Ceylon Electricity Board - 2014

The audit of financial statements of the Ceylon Electricity Board (CEB) and the consolidated financial statements of the Board (CEB) and its subsidiaries for the year ended 31 December 2014 comprising the statements of financial positions as at 31 December 2014 and the statements of comprehensive income, statements of changes in equity and statements of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information, 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 49(4) of the Ceylon Electricity Board Act, No.17 of 1969 as amended by Act, No.31 of 1969. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2) (c) of the Finance Act appear in this report. The financial statements of the Subsidiaries were audited by the firms of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiaries.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards (LKAS/IFRS) 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 Auditing 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 the 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 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 Opinions**

a) <u>Qualified Opinion – Board</u>

In my opinion, except for the effects of the matters described in paragraph 2.3 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 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

b) <u>Qualified Opinion – Group</u>

In my opinion, except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Ceylon Electricity Board (CEB) and its Subsidiaries as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 **Comments on the Group Financial Statements**

The audited financial statements of the Subsidiaries of the Board had been taken for the preparations of the consolidated financial statements. The names of such Subsidiaries and the ownership of the Board are shown below.

Name of Subsidiaries	**Ownership Percentage**
LTL Holdings (Pvt) Ltd	63
Lanka Coal Company (Pvt) Ltd	60
Lanka Electricity Company (Pvt) Ltd	52
Lanka Energies (Pvt) Ltd	100

The following matters are observed in this connection.

(a) The auditors of the LTL Holdings (Pvt) Ltd. had emphasized the matter on going concern of the Heladanavi Limited, a Subsidiary of LTL Holdings (Pvt) Ltd, in its audited financial statements for the year 2014.

(b) The audited financial statements of the Lanka Coal Company (Pvt) Limited for the year ended 31 December 2014 had been furnished to audit only on 28 December 2015 with a delay of 09 months. The auditors had emphasized the following matters.

(i) Trade and other payable balances aggregating Rs. 502.9 million could not be verified in audit due to absence of sufficient documentary evidence.

(ii) The accuracy, recoverability and completeness of trade and other receivable balance of Rs. 809.7 million and tax receivable of Rs. 16.9 million had not been assured in audit due to absence of sufficient documentary evidence. Further, it was not able to assure whether the appropriate actions had been taken by the Company in respect of Intimation Letters sent by the Department of Inland Revenue on the additional assessments of Rs. 152.5 million.

(iii) Accuracy of the income tax liability as at 01 January 2014 amounting to Rs. 63 million had not been ascertained in audit since the opening balance does not agree with the balance as per Department of Inland Revenue.

2.3 Comments on the Financial Statements of the Board (CEB)

2.3.1 Sri Lanka Accounting Standards (LKAS/SLFRS) and Accounting Policies

The following observations are made.

(a) **LKAS 01, Presentation of Financial Statements and LKAS 16, Property, Plant and Equipment -** The Board had applied the standard rates for valuing its capital and maintenance jobs instead of being applied the actual rates. As a results the net material price variance, labour rate variance and overhead variance aggregating Rs. 5,923,454,349 had been taken into account in ascertaining the financial result of the year under review in contrary to the provisions in the above Standards. Moreover, the following items in the financial statements had been too either understated or overstated due to valuing the capital and maintenance jobs of the Board by applying standard rates instead of actual rates. Details are shown below.

Item of Account	**Amount Overstated**	**Amount Understated**
	Rs. million	**Rs. million**
Profit for the year and Equity as at end of the year under review	561	-
Property, Plant and Equipment	4,324	7.2

(b) **LKAS 08, Accounting Policies, Changes in Accounting Estimate and errors -** Accrued telecommunication expenditure overestimated in the year 2011 by Rs. 9.4 million had been posted to the income of the year under review without restating in the retained earning balance retrospectively as specified in the Standard.

(c) **LKAS 19, Employee Benefits -** Even though the Board should be invested the provision for gratuity to meet the future obligations arising on the payment of gratuity benefits, the Board had not maintained adequate investments in this connection.
In addition to that, the current service cost, interest cost and return on investments in relation to pension expenses recognized in the statement of comprehensive income of the year 2014 had been understated by Rs. 641,107,797 as per the computation done by audit.

