CEYLON ELECTRICITY BOARD - 2012

1. Financial Statements

1.1. Qualified Opinion - Board

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Electricity Board as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion - Group

In my opinion, except for the effects of the matters described in paragraphs 1.2 and 1.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Board and its subsidiaries as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Group Financial Statements

Ownership of the CEB in respect of the following subsidiary companies had not been disclosed in the financial statements of the year under review.

	Name of the Company	Direct Interest to the		
		LTL Holdings (Pvt) Ltd %	LECO (Pvt) Ltd %	Group Interest to the CEB %
(i)	Pawan Danavi (Pvt) Ltd	51	-	32
(ii)	Nividu (Pvt) Ltd	48	-	30
(iii)	Nividu Assupinella (Pvt) Ltd	48	-	48
(iv)	Ante LECO Metering (Pvt) Ltd	-	70	38.5

1.3 Comments on Financial Statements of the Ceylon Electricity Board

1.3.1 Sri Lanka Accounting Standards (SLAS) and Accounting Policies

The following observations are made.

(a) **LKAS 2 – Inventories:** According to the Standard, the inventories shall be measured at lower of cost or net realizable value and cost of inventories shall be assigned by using the first in first out (FIFO) or weighted average cost formula respectively. But the Board uses standard prices for valuing its inventories at Distribution Regions contrary to the Standard.

In accordance with the directions issued by the Institute of Chartered Accountants of Sri Lanka, standard costs would be allowed for inventory valuation where prices are subject to fluctuation; otherwise the value of inventories shall be computed at the lower of cost or net realizable value.

Following observations are made in this regard.

(i) According to the prevailing situation prices had only been increased but not fluctuated. It was clear that the Board had overestimated their standard prices than actuals in most instances. For instance the net income recognized by overestimation of the material prices and labour rates in 2012 was Rs. 1,647 million (2011 – Rs. 2,920 million) and Rs. 1,034 million (2011 – Rs. 803 million) respectively. In addition to that a sum of Rs. 1,574 million (2011 – Rs. 1,255 million) had been charged to the cost of the jobs as overheads (computed by applying standard rate for actual labour hours used) which had been recognised as an income in the statement of income.

As a result, the fair valuation of the stock, working progress, maintenance and completed jobs shown in the financial statements as at 31 December 2012 was not observed.

(ii) Uniform policy for valuing the assets constructed by the Board had not been followed. For instance, the Transmission Lines and certain Distribution Lines constructed out of foreign funded Projects had been valued at actual cost while other jobs such as Service Main Connection

(SMC), System Augmentation (SYA), Jobs carried out from Iran funded Projects, Gamanaguma, Decentralized Budget (DCB), etc. had been valued at standard cost.

(b) **LKAS 20 – Accounting for Government Grant and Disclosure of Government Assistance –** The foreign aid and the capital grant received by the Board for generation, transmission and distribution programmes including rural electrification programmes had been treated as contributed capital for a longer period even though certain such grants had not been considered by the General Treasury as the capital contribution. According to the financial statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year 2012, the total capital contribution to the Board amounted to Rs. 96 billion and according to the financial statements of the Board that had been shown as Rs. 110 billion. Accordingly, the accounting treatment made in the financial statements for the difference of Rs.14 billion of Government grant had not complied with the Standard.

(c) **SLFRS 1 -- First Time Adoption of the SLFRS -** Adjustments for the following items in the financial statements of the Board for the year under review had not been made.

(a) Inventory and Others
(b) Staff Debtors
(c) Leases/PPE
(d) Investment of Insurance Reserve Fund
(e) Trade Payables
(f) Amount Due to Related Parties

(d) **LKAS 24 – Related Party Disclosures** - The Board had not disclosed the transactions between the related parties by disclosing the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the Financial Statements as required by LKAS - 24 . Following contracts with the companies which have relationship with the Board had been observed at the audit.

