Public Utilities Commission of Sri Lanka – 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Public Utilities Commission of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

(a) Even though there was no disposal of assets, a sum of Rs.1,929,239 had been adjusted to the Revaluation Reserve as disposal of assets.

(b) Despite the non-execution of the activities relating to the expenditure, a sum of Rs.2,470,000 had been debited to the Expenditure Accounts under different allocations, thus understating the surplus for the year by a sum of Rs.2,470,000.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions		Non-compliances
(a)	Financial Regulation 845(1) Appendix 26	A Register of Telephones had not been maintained for the year 2011.
(b)	Public Enterprises Department Circular No. PED/12 of 02 June 2003	
	Section 8.3.4	All the bills of official telephones had been settled by one voucher without taking action to determine the monthly limit on telephone bills of officers.
(c)	Section 24 of the Public Finance Circular No. PF/PE/6 of 31 January 2000 and Section 8.7 of the Public Enterprises Department Circular No.PED/12 of 02 June 2003	Even though the Pay As You Earn Tax should be paid by the respective officers, a sum of Rs.456,676 had been paid out of the Fund of the Commission during the year under review.
(d)	Public Enterprises Department Circular No. PED/33 of 19 December 2005	The Commission had invested a sum of Rs.49,999,955 in State Banks without the approval of the Treasury.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the funds of the Commission during the year under review had resulted in a surplus of Rs.55,517,633 as compared with the corresponding surplus of Rs.20,725,564 for the preceding year. Comparison of the financial result of the year under review with the preceding year indicated an improvement Rs.34,792,069. This improvement can be analysed as follows.

	Variance		
	Favourable	Adverse	
	Rs.	Rs.	Rs.
Income			
Variance Registration Fee	7,111,457	-	
Annual Regulatory Fee	43,136,500	-	
Licence Application Fee	-	220,000	
Other Income	1,853,893		
	52,101,850	220,000	51,881,850
Expenditure			
Personal Emoluments	-	8,259,647	
Pensioning Provisions	-	919,750	
Local and Foreign Travel Expenses		8,576,253	
Consumables	37,831		
Contractual Services	1,434,745		
Other Services	954,661		
Maintenance and Repairs of Capital Assets	4,750		

Finance Cost		4,850	
Identified Losses		291,856	
Provision for Depreciation		1,590,180	
Provision for Gratuity	21,022		
Prior year Adjustments	99,746		
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	2,552,755	19,642,536	17,089,781

Increase in the Financial Result			34,792,069
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3. Operating Review

3.1 Performance

The following matters were observed at a test check of the performance of the Commission for the year 2011.

(a) Recurrent expenditure and Capital expenditure amounting to Rs.245,034,205 and Rs.45,474,980 respectively had been incurred from the year 2004 up to the year under review to function as the regulator for the electricity, water and petroleum Industries in terms of Section 14(2)(1) of the Public Utility Commission of Sri Lanka Act, No.35 of 2002. The Commission functions as the regulator of the electricity industry with effect from 08 April 2009 in terms of the Sri Lanka Electricity Act, No. 23 of 2009 and the Commission could not function as the regulator of the water and petroleum industries as the amendments to the respective Acts had not been made.

(b) In terms of Section 9 of the Sri Lanka Electricity Act, No. 23 of 2009 licences cannot be issued to companies generating electricity with capacity exceeding 25 megawatts where 50 per cent of the share capital is not owned by the Government. Even though licences had not been issued even at present to 06 companies generating electricity exceeding 25 megawatts, the electricity generated by those companies had been added to the electricity capacity of Sri Lanka. Action had not been taken to amend the Section 9 of the Act to rectify that status.

(c) When computation of 0.5 per cent of the total annual sales of the companies engaged to lubricants market exceeds Rs.1 million, such excess should be recovered as the variable registration fee of the Commission. Even though 14 companies engaged in the lubricants market had been registered with the Commission by the end of the year 2011, only 8 of those companies had exceeded such Rs.1 million threshold of the total sales of those companies. Variable registration fees amounting to Rs.25,225,485 had been received from those 08 companies for the year under review.

3.2 Management Inefficiencies

(a) Action had not been taken to dispose of 10 items costing Rs.1,324,436 shown under the items eliminated from books as at 31 December 2009 and 07 items furniture and fixtures costing Rs.83,344 shown under the items eliminated from the books.

(b) Action had not been taken to call for particulars from 02 institutions to ascertain whether the requirement to pay the variance registration fee exists or for the recovery of the variable registration fee.

3.3 Uneconomic Transactions

The Commission had incurred uneconomic expenditure amounting to Rs.291,690 during the year 2011 comprising a surcharge of Rs.5,991, compensation to employees amounting to Rs.284,000 and other losses amounting to Rs.1,699.

4. Accountability and Good Governance

4.1 Audit and Management Committee

The Audit Committee and the Management Committee had not been appointed in terms of the Circular No. PED/12 of 02 June 2003 of the Department of Public Enterprises.

4.2 Budget

Variances ranging from 21 per cent to 175 per cent were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

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

(a) Accounting for Fixed Assets
(b) Audit Committee and Management Committee
(c) Investments