(d) **LKAS 20, Accounting for Government Grants and Disclosure of Government Assistance -** The foreign aid and the capital grants received by the Board for power 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 capital contribution. Further, according to the financial statements of the Government of Democratic Socialist Republic of Sri Lanka for the year 2014 prepared by the General Treasury, the total capital contributions to the Board was Rs. 258 billion. However, it had been shown in the financial statements of the Board as Rs. 289 billion. Action had not been taken to reconcile the difference of Rs.31 billion.

(e) **LKAS 39, Financial Instruments, Recognition and Measurement -** Using of standard prices for ascertaining the amount payable to suppliers in Region 02 and 03 was not complied with the provision in the Standard. As a result, the current liability of the Board as at 31 December 2014 had been overstated by Rs. 88.2 million.

2.3.2 **Accounting Deficiencies**

The following accounting deficiencies were observed in audit.

(a) According to the financial statements, amount receivable from then Ministry of Power and Energy in respect of lighting for special occasions as at 31 December 2014 was a credit balance of Rs.9,394,437, while the actual amount receivable as per the computation done by audit based on the available information, it was Rs. 1,065,998. Hence, the other debtors shown in the financial statements had been understated by Rs. 10,460,435.

(b) The value of property, plant and equipment (PPE) which transfers among the individual Divisions should be zero in the financial statements of the Board. However, un-reconciled differences of Rs. 296,060,351 were observed with regard to the transfers in, transfers out and work-in-progress transferred to other Divisions during the year 2014. As a result, the accuracy and the reliability of the property plant and equipment shown in the financial statements and the reconciliation statement of inter divisional current account as at 31 December 2014 could not be ensured in audit.

(c) The overhead recoveries and labour rate variance amounting to Rs. 1,782,778,237 and Rs. 1,093,769,100 respectively had not been taken into account in ascertaining the cash flows from operating activities of the year under review and as such the cash generated from operating activities shown in the statement of cash flows had been overstated by Rs. 2,876,547,337.

(d) The value of stocks aggregating Rs. 33.3 million which identified as damaged stocks at the verification had not been adjusted in the accounts due to inconsistency of policies applied at the verifications and therefore the assets and the equity had been overstated by similar amount.

(e) The operation of Puttalam Coal Power Plant stage II and III had been commissioned in March and September respectively of the year under review. However, the total cost of Rs.115,068.23 million incurred thereon had still been remained in the work-in-progress without being capitalized.

Similarly, 178 electrification jobs completed as at 31 December 2014 at a cost of Rs.131 million had not been brought to account as property, plant and equipment of the Board and as a result, the value of property, plant and equipment shown in the financial statements and depreciation made thereon had been understated while overstating the value of work-in-progress by that amount.

(f) Further, the cost incurred on the following rehabilitation projects belonging to Generation Division and already commenced their operations had been shown as work - in-progress as at 31 December 2014 instead of being capitalized. Details are shown below.

Name of Project	**Value Rs.**	**Date of Completion**
Wimalasurendra and New Laxapana Rehabilitation Project	8,217,944,865	20 August 2014
Old Laxapana Rehabilitation Project	4,704,222,351	03 April 2014
	12,922,167,216	

(g) The jetty and port at Lakvijaya power plant which had economical useful life times of 100 years and 30 years respectively. Nevertheless, the Board had considered these as single assets and provided depreciations thereon in the financial statements accordingly. Similarly, according to the Board the economical useful life time of Supervisory Control Data Acquisition (SCADA) and DFR Systems under the above power plant was 15 years. However, the economical useful time of the plant (Thermal) was 25 years.

Due to above lapses, the depreciation for the year under review and the currying amount of the PPE as at 31 December 2014 had been overstated and understated by Rs.58,721,367 and Rs. 176,134,102 respectively.

(h) Action had not been taken to physically verify and brought to account the value of equipment and spare parts at the stores of Lak Vijaya Power Station (LVPS). However, it was observed that a portion of those items denominated in foreign currency converted into Rupee value at the rate prevailed as at 31 December 2014 was Rs. 115 million.

(i) A sum of Rs. 753.6 million charged as interest by the Ceylon Petroleum Corporation (CPC) on the outstanding balance with the agreement of the CEB with effective from

20 April 2013 had not been brought to accounts. In addition, a sum of Rs. 1,467,800 payable to CPC had been omitted from the accounts.

