

Public Utilities Commission of Sri Lanka - 2022

1. Financial Statements

1.1. Qualified Opinion

The audit of the financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Commission 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

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 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 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 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 Company'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 the Commission 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 of the Commission 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

Audit Issue	Management Comment	Recommendation
(a) As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful lives of the fully depreciated assets amounting to Rs.66.8 million that were in use even at the end of the year under review had not been reviewed and accounted for.	It is practically a difficult task to review the effective life of all fixed assets belonging to all 4 categories. However, it is expected to carry out the relevant activities in the year 2023, taking into account this audit observation.	Should comply with the Sri Lanka Accounting Standards.
(b) In terms of the paragraph 5.5 of Sri Lanka Financial Reporting Standard No. 09, due to not making necessary adjustments after a formal assessment of the recoverability, the fair value of annual regulatory levy in the financial statements amounting to Rs. 252 million receivable as at 31	Necessary adjustments will be made in the related accounts in 2023 as per the instructions given by the Ministry of Finance.	Should comply with Sri Lanka Financial Reporting Standards and take appropriate action regarding long outstanding balances.

December 2022 could not be ascertained during the audit due to the following reasons.

- (i) In the above balance, a sum of Rs.81.8 million due from Ceylon Electricity Board for the years 2014 and 2015 is included.
- (ii) As per the books of accounts of the Commission, the balance of the annual regulatory levy due from the Ceylon Electricity Board at the end of the year under reviewed was Rs.249.7 million. However, according to the Ceylon Electricity Board, that balance was Rs.125.4 million and hence a difference of Rs.124.3 million was observed.

1.5.2 Documentary Evidences not made available for Audit

Item	Amount	Evidence not made available	Management Comment	Recommendation
Annual Regulatory Levy Receivable	Rs.2.24 million	Balance Confirmations	All institutions that have not paid the annual regulatory levy due on 31.12.2022 have been notified by letters on 25 July 2023 to pay the regulatory levy.	Balance confirmations should be obtained in respect of annual regulatory levy receivable as shown in the financial statement.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Utilities Commission of Sri Lanka Act No.35 of 2002			
(i) Paragraph 16 & 17	Even though the infrastructure industries in Sri Lanka such as Electricity, Petroleum, fuel and water related industries should be regulated, the relevant acts to monitor Petroleum Corporation and National Water Supply & Drainage Board had not been amended. As such it had been failed to regulate the industries such as Petroleum and Water for more than 20 years.	The Commission has made all the necessary arrangements regarding the petroleum industry, but due to the absence of the relevant Act, these arrangements have been delayed. There is a need for a separate act for the industry to build linkages with water service providers. For this purpose, working closely with the Ministry of Water Supply, the preparation of the necessary background for preparing these legal arrangements has already been completed.	Action should be taken to prepare the relevant legal framework for regulating Petroleum and water.

- (ii) Paragraph 31 (4) Approval of the Minister of Finance had not been taken for the investment amounting to Rs.675 million made by the Commission at the end of the year under review. Necessary actions had been taken to get the approval of Minister of Finance. Should comply with the provisions of the act.
- (b) **Financial Regulations of Democratic Socialist Republic of Sri Lanka**
- (i) F.R.261 At the end of the year under review, the bank balance as per the cash book was Rs.163,760 and as per the bank statement was only Rs.707,410. However, at the end of the year under review, 27 cheques had been written for the expenses payable amounting to Rs.7.6 million and they were not recorded in the cash book instead were credited to the cheques in hand control account and had been retained at hand. Rs.7,648 859 is the sum of a part of the bills to be paid by the commission by 31.12.2022. These unissued cheques are held in the temporary account. Should act in accordance with the financial regulations and the accrued expenses should be prioritized and settled.
- (ii) F.R.371 and 371 (b) Ad hoc sub imprest aggregating to Rs.6 million ranging from Rs.1,480 to Rs.536,250 had been given in 70 instances to 09 non-executive officers during the year under review and ad hoc sub- imprest aggregating to Rs.5.2 million had been given to 11 executive officers in 28 instances exceeding the limit of Rs.100,000 during the year under review. After the introduction of the new system, the activity of obtaining advances is being done according to the relevant new system under a proper supervision. Should act in accordance with the financial regulations.

Further as per the sample audit check, ad hoc sub-imprest of Rs. 3.1 million had been issued to 7 officers of the commission was not settled within the stipulated time. However, sub-imprest had been issued again to those officers.

