the Supply of Financial Services in accordance with the Section 25A of the VAT Act, on or before 15 February 2022 and failure to register would compel to proceed with forced registration as specified in the provision to Subsection 3 of the Section 25A of the VAT Act. However, the Fund had not been registered for VAT on the Supply of Financial Services</p>  | <p>CEB provident fund activities are not falling within the meaning of supply of financial service under the paragraph (d) and (f) of the section 25F of the VAT Act no.14 of 2006. Further, as per subsection 5 (e) of the 25C of the Act, value addition attributable to the fund should be zero and</p>   | <p>-Do-</p> |

even up to the end of the year under review and this dispute had not been disclosed in the financial statements of the Fund for the year under review in terms of the Section 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12).

accordingly, there is no value addition attributable to the Fund for the payment of VAT of financial service. Therefore, this has been referred to the senior Deputy Commissioner by AFM™ letter dated 21.02.2022 FM/AFM™/DFM(Tax)/Provident Fund. In addition to that DFM (PF) has addressed this issue to the Secretary to the Treasury of the Ministry of Finance by his letter dated 26.04.2022.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) Even though the income tax payable account balance as at 01 January 2022 was Rs.501.09 million, an amount of Rs. 502.12 million had been paid as balance income tax payable for the year of assessment 2021/2022. Accordingly, under provision of income tax amounting to Rs.1.03 million was observed which had not been accounted in the books of accounts. Hence profit for the year under review had been overstated by similar amount.</p>	<p>This has already been identified and it will be rectified in the subsequent Financial Statements.</p>	<p>Action should be taken to rectify the financial statements.</p>
<p>(b) Dividend Declaration in terms of the Management Committee Decision taken on 16 March 2023 amounting to Rs. 626.7 million for the year under review related to the members who were retired on 31 December 2022 had not been accounted in the financial statements of the Fund for the year under review and that amount was represented in the balance of Retained Earnings as at 31 December 2022. Further detailed schedule of member balance related to those employees amounting to Rs.4.88 billion was not made available to audit.</p>	<p>Due to the inherent time gap between dividend eligibility and the dividend declaration the crediting of dividends to members' accounts is in two stages as active members as at the dividend crediting date and members retired after 31st December. The reconciliation schedule is provided.</p>	<p>Dividends should be declared and provided for all eligible members out of the profit for the year under review and detailed schedules for member balance should be submitted to audit along with the financial statements.</p>

<p>(c) Retained earnings as at 01 January 2022 and net profit after tax for the year under review totaling to Rs.9.74 billion had been fully declared as dividend for the year under review as per the Management Committee Decision taken on 16 March 2023. However, the difference between the actual dividend declaration of 12.84 percent and the interim dividend declaration of 10.72 percent payable to the members who were retired during the year under review other than members retired on 31 December 2022 had not been allocated from the profit for the year under review since no any profits left remained to distribute.</p>	<p>Considering the year 2022, it was an under-provision and it will be adjusted in computing the dividend rate to be declared for the year 2023.</p>	<p>Dividends for the year should be declared only out of the profits for the year.</p>
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## **1.6 Accounts Receivable and Payable**

### **1.6.1 Receivables**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>An amount of Rs.23.2 million remained receivable from the 133 inactive members for loans granted against member balances more than 2 years as at end of the year under review due to unsettlement of member balances to the deleted and vacated members. Out of that amount, an amount of Rs.9.5 million belonging to the 35 inactive members and an amount of Rs.2.4 million belonging to 86 inactive members remained receivable for more than 6 years and 30 years respectively.</p>	<p>Loans granted for the inactive members are also recorded in our books of accounts and it will be cleared at the time of settling the final settlements of the inactive members.</p>	<p>Appropriate action should be taken to settle the long outstanding loan balances of inactive members.</p>

## 1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) An amount of Rs.125.9 million belonging to the 599 deleted members remained payable for more than 2 years as at end of the year under review due to non- submission of required documents to release the balances of respective members. Out of that, a sum of Rs.58.2 million belonging to the 309 deleted members and an amount of Rs.1.9 million belonging to the 124 deleted members remained payable for more than 6 years and 30 years respectively.	These balances are lying in the financial statements of the Fund due to non-submission of required documents to release the balances of respective members. Therefore, these balances cannot be written off as the liability of the fund is still in existence.	Appropriate action should be taken to settle the long outstanding member balances.
(b) A sum of Rs.401,418 remained in miscellaneous payable account for more than 1 year period without being taken action to clear. However, the accuracy of the balance could not be verified during the audit due to lack of information.	This will be identified and rectified in the subsequent Financial Statements.	Action should be taken to settle the balance remained in the miscellaneous payable account.