(j) A receivable balance remained unrecovered for more than three years as at 31 December 2014 from AES Kelanitissa Power Plant amounting to Rs. 1,368.9 million had erroneously been accounted as receivable from CPC.

(k) According to the stock verification report furnished by a firm of Chartered Accountants in public practice in respect of verification of year end stock balance, there was a stock shortage of Rs.100.1 million in the Heavy Maintenance Stores at Walachchene and subsequently it was adjusted to the stocks shown in the financial statements for the year under review. However, it was revealed that the stock shortage reported by the audit report was incorrect. Hence, the stocks shown in the financial statements as at 31 December 2014 had been understated by similar amount.

2.3.3 Accounts Receivable and Payable

The following observations are made.

(a) Trade and other receivable balance of the Distribution Region 01, 02, 03 and 04 amounting to Rs. 1,787.4 million, Rs. 206 million, Rs. 182.7 million and Rs. 23 million respectively shown in the financial statements as at 31 December 2014 had remained outstanding for more than 3 years without being recovered.

(b) The Board had not taken proper action to recover the bulk supply debtor balance of Rs.440.6 million and ordinary supply debtor balances aggregating Rs. 1,492 million which was outstanding for more than 2 years as at 31 December 2014.

(c) Creditors' balance of the Transmission Division had included the payable balance of Rs. 7 million to the Ceylon Petroleum Corporation (CPC) which had been outstanding over a period of more than 05 years as at 31 December 2014. Further this amount had been paid by the CPC to the CEB for shifting of 132 kv Transmission Line running through Sapugasakanda on 26 May 1997. The job had not been completed even as at 31 December 2014 and no action had been taken to settle this amount.

(d) Sums aggregating Rs. 911.4 million made for buildup the access road to the West Coast Power Plant, opening ceremony of West Coast Power Plant and tariff adjustment paid to mini hydro developers under Sustainable Energy Authority (SEA) had remained outstanding for more than five years as at 31 December 2014 without taking any recovery action.

(e) Proper actions had not been taken with regard to Rs. 12.9 million due from the LECO for more than five years. Further, follow-up actions had not been taken by the Board to recover the finalized accounts balance of Rs. 7.6 million and Rs.13.6 million recorded as "Abeyance" which was remained outstanding for more than five years in Region 02.

(f) A sum of Rs. 18.9 million included in the sundry debtors of the Deputy General Manager (WPS 01) office as "issues" was abnormal in their nature.

2.3.4 Lack of Evidence for Audit

The following observations are made in this connection.

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

(b) It was observed that 08 motor vehicles valued at Rs. 14,238,758 included under the assets were not physically existed at the Board.

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

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

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

(i) **Section 47 (1)(b)** – According to the provisions in this section the Board may establish and maintain a Sinking Fund with the General Treasury for the repayment of loans taken by the Board. Accordingly a Loan Redemption Reserve had been established and 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 2014 was Rs. 17,447 million.

(ii) **Section 47(2)(a)** – Although the Board should establish and maintain a Depreciation Reserve with the General Treasury to cover the depreciation amount of the movable and immovable property of the Board, the Board had established a Depreciation Reserve in its financial statements by transferring Rs. 1 million per annum up to 31 December 2000 in contrary to that requirement, 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 its 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 and it had not been updated since the year 2000. The balance of that Reserve Account as at 31 December 2014 was Rs. 165.45 million.

(b) In contrary to the provisions in Section 46 of the above Act 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. 5,654 million as at 31 December 2014 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.

3. Financial Review

3.1 Financial Results

According to the Board and Group financial statements presented, the operations of the Board and the Group during the year under review had resulted in a pre-tax net loss of Rs. 12,446 million and Rs. 6,223 million respectively as compared with the corresponding pre-tax net profit of Rs. 22,265 million and Rs. 25,121 million respectively for the preceding year, thus showing a deterioration of Rs. 34,711 million and Rs. 31,344 million respectively in the financial results of the year under review.