(i) Vauniya Kilinochchi Transmission Line Project – JBIC Funded Project
(ii) Transmission System Strengthening Transmission Line Project - ADB Funded Project

(iii) Transmission System Strengthening Eastern Province Project - ADB Funded Project (Contact amount was Rs. 1,345 million)
(iv) North Eastern Power Transmission Development Project - ADB Funded Project (Contact amount was Rs.425 million)
(v) Augmentation Grid Substation Project Phase II - ADB Funded Project (Contact amount was Rs.1,815 million)
(vi) Augmentation Grid Substation Project Phase I - GOSL Funded Project
(vii) Galle Grid Substation, Augmentation and Rehabilitation Project
(viii) Augmentation of Grid Substation for Absorption of Renewable Energy Project – Augmentation of Seethawaka, Balangoda, Badulla, Nuwara Eliya, Ukuwela Grid Substations and Construction of New Mahiyanganaya Grid Substation (Contact amount was Rs. 2,336 million)

1.3.2 **Accounting Deficiencies**

The following accounting deficiencies were observed in audit.

(a) In contrary to the policy disclosed in the financial statements damages caused to the PPE other than heavy damages had not been charged against the Insurance Escrow Fund and those losses and damages had been met out of the CEB's funds. Therefore, the purpose as specifying in the accounting policies had not been fulfilled. In the sample test, it was revealed that Rs. 71 million of such expenditure had been met out of the funds of the Board in 2012 without meeting the expenditure from the Insurance Fund. Further, the loss occurred to the Board from that damage had not been ascertained and adjusted in the financial statements accordingly and also proper records were not made available to ascertain the loss to the properties of the Board as the practice followed was to charge them directly against the income.

(b) Interest income derived from investment of Insurance Escrow Fund had been treated as income of the Board since the inception of the Fund without being treated as an income of that Escrow Fund. However, after pointing out the deficiency in audit the error had been rectified since 2011 but adjustments had not been made for the errors made in previous years. Hence, the Insurance Escrow Fund balance and its Investment balance could not be tallied. For instance, the unadjusted balance for recent past six years from 2005 to 2010 was Rs. 3,082 million.

(c) Withholding Tax recovered in the year of assessment 2010/2011 amounting to Rs. 119 million had been inappropriately shown as recoverable and as a result, the other receivable balance and the loss shown in the financial statements as at 31 December 2012 had been overstated and understated by that amount respectively.

(d) The amount receivable from the Ministry of Power and Energy in respect of the Lighting for special occasions as at 31 December 2012 was a credit balance of Rs. 62 million but the actual amount receivable as per the computation done by the audit based on the correspondence available in the relevant file was Rs. 14 million. Hence, the other debtors shown in the financial statements had been understated by Rs. 76 million.

(e) The amount receivable from the Ministry of Power and Energy in respect of the Security Lighting for Members of Parliament as at 31 December 2012 was Rs. 8 million but the actual amount receivable as per the records maintained by the Ministry was Rs.6 million. Hence, the other debtors shown in the financial statements had been overstated by Rs. 2 million.

(f) Following observations are made in respect of ascertaining the fair value of the motor vehicles and their accounting as at 01 January 2011, 31 December 2011 and 31 December 2012.

    (i) Proper instructions and guidance had not been given to the respective Committees and therefore, uniform method had not been followed in ascertain the market values. For instance, the Committees of the Head Quarters, Asset Management and Centralized Services and Distribution Region 1 had ascertained the market value as at 01 January 2011 and added the cost of the vehicles purchased thereafter. However, the valuation Committees of the other Divisions had ascertained the market values as at 31 December 2012 first and thereafter, the market values of the vehicles as at 31 December 2011 and 01 January 2011 had been computed by discounting those market values at 6.7 per cent and 7.6 per cent respectively.

    (ii) Due to the above lapse (computation of the fair values of the motor vehicles of the year 2011 based on the market values of the year 2012) the Committee recommended market values had not been reflected in the financial statements for the year under review and as a result, the balance of the motor vehicle account shown in the financial statements had been understated by Rs. 396 million.

(iii) Sixty three vehicles had been condemned by the Valuation Committees because they were not road worthiness and recommended to dispose. However, disposable values of those vehicles had not been ascertained.

(g) The Board had adopted deferred tax adjustments in its financial statements for the first time in 2012 and restated the previous financial statements as at 01 January 2012 and as at 31 December 2012 as complied with SLFRS.

Total value of asset which had not been included in the tax returns since 1982 was Rs. 43,894 million. Due to that lapse, the Board could not be able to deduct the relevant portion of capital allowance of those assets from the taxable income in ascertaining the tax liability. Hence, the Board had to treat that asset value of Rs. 43,894 million in deferred tax calculation as permanent differences which had resulted to understate the brought forward tax loss approximately by Rs. 12 billion. Ultimately that mistake becomes a loss to the Board because that Rs. 12 billion was not claimable from future tax liability.