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| (iii)F.R1645 | Vehicle logbooks had not been properly updated. | Action had been taken to maintain the log books correctly in the future. | -Do- |
| (c) Paragraph I and II of the Management Services Circular No.03/2018 dated 18 July 2018. | (i) A sum of Rs.58.9 million had been paid during the year under review under 10 types of allowances to the staff of his organization without obtaining the prior approval of the General Treasury and the recommendations of the National Salaries and Cadre Commission. | In terms of the Section 12 (1) (d) of the Public Utilities Commission of Sri Lanka Act No.35 Of 2002, it has been stated that the Commission shall fix the rates at which such staff shall be remunerated. Further as per the Section 3 thereof, it has been stated that the Commission may make rules in respect of all or any of the matters referred to in the section 12(1). Accordingly, the Commission had prepared the necessary manuals and guidelines regarding staff allowances and submitted them to the Commission and | The approval of the General Treasury should be obtained as per the above circular for the Institutional administration and Procedural Code prepared under the provisions of the Act. |

made payments
subject to the
Commission's
approval.

(ii) Action had not been taken to obtain the approval of the Treasury for the scheme of housing and property loan which is implemented for the permanent employees of the Commission subject to the maximum credit limit of Rs.8 million and repayment period of 15 years. Accordingly the Commission had reimbursed Rs.3.9 million as interest during the year under review for the housing and property loans aggregating to Rs.95.6 million obtained by 20 officers from Public and Private Banks, contrary to the provisions in the Public Administration Circular No.15/2007 (IV) dated 15 December 2020.

In relation to this matter, the commission has legally done according to the provisions of the Commission act. According to the human resource and administrative manuals approved by the Commission, reimbursement has been made only for the approved amount of interest for the relevant property loans.

Approval of the treasury should be obtained for the housing and property loan scheme and the Commission should reimburse the interest in accordance with the Public Administration circulars.

(d) Public Enterprise
Circular No.1/2015
(ii) dated 14 January
2022

A sum of Rs.1.7 million approximately for 4950 liters of fuel had been paid during the year under review to 13 officers of the Commission bearing the posts of Director General, Deputy Director General and Director in excess of the

In relation to this matter, the commission has legally done according to the provisions of the Commission act.

Should comply with the provisions of the Public Enterprise Circulars when implementing the provisions of the Act.

approved monthly fuel allowance to be paid to officers entitled to official vehicles as per the circular.

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| (e) Paragraph 3.3 of the Public Enterprise Circular No. 1/2015 dated 25 May 2015 and paragraph 2 of the Public Enterprise Circular No.1/2015 (i) dated 27 October 2016. | As a result of 25 officers of the Commission had been paid Rs.60,000 monthly official vehicle allowance during the year under review, an excess vehicle allowance of Rs. 2.7 million had been paid to those officers. In addition to that a sum of Rs.2.5 million had been paid as Rs.20,000 each monthly by the Commission to 12 officers receiving vehicle allowances. | In relation to this matter, the commission has legally done according to the provisions of the Commission act. | -Do- |
| (f) Management Services Circular No. 30 of 22 September 2006 and directive No.09 of the Committee on Public Enterprises held on 06 July 2022 | Approval of the Department of Management Services for the Scheme of Recruitment and Promotion Procedure of the Commission had not been obtained. | In relation to this matter, the commission has legally done according to the provisions of the Commission act. | Should act in accordance with the Management Services Circulars and directions of Committee on Public Enterprises. |
| (g) Paragraph 3.1 and 3.3 of the Public Administration Circular No. 30/2016 dated 29 December 2016 | Fuel consumption had not been tested or records of fuel test of vehicles had not been maintained in relation to the vehicle utilized by the Public Utilities Commission. | Arrangements have been made to carry out this work in the year 2023. | Should act in accordance with the provisions of the Public Administration Circulars. |

(h) Paragraph 2 (b) of Asset Management Circular No. 04/2022 dated 25 January 2022 and Paragraph 2 (b) of Asset Management Circular No. 05/2020 dated 02 October 2020	The Motor car bearing number CAC-6509 and the model of PEOGEOT 408 purchased at a cost of Rs.5,750,000 on 15 December 2014 had remained idle for almost 06 months from 10 February 2023 to 31 August 2023 without being utilized.	Action is being taken to do a study in this regard and obtain a report on that since it is suitable to sell it instead of incurring further costs for this car.	Should act in accordance with the provisions of the Asset Management Circulars.
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(i) Financial Guidelines of the Public Utilities Commission