The decrease of hydro power generation in 2014 by 2,372 GWh or 34 per cent as compared with 6,906 GWh generated in 2013 due to low water level in hydro reservoirs and thereby increase of expenditure in purchasing the Thermal and Coal power generation from Independent Power Producers and Lanka Coal Company (Pvt) Ltd. by Rs.37, 997 million and Rs. 6,354 million respectively to meet the increased demand of 459 GWh, were the main reasons attributed for the above deteriorations.

3.2 Analytical Financial Review

(a) Financial Position

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	As at 31 December 2014	As at 31 December 2013	Variance
	Rs. Million	**Rs. million**	**Percentage**
Non-current Assets	693,166	656,000	6
Current Assets	76,494	93,435	(18)
Total Assets	769,660	749,435	3
Current Liabilities	82,309	92,698	(11)
Working Capital	**(5,815)**	**737**	**(889)**
Total Capital Employed	687,351	656,737	5
Non-current Liabilities	307,329	430,008	(29)
Equity	**380,022**	**226,729**	**68**

Accordingly, the total assets of the year under review as compared with the previous year had increased by 3 per cent. Meanwhile, the net current assets had become a negative figure of Rs.5,815 million in 2014 as compared with the positive figure of Rs. 737 million in the previous year which represented 889 per cent decrease. The main reason for the decrease of current assets was not because of the improvement of debt recovery process but because of the recovery of mobilization advance.

Thirty two per cent or Rs. 220 billion of the total capital employed by the Board as at 31 December 2014 had been financed through borrowings whereas the previous year borrowing portion was 54 per cent.

(b) Total Comprehensive Profit/(Loss) Analysis

Even in a situation where there is enough hydro power generation, incurring fixed cost is unavoidable in terms of conditions in the power purchase agreements and as a result, the Board is not in a position to achieve one of its most important objective of supplying a power unit at lower cost to the general public. The unit cost of the year under review was Rs. 19.97 as compared with that of Rs. 16.94 in the year 2013 and sold at Rs. 18.50 per unit. Accordingly the operating loss calculated for the year under review is as follows.

Category	**Profit/(Loss)**	**Contribution to the Profit/(Loss)**
	Rs. million	**Percentage**
Domestic	(16,140)	(111)
Religious	(809)	(06)
General Purpose	17,687	122
Industrial	(11,295)	(77)
Government	(135)	(1)
Hotels	60	0
Street Lighting	(2,152)	(15)
Sales to LECO	(1820)	(12)
Total Comprehensive Loss	**(14,604)**	**100**

Accordingly, the tariffs on general purpose and hotel categories were the highest positive contributor against the loss of the Board. The tariffs on domestic and industrial categories were the highest negative contributor to sustain the loss in those categories and their total contribution was 188 per cent. Sales to LECO had also shown an unfavourable contribution to the loss of the Board and it contributed 12 per cent to the loss.

4. Operating Review

4.1 Performance

(a) Power Generation and Direct Cost

The Power Generation, and summary of direct costs incurred for the generation of electricity and power purchases during the year under review as compared with the previous year is shown in the following tables.

(i) Power Generation

Source	Power Generation during the year		Increase/(Decrease)	
	2014 GWh	2013 GWh	GWh	Percentage
Hydro	4,534	6,906	(2,372)	(34)
Thermal	4,305	3,260	1,045	32
Coal	3,202	1,469	1,733	118
Non-conventional Renewable Energy	315	263	52	20
Total	**12,356**	**11,898**	**458**	**4**

(ii) Direct Cost incurred for Generation and Power Purchase

Item	Direct cost incurred in 2014		Direct cost incurred in 2013	
	Rs. million	percentage	Rs. million	percentage
Fuel	46,582	22	29,425	18
Power Purchase	101,149	48	80,308	48
Coal	17,031	8	10,677	6
Operation and Maintenance	24,913	12	26,196	16
Depreciation	21,174	10	20,319	12
Total	**210,849**	**100**	**166,925**	**100**

The following observations are observed in this connection

- It was revealed that 78 per cent and 72 per cent of the total operational cost of the year 2014 and 2013 respectively was directly related to power purchases and generation.

- Even though the direct cost had increased by 26 per cent during the year under review, the power generation was increased only by 4 per cent as compared with the previous year.

(b) **Profit/(Loss) per Unit of Electricity**

The following table shows the average profit/(loss) from selling one electricity unit during past five years and it was revealed that the current year had recorded a loss of Rs.1.47 per unit as against the profit of Rs. 2.22 per unit in the previous year.