(h) Profit from disposal of PPE amounting to Rs 55 million and Rs. 57 million in 2012 and 2011 respectively had not been re-adjusted according to the amendments made in the financial statements based on the application of new SLFRS. The impact of failure could not be ascertained as the details of the disposed assets were not made available to audit.

(i) A sum of Rs. 30 million of stock items which had been identified as damaged stock during the annual stock verification carried out in 2011 had not been taken into account by 2012 verification team and as a result, both stock balance and provision for non-moving, slow moving and damaged stock shown in the financial statements had been understated by the similar amount.

(j) Seven payments totaling Rs. 18 million made to suppliers by the Western Province South (WPS) II Office in 2012 had inappropriately been shown in the financial statements as payable even though they had supplied the items as at 31 December 2012.

(k) High Tension (HT) and Low Tension (LT) lines, having net book value of Rs. 1,505 million as at 31 December 2012 in Hambanthota Aria Office had been removed due to development in the Area but they were in both Fixed Asset Register and Ledger Accounts of the Regional Office without making any adjustment even though it had been reiterated in the annual physical verifications since 2009. Due to that lapse the PPE shown in the financial statements as at 31 December 2012 had been overstated by the similar amount.

Further, impact to the revaluation reserve shown in the financial statements from non-removing of the costs of those HT and LT lines from the ledger accounts could not be ascertained in audit due to non-availability of relevant information such as revalued amounts, removal dates, scrap values etc.

(l) Price variance, relating to Transmission and Distribution lines constructed under SIDA Project in Distribution Region 4 which had already been capitalized in previous years, amounting to Rs.121 million had been capitalized during the year under review. That Price Variance had been shown as a separate item in the Fixed Asset Register under the Transmission and Distribution lines without adding to the respective asset account (particular Transmission or Distribution line).Further, the impact of the impairment due to the above correction had not been ascertained and adjusted in the financial statements accordingly.

1.3.3 Unreconciled Differences

The following unreconciled differences were observed.

(a) The amount due from LECO as at 31 December 2012 as per the financial statements of the Board had not been reconciled with the financial statements of the LECO and therefore a difference of Rs. 19 million between those two financial statements was observed.

(b) The inter-current account balances of the Head Office and sub-divisions of the Board had not been tallied and net differences of Rs. 2 million and Rs. 269 million were observed as at 31 December 2012. Further, those balances had inappropriately been shown under the Trade and Other Receivables in the financial statements.

(c) A difference of Rs. 307 million was observed between the completed jobs transferred from work-in –progress(WIP) to PPE in 2012 as per the assets schedule and the WIP schedule furnished along with the financial statements.

(d) A difference of Rs. 39 million was observed between the value of the completed jobs transferred out in 2012 from the WIP account and the value of jobs transferred into the PPE from the WIP in Distribution Region 3.

1.3.4 **Accounts Receivable and Payable**

The following observations are made.

(a) Area suspense balance and the Main Suspense balance as at 31 December 2012 was Rs. 16 million and Rs. 8 million respectively. Age analysis of those suspense balances had not been prepared and action had not been taken to clear those suspense balances.

(b) An overpayment of Good and Service Tax (GST) payment of Rs. 38 million had been carried forward in the financial statements as recoverable since January 2002 without setting off against any tax liability of the Board arisen in subsequent years as instructed by the Commissioner General of Inland Revenue by his letter dated 24 January 2008.

(c) Following debit and credit balances of the LECO in Western Province South - II (WPS - II) had been remained without settling over a longer period as at 31 December 2012.

Branch	**A/C No.**	**Balance as at 31 December 2012**	
		Rs. M	**Rs. M**
Nugegoda	9742661/8	(11)	
	9742662/8	5	
	9742009/8	(7)	(13)
Kotte	9742663/8	(9)	
	9742008/8	14	
	FAC	19	24
Total			**11**

(d) In terms of the Cabinet Decision dated 17 December 2003, the programme loan of Rs. 3,047 million from the Japanese Bank for International Cooperation Agency

(JABIC) under SL-C15 had been accounted by the Board as receivable through Treasury. Subsequently, the Director General of Treasury Operation by his letter No. TO/REV/SL/2/96 dated 2 December 2006 had informed the Board that the said amount was not considered for setting off as those are programme loan received to the Treasury. Accordingly, that amount had been accounted as receivable in 2003 and since then it had been carried forward in the subsequent financial statements as well without ascertaining the recoverability.