(i) Paragraph 5.5.2 and 5.5.3	According to the sample check of vouchers in the year under review, a sum of Rs.1,176,299 had been paid in 12 instances without the approval of a responsible officer.	After introducing the new system for this purpose, the work of obtaining advances is being done according to the relevant new system under a proper supervision.	Should act in accordance with the financial guideline manual of the Commission.
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(ii) Paragraph 13.2.2	As per the sample audit, 51 allowance vouchers amounting to Rs.1,137,456 had been paid to the Commission officers without proper certification and 19 overtime allowance vouchers amounting to Rs.313,550 had been paid without approval.	From the year 2023 onwards duly signed by the Approving Officer and the Certifying Officer at all places accurately.	-Do-
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(iii) Paragraph 12.8.3 (b) (iii)	Purchasing advances could be issued only for the officers of the staff. However, contrary to that a advances for the supply of goods and services aggregating to Rs.4.7 million had been	This system has now been corrected and cheques to institutions are not recorded as advances.	-Do-
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paid by the office of the Commission to 18 external parties in 27 instances. Accordingly it had paved the way to use irregularly the funds of the Commission by external parties.

(iv) Paragraph
12.8.3.(b) (iv)

The advances should have been settled within 03 days from the completion of the work for which ad hoc sub imprest were issued. However, sub- impret totaling to Rs.6.9 million issued to 27 officers and external institutions in 71 instances had been settled after a delay ranging from 12 days to 195 days. Further, the balance of unsettled advances at the end of the year under review was Rs.205,670 and the delay of settlement of those were in range from 119 days to 317 days.

The respective officials have been informed to settle the advance without delay and the respective officials have been informed to strictly monitor and control the advance settlement.

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2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.287.6 million as compared with the corresponding surplus of the preceding year amounting to Rs.109.5 million. Accordingly, an improvement of Rs. 178.1 million was observed in the financial result. This improvement was mainly due to increase of the revenue by 44 percent and decrease of the consultancy service expenses and operating expenses by 41 percent and 5 percent respectively.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of increase / decrease in major income and expenditure items of the Commission of the year under review compared with the preceding year is shown below.

Description	Variance		Reason for the Variance
	Increase/ (Decrease) Rs.Million	Percentage (%)	
Variable Registration Fee	70	29	Increase in sales revenue of lubricants selling companies.
Annual Regulatory Levy	56	29	Increase in rates of annual regulatory levy as compared with the preceding year.
Other Income	75	295	Increase in investment income
Consultancy Service Fee	(11)	(41)	Decrease in consultancy service expenditure

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) The work of establishing 6 computer systems which had been commenced during the preceding year should have been completed during the year under review. However, it had not been done so and a sum of Rs.6.6 million had been spent for that at the end of the year under review.	It has been informed that it will be completed in the months of July and August 2023.	Close monitoring should be done to avoid contract delays.
(ii) A sum of Rs.8.8 million had been settled by the ad hoc sub-imprest as travelling expenses, subsistence and combined	The advance payment has been made as per the approved procedure of the institute. As such Thus Rs. 8,807,632 had been	The expenses relating to the staff should be dealt in accordance with the usual payment procedure.

allowances of 42 officers for the 79 public awareness programs held in the year 2022 without following usual expenditure procedure of the Commission for traveling expenses, food and lodging allowances of the officials.

spent for activities to be done according to the Act and activities to be done outside the institution. As per the new system, payments will not be made as emergency payments.

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| <p>(iii) Since ad hoc sub-impressts had been issued exceeding the amount required without estimating the expected expenditure accurately, that excess money had been resettled in cash itself after keeping in hand for a period of time. As per the random audit the total amount of advances given so was Rs.2.9 million. Out of that advances amounting to Rs.134,070 issued in 4 instances had been resettled in cash without being utilized for any purpose.</p> | <p>At present, all the action had been taken to reduce such situations.</p> | <p>More realistic and accurate cost estimates should be prepared and attention should be paid while approving them.</p> |
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3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(i) In terms of the paragraph 2.1 of the Circular No. 8/2019 dated 17 December 2019 of Ministry of Finance, Economic and Policy Development, all public institutions shall register in the e-procurement system before 31 January 2020 in order to procure goods, works and consultancy services in their institutions and as per the paragraph 2.4, the annual procurement plan is supposed to be uploaded on the official website of e-procurement by 31</p>	<p>The relevant officials were informed to comply with the circular No. 8/2019 dated 17 December 2019.</p>	<p>Should act in accordance with circulars.</p>

December of every year. However, Commission had not acted accordingly even by the end of the year under review.

- (ii) In order to implement the e-procurement process as per paragraph 2.2 of the above circular, an executive officer with knowledge of public procurement and use of computers should be appointed as liaison officer. However, Commission had not acted accordingly
- It was informed to comply with the said circular.
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4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the progress report of the year 2022, no progress whatsoever had been achieved with respect of 07 activities and progress of 16 activities remained less than 30 percent.	This was due to the Covid situation, devaluation of the rupee etc.	The relevant activities should be carried out as per the plan as much as possible.