Year	Average Selling Price per kwh	Average Cost per kwh	Gain/(Loss) per Unit
	Rs.	Rs.	Rs.
2014	18.50	19.97	(1.47)
2013	17.93	15.71	2.22
2012	15.66	21.50	(5.84)
2011	13.22	15.59	(2.37)
2010	13.16	13.02	0.14
2009	13.13	14.71	(1.58)

4.2 Operating Inefficiencies

4.2.1 Operations of Lak Vijaya Power Station

The following weaknesses were observed in this connection

(i) The Lak Vijaya Power Station had not maintained stock registers by showing coal stock levels, i.e. re-order level, maximum stock level, minimum stock level, re-order quantity etc. Further, the accuracy and reliability of the books and records maintained for coal handling could not be ensured due to following lapses.

- No reliable intake measuring of coal
- No reliable input calibration of coal to the plant
- Unloading from the ship is neither monitored by Lanka Coal Company (pvt) Ltd. (LCC) nor CEB
- Store keeper is just doing the recording activity rather than stock controlling as dominated by the Engineers.

(ii) It was revealed that, 181,016 MT of coal used during the first nine months of the year under review had not been taken into the stock records.

(iii) The existing storage capacity of coal yard of Lakvijaya Power Station is 738,720 MT. As the average monthly coal consumption is 195,000 MT, the stock yard is adequate to store only 3.788 months requirement. However, in the monsoon period during April to September (6 month) in every year, coal cannot be unloaded due to the adverse weather and sea condition and therefore, sufficient storage capacity to store total coal requirement for the period is not available.

(iv) The coal stock as at 31 December 2014 had been physically verified by a private company and according to the report issued by that company; the verification team had identified an excess coal of 32,323 Metric Tons worth Rs. 375.5 million.

However, said excess had not been brought to accounts due to lapses in coal handling.

(v) A difference of Rs. 2,144 million was observed between the coal issued to the plant for power generation and the coal should have been contained in the electricity generation during the year 2014 according to the computation done by audit.

4.2.2 Deficiencies in Procurement of Coal

The following deficiencies were observed.

(a) Gross Calorific Value (GCV) of coal received on three shipments was lower than the Standard Values of the plant and therefore, the report issued by the quality inspector of the supplier at the loading port was inaccurate and it was further observed that the said inspector had blacklisted by an Indian Court.

(b) The CEB had to incur a loss of Rs. 345,168,000 and additional cost of Rs. 507.6 million from firing the low GCV coal stock of 143,932 MT and for supplement of the yield energy shortage of 25 MW from alternative energy sources due to consumption of low GVC values coal.

(c) Even though LCC and Ceylon Shipping Corporation (CSC) had agreed to supply short delivery of 29,896 MT of coal relating to shipment No. 16 and 17 within 6 months, from the date of short delivery on 04 April 2012 they had failed to do so. The value of the short delivery was Rs. 654.2 million.
Further, the CEB had not taken any action to recover that over payment made to them even by 31 December 2014 and the estimated opportunity cost of the capital tied-up based on the overdraft interest was Rs. 228.9 million.

(d) In case the GCV of coal is less than the plant recommended value, the General Manager had to be obtained an opinion from the consultant or the manufacturer on using them, as the plant is within the defect liability period. However, obtaining of such opinion from respective personnel was not observed in audit. Further, the CEB had not taken any action to recover the losses sustained by the Board from the parties involved to arrive wrong decisions as instructed by the Attorney General by his letter dated 21 December 2012, even as at the end of July 2015.

(e) As a result of making incorrect decisions on the price adjustments of two bidders by the Procurement Appeal Board and Standard Cabinet Appointed Procurement Committee, a wrong supplier was selected for the supply of coal and as such an additional cost of Rs.263.5 million had to be incurred by the Board thereon.

(f) According to the agreement entered into between the CEB and LCC, the cost of weight determination shall be for the LCC account. A private company was selected by the LCC for the determination of coal weight. But it is questionable about the independency of such company as the selection had been done by the LCC. However, all expenses of the LCC relating to the coal handling get reimbursed from the CEB.

In the meantime, the certificate for the weight determination is not sent to the CEB as direct confirmation.