Even though a decision had been taken to write off that receivable balance from the accounts of the Board in 2013 it had not been adjusted in the financial statements under reference in accordance with the **LKAS 10 – Event after the Reporting Period.**

1.3.5 Lack of Evidence for Audit

The following observations are made.

(a) Title deeds for Rs. 38 million worth of 12 lands owned by the Uva Provincial Office were not made available to audit.

(b) Reasons for in completing the following jobs relating to WPS II over a period more than one year were not made available to audit.

Age Analysis	Number of Jobs	WIP Value as at 31 December 2012
		Rs. Million
1 -2 years	2,344	450
2 – 3 Years	1,016	268
3 – 4 Years	317	124
4 – 5 Years	121	58
Over 5 Years	350	64
Total	**4,148**	**964**

(c) Seven stock items to the value aggregating Rs. 14 million which had been received to the Board prior to more than six months as at 31 December 2012 had not been taken to the year-end stock and reasons for that were not made available to audit.

(d) No sub-loan agreements were entered into with the General Treasury in respect of four loans granted by the Treasury to the value of Rs.128,240 million and therefore the repayment schedule and the interest for those loans were not made available to audit.

1.3.6 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non-compliance were observed in audit.

(a) Ceylon Electricity Board Act No. 17 of 1969

(i) **Section 47 (1)(b)** – The Board may establish and maintain a Sinking Fund with the General Treasury in respect of the repayment of loans taken by the Board. A Loan Redemption Reserve had been shown in the financial statements but it had not been updated since the year 2000. The balance in that Reserve account as at 31 December 2012 was Rs. 17,447 million.

(ii) **Section 47(2)(a)** - The Board may establish and maintain a Depreciation Reserve with the General Treasury to cover the depreciation of the movable and immovable property of the Board. However, in contrary to that requirement, the Board had established a Depreciation Reserve in its financial statements by transferring Rs. 1 million per annum upto 31 December 2000 and thereafter no movement had been taken place. A sum of Rs. 23 million being accumulated balance on that date had been carried forward in the annual financial statements continuously without any review.

(iii) **Section 47(2)(b)** - The Board may establish and maintain a General Reserve with the General Treasury for the purpose of financing capital works from revenue moneys, ensuring the financial stability of the Board, and for such other purposes as the Board may from time to time determine. However, in contrary to that requirement the Board had established an Other Capital Reserve in its financial statements but it had not been updated since the year 2000. The balance of that Reserve Account as at 31 December 2012 was Rs. 165.446 million.

(b) In contrary to the provisions in Section 46 of the CEB Act, No. 17 of 1969 and Section 11(a) and (b) of Part II of the Finance Act, No. 38 of 1971, the Board had invested its funds amounting to Rs. 4,433 million as at 31 December 2012 in the Insurance Escrow Fund based on a contribution of 0.1 per cent of the total value of the gross fixed assets at the end of each year since 1989.

(c) The Board had paid the PAYE tax on behalf of its employees which should be borne by the employees by overruling the Cabinet Decision taken on 13 December 2007 to shift the PAYE tax liability to employees since the next salary revision which should have been effected since 2009. The PAYE tax paid by the Board overruling said Cabinet Decision as at 31 December 2012 was Rs. 981 million of which details are given below.

Year	**Amount**
	Rs.
2009	215,052,824
2010	362,275,677
2011	194,306,233
2012	269,762,012
Total	**981,396,746**

2. Financial and Operating Review

2.1 Financial Results

According to the CEB financial statements presented, the operations of the CEB during the year under review had resulted in a loss of Rs. 61,447 million before taxation as compared with the corresponding loss of Rs. 20,185 million before taxation for the preceding year thus showing a further deterioration in operating results of the year under review by Rs. 41,262 million.

The main reasons for the above deteriorations are given below.

