

Public Utilities Commission of Sri Lanka 2013

The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 34 of the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the

auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial statements

2:1 Qualified Opinion

In my opinion, except for the matters described in paragraph 2:2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2:2 Comments on Financial Statements

2:2:1 Accounting Deficiencies

According to the accrual concept of the Sri Lanka Accounting Standard No. 1, the income and expenditure relating to the year under review only should be shown in the

comprehensive income statement. Nevertheless, allocation amounting to Rs.4,832,800 relating to activities for which agreements had not been entered into and those not executed in the year 2013 had been brought to account as the expenditure of the year under review.

2:2 Unexplained Differences

A difference of Rs.843,895 in the reconciliation of ledger accounts and the schedules of the fixed assets relating to computers and office equipment relating to the year under review and differences amounting to Rs.1,194,568 and Rs.915,919 respectively in the reconciliation of the ledger accounts and the schedules relating to depreciation on furniture and fittings and the depreciation on computers and office equipment were observed.

2:3 Accounts Receivable and Payable

The following observations are made.

- (a) According to the agreements entered into with the Commission in connection with the regulation of lubricants, the variable registration fees should be paid half yearly within 30 days. Nevertheless, the sums of Rs.487,743 and Rs.1,119,122 receivable from 02 institutions in respect of the preceding year and the year under review respectively had not been recovered even by 31 December 2013.
- (b) According to condition No. 11 of the Generating Licence issued to the generating licence holders, such licence holders should pay the annual regulatory fee to the Commission on or before 30 June of the relevant year or within 30 days from the date on which the supply of electricity to the systems was commenced. Nevertheless, the regulatory fees amounting to Rs.252,000 relating to the years 2012 and 2013 had not been recovered even by 31 December 2013.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations.	Non-compliance
(a) Treasury Circular No. 842 of 19 December 1978.	The Register of Fixed Assets had not been maintained in the updated manner.
(b) Treasury Circular No. 1A1/2002/02 of 28 November 2012.	The Register of Computers and Accessories had not been updated.
(c) Paragraph 02 of the Public Finance Circular No. 431 of 24 April 2008.	Even though services of for air travel should be obtained from the airline companies of the Government, an officer of the Commission had obtained the services of a private airline company.
(d) Paragraph 24 of the Public Finance Circular No. PF/PE/6 of 31 January 2000.	The Pay As You Earn Tax amounting to Rs.843,153 payable by the employees had been paid from the Commission Fund in the year under review as in the preceding years.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Commission for the year under review had resulted in a surplus of Rs.9,482,122 as compared with the corresponding surplus of Rs.29,967,560 for the preceding year, thus indicating a decrease of Rs.20,485,438 in the financial results as compared with the preceding year. The decrease of the variance registration fees by a sum of Rs.4,225,248 and the increase of personnel emoluments, the expenditure on foreign and local training and the other expenditure by sums of Rs.3,671,380, Rs.3,562,380 and Rs.3,992,574 respectively as compared with the preceding year had been the main reasons in that connection.

3:2 Analytical Financial Review

According to the financial statements presented, the current ratio of the Commission for the year under review and the preceding year had been 13:1 and 10:1 respectively and as such it was observed that a larger amount of current assets is maintained for the settlement of each current liability while 24 per cent of the total current assets represented short term investments. As such the current assets management of the Commission had not been at the optimum level.

4. Operating Review

The following observations are made.

- (a) According to the Annual Report prepared by the Commission the number of licences issued during the years 2012 and 2013 for the Renewable Energy Development Projects and their capacity are given below.

Technology	2012		2013	
	Number of Licences	Capacity (Megawatts)	Number of Licences	Capacity (Megawatts)
Hydro Electricity	42	91.30	10	37.8
Wind Power	04	28.40	01	9.8
Bio Mass	10	51.00	01	10.0
Solar Energy	01	0.12	--	--
	57	170.82	12	57.6
	====	=====	====	====

- (b) The Commission had commenced the issue of licences for the generation of electricity in the year 2009, and had issued 188 electricity generation licences to the small scale generators of electricity from that year up to the year 2013. But 67 of those licence holders had not commenced the generation of electricity by 31 December 2013. A specific period for the commencement of commercial operations by the licence holder since the issue of licences had not been introduced while the Commission had not taken follow up action on the licence holders.

(c) Consumer Advisory Committee

An examination of the reports of the Consumer Advisory Committee meetings for the year under review revealed that, the members of the Advisory Committees of many provinces out of the 09 provinces had not been appointed for certain months while it was revealed that a member for the North Western Province had not been appointed for the entire year under review. Even though sum of Rs.905,030 had been spent in the year under review for the Consumer Advisory Committee, it was not possible to be satisfied in audit that the objectives expected from the appointment of the Committees had been achieved.

4:2 Management Inefficiencies

The following observations are made.

- (a) An advance of Rs.55,000 paid to an officer who had participated in a seminar conducted by the South Asian Infrastructure Facilities Regulatory Association in Bangladesh in the year 2012 had not been settled even by 31 December of the year under review.
- (b) Instead of calling for competitive quotations for the procurement of hired motor vehicles through publication of an advertisement in terms of Section 3.2 of the Procurement Guidelines 2006, a private institutions had been selected over a number of years by calling for quotations from only 03 institutions. As the quotations had been revised annually and new agreements had been entered into with that institution the Commissions had been deprived of the opportunity of procurement of a service favourable to the Commission. Motor Vehicle hire charges amounting to Rs.479,538 had been paid to that institution in the year under review alone.
- (c) A penalty of Rs.12,500 had been paid due to the delay in the payment of the semi luxury tax for the year 2012/2013 on a motor vehicle of the Commission.

4:3 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Commission as at 31 December 2013 had been 45 while the actual cadre had been 41. As such 4 vacancies in the cadre were observed.
- (b) In the recruitment of officers and the determination of salaries, action in terms of paragraph 01 of the Circular No. 39 of 26 May 2009 of the Department of Management Services should be taken by referring the proposals for the revision of salaries and allowances of the Public Sector institutions for the recommendations of the National Salaries and Cadre Commission and obtaining the approval of the Department of Management Services for such recommendations. But contrary to that the Commission had recruited 03 officers in the year 2013 and carried out a new revision of the salaries with effect from October 2013.

5. Accountability and Good Governance

5:1 Budgetary Control

Significant variances existed between the budget and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5:2 Unsettled Audit Paragraphs

Even though the Committee on Public Enterprises had, at the meetings held on 17 October 2011 and 09 August 2012, directed that action should be taken in accordance with the Management Services Circular No. 39 of 26 May 2009, those directives had not been implemented up to date.

6. Systems and Controls

Deficiencies in systems and controls 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) Foreign Travel
- (b) Recovery of Licences Fees and Regulatory Fees