(g) Strategies or technique are being used in the international context to measure the coal stock had not been followed or introduced by the CEB to physically verify the coal stocks either at the coal yard or at the shipment.

As a result of accepting the weight measured by Ceylon Shipping Corporation and independent survey agent in both loading and unloading ports, the accuracy and the transparency of the measurements made could not be reliably accepted in audit. Further, it was observed in audit that the weigh measuring equipment (Weight Bridge) was inaccurate and the Board had not taken actions to repair them or take alternative method to measure the accuracy of coal weight. Hence, there were considerable differences between the invoiced and unloaded quantities. Therefore, the accuracy of coal stock both quantity and value is in doubt due to taking the invoiced quantities to stock records of the Board,

(h) Normally, the CEB is paying the value of letter of credits to the LCC base on the commercial invoices produced for the procurement of coal and in most instances their value is higher than the actual invoice amounts. Further, the LCC takes considerable longer period for settling the overpaid amounts. For instance, the number of days taken for settling the overpaid amount for shipment No. 43 and 44 was 196 and 171 days respectively. The opportunity cost of the capital tied-up computed for the unsettled over payment based on the overdraft interest rate of 14 per cent per annum was Rs. 6.7 million.

(i) The estimated coal requirement for the period from 10 September 2014 to 29 April 2015 was 2,170,000 MT. Nevertheless, the LCC had supplied only 1,859,738 MT, thus the shortage coal quantity was 310,262 MT. Therefore, the plant could not operate in full capacity and generate maximum electricity. As such, 807,974,993 kWh equal to 113 running days had been lost to the Board and incremental unit cost due to not dispatching through Lakvijaya Power Station is 18 Rs/kwh. Therefore, the total loss was Rs. 14,543.5 million.

(j) According to Guideline 4.2 of the NPA Circular of 25 January 2006 and the National Budget Circular No. 128 of 24 March 2006, a proper Procurement Plan needs to be prepared and got approved annually. However, such Procurement Plan had not been prepared in order to ensure the smooth operations and financial functions of the Board.

(k) The Lanka Coal Company had failed to furnish the details such as a list of bids received, bid opening minutes, technical evaluation reports, procurement committee reports etc. for audit, in relation to the bid No. 03, 04 and 05 for the procurement of Rs.15,697,500,000 worth coal which had been accounted in the financial statement of the Board under cost of sale to ensure the proper functioning of procurement process.

4.2.3 **Security Deposits for Electricity Bulk Supply**

The following deficiencies were observed in this connection.

(a) According to audit test checks, it was revealed that the security deposits to the value of Rs. 45.7 million in relation to 123 electricity bulk consumers in Deputy General Manager's Office (Western Province South) had not been obtained to mitigate the credit risk of the bulk consumers. The balance outstanding from those consumers as at 31 December 2014 was Rs.89.1 million.

(b) The value of current security deposits maintained by 568 bulk consumers in Deputy General Manager's Office (Western Province South -1) had been lesser by Rs.848.4 million than the value which should have been maintained according to the current policy. The amount outstanding from those consumers as at 31 December 2014 exceeding the security deposits was Rs. 413.5 million.

(c) A sum of Rs. 3.2 million outstanding from 15 bulk consumers whose accounts had already been recognized as non performing (irrecoverable) would most probably be a loss to the Board due to insufficient security deposits.

4.3 Management Inefficiencies

The following observations are made.

(a) 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.

(b) A sum of USD 6,460 equivalent to Rs. 839,800 had been over paid by the Board to officers who had gone for foreign training during the year 2014 and it had not been recovered even as at 14 September 2015.

(c) The Board had not taken any action to dispose the stock valued at Rs. 8,632,412 identified as damaged at DGM Office in Eastern Province over a period of more than four years as at 31 December 2014.

(d) Hundred and eighteen electrification jobs to the value of Rs. 125,248,220 had been remained in WIP position over a period of more than 05 years without taking suitable actions to complete them in an efficient manner.

(e) The matter in relation to short delivery of Rs. 9,159,247 worth fuel supplied by the CPC had not been short out even as at 31 December 2014.