(a) As analysed below, the hydro power generation in 2012 had been decreased by 1,327 GWh or 29 per cent as compared with 4,619 GWh generated in 2011 due to poor water level in hydro reservoirs which resulted to increase in the thermal power generation by 1,552 GWh (1,404 GWh was generated by using coal) or 23 per cent to meet the increased demand of 451 GWh in 2012.

Generation Details

Source	**2012**	**2011**	**Change**	
	GWh	**GWh**	**GWh**	**%**
Hydro	3,292	4,619	-1,327	29
Thermal	8,338	6,786	1,552	23
Non Conventional Renewable Energy	171	125	46	37
Total	**11,801**	**11,530**	**271**	**02**

Due to that scenario the Board had to incur heavy expenditure on fuel and power purchase from Independent Power Suppliers. The cost increase from those two factors in 2012 as compared with the previous year was Rs.21,622 million and Rs. 36,120 million respectively. It contributed to increase the total loss by 52 per cent and 87 per cent respectively.

(b) Even though an additional income of Rs. 31,052 million had been earned as a result of slight increase in the demand, the Board had dragged into loss position in 2012 due to the main reason of prevailing tariff structure. However, national contribution made by the Board during the year under review is invaluable.

Composition of Loss – 2012

Category	**Gain/(Loss)** **Rs. Million**	**%**
Domestic	(32,716)	(54)
Religious	(795)	(01)
General Purpose	8,413	14
Industrial	(24,528)	(40)
Hotels	(771)	(01)
Street Lighting	(2,346)	(04)
LECO Sales	(8,420)	(14)
Total	**(61,163)**	**100**

Accordingly, other than the general purpose category all consumers were the contributors of the loss of the CEB by different percentages. Domestic and Industrial consumers are the highest contributors to the loss and their total contribution was 94 per cent.

2.2 Analytical Financial Review

According to the information made available, the following table gives the highlights of the financial position as at the end of the year under review and the previous year.

Item	**Current year** **Rs. million**	**Previous year (Restated)** **Rs. million**	**Percentage of change over previous year**
Non-Current Assets	627,685	550,521	14
Current Assets	110,486	110,813	(40)

Total Assets	738,171	661,334	12
Current Liabilities	137,356	122,026	13
Working Capital	**(26,870)**	**(11,214)**	**140**
Total Capital Employed	600,815	539,307	11
Non-Current Liabilities	407,585	281,843	45
Equity	**193,230**	**257,464**	**(25)**

Accordingly, the total assets of the year under review as compared with the previous year had increased by 12 per cent mainly due to increase the non-current assets by Rs. 77 billion or 14 per cent. Meanwhile, the net current assets had become a negative figure of Rs. 27 billion in 2012 as compared with the negative figure of Rs. 11 billion in the previous year which represented a 140 per cent increase. It was revealed that the main reasons for the drop were increasing the current portion of the long term borrowings by Rs. 30 billion and increasing the amount due to Independent Power Suppliers by Rs. 14 billion or 93 per cent compared to the previous year increase of Rs. 15 billion.

Sixty eight per cent of total capital employed amounting to Rs. 600 billion of the Board as at 31 December 2012 had been financed through borrowed funds whereas the previous year borrowed portion was 52 per cent.

According to the above analysis it was revealed that the Board had faced severe liquidity problems in 2012 as well as experienced in previous years reflecting poor financial management.

2.3 Operating Review

2.3.1 Power Generation

The following table shows the analysis of power generation of the year under review and previous two years.

	2012		2011		2010	
Source	**GWh**	**%**	**GWh**	**%**	**GWh**	**%**
Hydro	3292	28	4619	40	5634	53
Thermal	8338	71	6786	59	4994	47
Non-Conventional Renewable Energy	171	1	125	1	86	1
Total	**11,801**	**100**	**11,530**	**100**	**10,714**	**100**

Accordingly, it was revealed that the Hydro Power generation had been gradually decreased during past three years and the Board has no alternative other than divert to thermal power generation to maintain uninterrupted power supply in the country. However, the Board was unable to achieve one of the most important objectives of supplying a power unit at low cost to the general public in the year under review as well.

2.3.2 Direct Cost analysis

The following table shows a summary of the cost of sale of the Board for the year under review as compared to the previous year.