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

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation
<b>(a) Provident Fund Regulations</b>		
(i) Rule 11 (i) and (ii)	Every member and the employer shall contribute to the Fund 10 percent and 15 percent respectively from the employee's salary or wages. In terms of the Rule 04 of the Regulations, salary and wages shall mean the basic salary and basic wages respectively excluding all other emoluments, payments and allowances etc. However, contrary to this provision, in computation of	When calculating provident fund contribution, highest allowance was considered, apart from the Consolidated Salary, which is in accordance with the Personnel Circular Ref No: DGM(P)/Policy/GS(1)/181 dated October 23, 2007.

contribution to the Fund, CEB had considered the highest allowance out of the allowances of Exodus Allowance, postgraduate degree allowance and professional allowance / Semi- professional allowance.

- (ii) Rule 22
- In contrary to this provision, Dividend is not accumulated for the Last Year's contribution in which the member is retired therefore the direction given by the Rule No 22 is complied with. -Do-  
dividends had been paid based on the members' credit balances standing as at the end of the year under review, instead of the members' credit balances standing as at the end of the previous year.
  - Net income of the Fund Dividend calculation is done properly after creating reserves and provisions and after deducting any expenses chargeable to the Fund and after making provision if any for depreciation of investments can be distributed among the members. Further, any undistributed income shall be carried forward to the next succeeding financial year. However, contrary to this provision retained earnings as at 01 January 2022 and net profit totaling to Rs.9.74 billion only after deduction of inspection cost and tax for the year under review had been fully distributed amongst members. -Do-

(iii) Rule 31	Amendments to rules shall be lawful for the Ceylon Electricity Board by decision of the Board from time to time and at any time to alter, vary, modify, remake or rescind the rules or any of them, subject to the approval of the Commissioner of Labour, and the Commissioner of Inland Revenue. However, without the approval of the Board, the Commissioner of Labour and the Commissioner of Inland Revenue and not publishing the amendments to the Provident Fund Regulations 2003 through the Gazette Notification, rules relating to powers and duties of the management committee, investment powers, loans to members etc. had been amended by the Fund and acted upon accordingly.	A special committee has appointed and the report has already been finalized. It will be forwarded for the CEB PF committee and the Board for the purpose of regularizing the additional content of this report.	-Do-
(b) F.R. 454(1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Inventory records relating to 42 inventory items used by the Fund had not been maintained.	As per the Clause No. 20 (i) of the Provident Fund Rules, all the Administrative Expenses are borne by CEB and recorded under CEB. Further As per Clause No. 454 (1) provident fund has maintained inventory book and Inventory verification is carried out annually by CEB in conjunction with the annual audit of CEB.	Should be complied with the Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the Provident Fund for the year under review amounted to a profit of Rs. 10,684 million and the corresponding profit in the preceding year amounted to Rs. 5,475 million. Therefore, an improvement amounting to Rs. 5,209 million of the financial result was observed. The main reason for the improvement is increase in interest income by Rs. 5,199.6 million during the year under review.

## 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are as follows.

<b>Income/ Expenditure</b>	<b>2022</b>	<b>2021</b>	<b>Increase / (Decrease)</b>	<b>Percentage</b>
	<b>Rs. million</b>	<b>Rs. million</b>	<b>Rs. million</b>	<b>%</b>
Interest income	<b>10,675</b>	5,475	5,200	95
Other income	<b>18</b>	5	13	242
Other				
Operating Expenses	<b>9</b>	6	3	55

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) An amount of Rs.2.3 billion had been invested in three Treasury Bonds through Entrust Securities PLC (ESP) in the years 2008 and 2009 and it was revealed in the year 2015 that securities relating to the investments are not available under the name of the Fund in the Central Depository System. Accordingly, CEB had lodged a complaint to the Financial Crimes Investigation Division (FCID) against ESP on 09 December 2015 and the FCID had filed a case against ESP. Further, CEB had filed a civil case against ESP to recover the face value and the defaulted coupon interests. The face value and the defaulted coupon interests of the investments matured in the years 2018 and 2019 was Rs. 2.8 billion and both cases are being heard. However, proper action had not been taken in timely manner against the responsible officers who were serving the Fund at that time, for their negligence and they were allowed to retire from Ceylon Electricity Board.	Ceylon Electricity Board Provident Fund has initiated a Civil Case against Entrust Securities PLC in the District Court of Colombo, to recover the Face Value and the Defaulted Coupon Interest Payments therein for the said investment. Apart from that CLO is in the process of arranging the letters to CBSL, as NSB is appointed the liquidator for Entrust Securities Ltd.	(i) Should ensure that a proper internal control mechanism is in place to avoid such incidents in future. (ii) Should ensure that all reasonable action had been taken to recover the loss made. (iii) Action should be taken against the responsible officers for their negligence.
(b) An unidentified contribution of Rs.385,210 remained outstanding for more than one year without being taken action to clear.	This will be identified and rectified in the subsequent Financial Statements.	Action should be taken to clear the unidentified contribution remained in the financial statements.