	2012		2011	
	Rs.million	Expenditure as a percentage of total direct cost	Rs.million	Expenditure as a percentage of total direct cost
Fuel	53,614	24	31,992	21
Power Purchase	120,264	54	84,144	56
Operation and Maintenance	27,530	12	18,629	12
Depreciation	21,011	10	16,684	11
Total	**222,419**	**100**	**151,449**	**100**

According to the above information, it was revealed that more than 70 per cent of the total cost was directly related to power purchase and generation.

2.3.3 Unit price analysis

The following table shows the average loss from selling one electricity unit during past five years except earning a very marginal gain in 2010. Accordingly, the highest loss per unit had been recorded in 2012.

Unit Price Analysis

Year	**Average Selling Price per kWh**	**Average Cost per kWh**	**Gain/(Loss) per Unit**
	Rs.	**Rs.**	**Rs.**
2008	13.22	18.15	(4.93)
2009	13.13	14.71	(1.58)
2010	13.16	13.02	0.14
2011	13.22	15.59	(2.37)
2012	15.66	21.50	(5.84)

2.4 Matters in Contentious Nature

The following observations are made.

(a) It was observed in audit that the CEB had maintained the position in accordance with the Ceylon Electricity Board Act No. 17 of 1969 as amended by Act No.31 of 1969, that the Treasury Circulars and Public Administration Circulars issued by the Government from time to time to maintain uniform procedures and practices in relation to Finance and Administration in all public sector organizations including Public Corporations and Boards are not applicable to them if the Board of Directors of the CEB had not allowed to adopt as the administrative rules of the CEB. Few such instances are given below.

(i) Without approval of the Cabinet of Ministers or Ministry of Public Administration or General Treasury as specified in the Public Enterprises Department Circular No 95 of 04 June 1994, 39 various staff allowances have been paid by the Board as approved by the Board of Directors in time to time. In the audit test check carried out revealed that Rs. 612 million of such allowances had been paid in 2012.

(ii) In contrary to the Public Administration Circular No.15/90 of 09 March 1990 and Public Enterprises Circular No. PED/12 of 02 June 2003, the Board had recruited non-skilled and semi-skilled staff annually as clerks, cashiers, storekeepers, typists, drivers, office aides, labourers etc. without calling for Island-wide applications from qualified candidates through newspaper advertisements, Gazette notifications etc. as specified in circular instructions. As a result, the Board has lost the opportunity to recruit the most competent persons to the relevant posts.

(iii) Position reported in my previous year report regarding the payment of temporary monthly allowance of Rs. 1,000 to the employees of the Board had not been rectified during the year under review as well.

(iv) Instead of granting vehicle loans at 10 per cent to 14 per cent interest as per the Public Enterprises Circular No 130 of 08 March 1998, the Board had granted it at 4.2 per cent interest. Further, it was observed that the staff loans have been paid without any control even the Board faces severe liquidity problems.

(b) According to the information made available, the Finance Manager of the CEB himself had taken decisions on investment of insurance reserve throughout the past years since 1990 i.e. incorporation of the fund, although the Board had not delegated him the powers for taking investment decisions. The total amount invested as at 31 December 2012 without requisite approval was Rs. 4,433million.

(c) A decision had been taken to transfer the Treasury loan balance of Rs. 1,200 million shown in the financial statements of the Board since 2003 to 2012 to the income of the year 2013 based on a letter in a file of the General Treasury which had been written to a foreign Donor Agency in 2004 without copying to the Ceylon Electricity Board. Taking such a decision without communicating to the Secretary to the General Treasury is questionable.

(d) According to the Cabinet Decision dated on 31 March 2008, 10 per cent of the renewable energy cost of the Board should be refunded by Sustainable Energy Authority (SEA). However, such renewable energy cost which had to be receivable to the Board since 2008 had not been refunded by the SEA. Total refundable amount as at 31 December 2012 was Rs. 897 million, which had not been recorded as a liability in the financial statements of the SEA.

(e) The shortfall observed between the Insurance Reserve Fund balance and Investment of Insurance Reserve Fund as at 31 December 2010 amounting to Rs. 3,724 million had not been invested as per the self-insurance policy of the Board. There was no proper financial management was in operation in the Board to implement such statutory requirements.

(f) Even though the Board had sold electricity to LECO and purchasing fuel from Ceylon Petroleum Corporation for several years, there are no sales and purchase agreements entered with those two parties.

(g) Following positions reported by the valuation team of the Distribution Region 3 for 31 vehicles owned by the Board for which market value as at 31 December 2012 was Rs. 32 million could not be satisfactorily accepted in audit because relevant authority to do so was not made available to audit.

- Front cab was replaced with similar unit (24 vehicles)
- A 2T used crane was fixed locally (2 vehicles)
- Original cab was replaced with used cab(2 vehicles)
- Original front cab & rear tray were replaced with used different model cab & tray (1 vehicles)
- Front cab & rear tray were replaced with used units (1 vehicle)
- A crane was fitted locally (1 vehicle)

(h) Capacity charges paid to Independent Power Producers (IPPs) comprise of two sub component namely escalable (covers all administration costs, fixed operational and maintenance fees, and related expenses) and non escalable (debt service obligation of the company). Although the time period for reimbursement of non escalable component (loan reimbursement) had been expired, it was observed that the Board had reimbursed that component and the amount so reimbursed in 2012 was US$ 15 million and JPY 183 million**.**

(i) The operational and maintenance costs of the power plant owned by the IPPs are included in the escalable cost component of the capacity charges and those costs were paid by the Board ignoring whether they had incurred or not. Further, the taxes relating to the importation of material and spares for that maintenance were reimbursed by the Board separately. There was no limit for reimbursement of such expenditure. Certain IPPs undertakes maintenance contract of some other IPPs and there were related party and related party transactions among the IPPs. Therefore, prudency of reimbursement of expenditure including taxes without verifying the actual utilization of the imported material for power plants could not be ascertained in audit. The total tax amount so reimbursed was Rs. 1,261 million for the year 2012.

2.5 **Management Inefficiencies**

The following observations are made.

(a) Northern Power House is a private power producer in Northern Province having 30 GWh plant capacity. However, due to commissioning test failure the company could not be able to supply agreed GWh of electricity since the commencement of the Power Plant and average GWh supplied during past three years were less than 15 GWh. Further, their unit price was also higher than the unit prices of the other IPPs and the loss to the Board by purchasing power from that company during past three years were as follows.

Year	Average unit cost Kwh/ Rs.	Average selling price Kwh/ Rs.	Loss per Kwh/Rs.	Total loss Rs.Mn
2010	17	13	4	223
2011	18	13	5	429
2012	24	16	8	407

(b) A sum of Rs. 9 million worth of un-galvanized items handed over to a related party company by the Region – 1 Office for galvanizing had not been returned for a period more than five years as at 31 December 2012 and no any action had been taken to recover this loss from the related party by the CEB.

(c) Seventy nine vehicles valued by the Valuation Team of the Region 3 for Rs. 76 million had been identified as not road worthiness but no further actions had been taken there on even as at 31 December 2013.

(d) Cost of Rs. 30 million of stock items which had been identified as damaged stock during the annual stock verification done in 2011 had still been remained as idling in the stores premises of the WPS II without taking suitable action even as at 31 July 2013.

(e) Hundred and seventy two consumers in Western Province South II Office had maintained Rs. 61 million less than the required security deposit of Rs. 86 million which should be maintained in accordance with the accepted procedure of the Board. Therefore, the Board deals with those consumers at higher credit risk.

(f) According to paragraph 7.2 of the Public Enterprises Circular No. PED/12, of 02 June 2003 all public enterprises should have their own Systems/Manuals covering all major operations, regularly revised and updated. However, the Board had not revised and updated its procedure manuals prepared somewhere in 1987.

(g) Staff loans amounting to Rs. 2,472 million had been granted to 12,880 employees of the Board without any restriction despite of huge financial crisis prevailed during the year under review.

(i) Following common weaknesses were observed in respect of reimbursement of 2/3rd interest to the employees for housing loans obtained from external lending agencies. Amount so reimbursed in 2012 was Rs. 892 million.

- Reimbursement of loan interest to employees whose loan amount exceeded the eligible loan limit
- Reimbursement of interest for personal loans taken by mortgaging properties such as fixed deposits, personal guarantees etc.
- Reimbursement of interest for loan taken by officers jointly with parties other than the spouse
- Reimbursement of loan interest based on the informal letters of the financial institutions
- Reimbursement of interest for the loans taken for settlement of other loans
- Reimbursement of loan interest to the officers for which the properties relating to the loan obtained were neither the name of the officer nor the spouse

(ii) A sum of Rs. 332 million of vehicle loans except motor bicycle loans had been granted to 172 employees of the Board in 2012. Following common weaknesses were observed in this regard.

- Instances of non - producing the documents relating to the loan were observed and as a result, the utilization of the entire loan amount for the intended purposes could not be ensured.

- In most instances, the vehicles purchased from the loan had not been mortgaged to the Board.

- Officers in lower grades (subordinates) had assured for the loans taken by higher grade officers (bosses).

- Instances of granting loans ignoring the eligibility criteria of forty or sixty per cent salary limits of both borrowers and their sureties were observed.

- Loans had been granted to the officers who are in probation period.

- Loans had been granted exceeding the eligibility limits.

- New loan had been granted prior to the completion of five year period of the previous loan.

- New loan had been granted in full by ignoring the settlement of the previous outstanding loan balance.

- Incompleted loan agreements were observed.

- A cheque relating to loan granted for importation of vehicle on custom duty concessionary terms had been drawn on the name of the officer who borrow the loan from the Board instead of the name of the Bank in which the borrower open the Letter of Credit as per the Circular instructions of the General Manager of the Board.

- Instances of non-checking and obtaining the copies of annual Revenue Licenses and Comprehensive Insurance Certificates in a consistent manner until the full settlement of loans granted by respective divisions were observed.

2.6 **Human Resourse Management**

The following observations are made.

(a) Scheme of Recruitment (SOR) of the Board had not been updated for a longer period.

(b) Recruitments from Man Power Companies had been made without an approved cadre.

(c) Nine hundred and forty six employees had been outsourced by superseding the Board approved Personnel Plan for the year 2012. Total employees outsourced as at 31 December 2012 was 4,045 which represented 25 per cent of the total staff strength of the Board.

(d) Following essential posts in the approved cadre had been in vacant by 31 December 2012.

Category	Number of Vacant Posts
Executive	186
Middle Level Technical Service	177
Skilled Technical Service	579
Semi- Skilled Technical Service	1,599
Other Skilled Grade	34

Total	**2,575**

(e) The approved cadre for Unskilled Field Service had been exceeded by 1,716.

(f) Seniority is the only factor considered for promotions and no succession plan was made available. Hence, it was observed that the promotion is benefited to the employee but not to the entity. Promotions to key posts are also granted for a very shorter period even less than half a year which reflected a bad practice in the Board.

(g) Implementation of a proper transfer policy had not been observed. Certain employees, especially, in key posts are also in the same post at same work place for more than ten to twenty years. Further, such a practice does not provide good environment for getting overall experience when they eligible for promotions. For instance, the AGMM in all four Distribution Regions, who are the members of Distribution Coordinating Committee (DCC); the main hub for taking decisions relating to that divisions at present, have no experience in the field of distribution.

(h) The Key post in the HR Division is DGM (Personnel) but required HR qualifications and experience for that post had not been specified in the Scheme of Recruitment (SOR) enabling open that post to other services, especially, for electrical engineers. Hence, the existing SOR could not be considered as a completed and accurate one.

(i) The post namely Chief Engineer (HR Policy) in the Personnel Management Section in the Board has been created reflecting mismatch between the two individual professions.

(j) According to the existing SOR, 50 per cent of the total cadre of HRO Service is filled from externally and that percentage is planned to increase year by year gradually up to 85 per cent. However, it was not observed a clear promotion path for those externally recruited employees in the promotion scheme as two engineers covered the head functions in the division over a longer period of the Board’s history and posts above the class 4 in that section have been opened to the services other than the field of HR.

(k) Experience required for direct recruitment of HRM and HRO is 06 years in the field of HR in an organization having more than 100 employees which inadequate as compared with the staff strength need to be handled in this organization.

2.7 **Budgetary Control**

Significant variances were observed between the budget and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control.

3. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Board by my detailed report issued in the terms of Section 13 (7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

(a) Assets Management
(b) Receivables and Payables
(c) Inventory Control and Stock Management
(d) Human Recourses Managements
(e) Accounting and Financial Management
(f) Investments and Control over Subsidiaries
(g) Work-in-progress
(h) Project Management and Control
(i) Budget
(j) Staff Loans
(k) Sales