(f) A sum of Rs. 103,491,574 paid to Local Authorities and Divisional Secretariats in relation to mitigate the dispute of the fishermen at Norichchole for laying transmission line through Puttlam Lagoon as advances had been recognized in the accounts as work - in – progress with the intention of capitalizing. But, no evidence or source documents were provided to audit to ensure the reasonability, transparency and the accountability of these expenses. Out of that, a sum of Rs. 18,391,574 given to such organizations had been remained idling in the Bank Current Accounts for more than 06 months as at 25 June 2015 without being used for the purposed they were granted. Hence, the real requirement of such payments was doubt to audit.

(g) A sum of Rs.1,324.9 million had been withdrawn from the investment of insurance reserve for the replacement of damaged assets belonging to the Board due to civil war in the year 2003 and 2009. Even though, the cost incurred for the replacement of such assets was Rs. 1,261.2 million, no action had been taken to re-invest the over withdrawn amount of Rs. 63.6 million even up to 31 December 2014.
Further, the price variance included in the cost incurred for the replaced assets had not been separately recognized for the purpose of re-investing the actual over withdrawn amount.

(h) The total demurrages paid by the CEB during the year under review due to inefficiencies in jetty operations relating to coal shipments was Rs. 27.4 million and a sum of Rs. 182 million had been further paid as advance for demurrages as per the request made by the Lanka Coal Company (Pvt) Limited without being assessed the actual amounts to be paid. In the meantime, the amount due for the same period as per the calculations made by the audit was Rs. 47.8 million. It was further observed that proper action had not been taken to mitigate such type of losses.

4.4 Idle Assets

The following idle assets were observed in audit.

(a) The barges and tugboats purchased by the Board valued at Rs.1,005,333,192 for the purpose of coal handling in 2009 had remained idle for over a period of more than five years as at 31 December 2014 and it had been decided to sell them in 2014. However, no action had been taken in this connection even up to 31 December 2014.

(b) Five bowsers procured by the Board for Rs.36. 5 million by utilizing foreign loan obtained for phase I of the Puttalam Coal Power Project in 2009 had not been utilized for the intended purpose and remained idle even without being taken into the asset register to date.

4.5 Irregular Payments

The following observations are made.

(a) The Board had paid the PAYE tax on behalf of its employees in contrary to 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 since the year 2010 to 31 December 2014 was Rs.1, 407 million.

(b) Thirty nine different staff allowances had been paid from time to time to the staff of the Board on the approval of the Board of Directors without obtaining the approval of the Cabinet of Ministers as specified in the Public Enterprises Circular No 95 of 04 June 1994. At the Audit test checks revealed that such allowances amounting to Rs. 849 million had been paid in the year 2014 as compared with Rs. 642 million so paid in 2013.

(c) The construction activities of the proposed building called “Vidulakpaya” for the Head Office of the CEB had been abandoned with immediate effect on the decision taken by the Board of Directors on 07 October 2014. However, the reasons for abandoned of the construction neither included in that Board Decision nor made available to audit. The construction cost up to the date of abandoned was Rs. 380 million and the total cost incurred for that was not made available to audit.

4.6 Unidentified Losses

The following observations are made.

(a) Two tugs boats, three barges, and one line boat belongs to Lak Vijaya Power Station, had been parked in Trincomalee and Colombo Ports since 2009 as they are not suit for coal unloading operations. However, CEB purchased those lightering equipment from the foreign loan obtained for the Coal Power Project with the recommendation of the Project Director, CEB representative, and under the supervision of the line Ministry. Due to incorrect decisions of those officials, the CEB had to incur a loss of Rs. 1,250.1 million as details given below.

Description	**Amount**
	Rs
Cost of purchase	1,074,244,082
Expenditure relating to lightering equipment(Maintenance)	55,600,510
Expenses reimbursed to Ceylon Shipping Corporation for Anchorage	120,265,270
Total	**1,250,109,862**

(b) The value of misplaced property of the Heavy Maintenance Stores at Walachchene belonging to the Board including a water motor stolen by a Security Guard of a private security firm employed in that store was Rs. 1,610,203.

(c) The value of insulators procured under Iranian Loan for Rural Electrification Project which had been rejected by the quality inspectors due to inferior quality was Rs.6,387,630. Only the action that had been taken by the Board for that miss-procurement was to transfer them to warehouse at Kotugoda.

(d) The reasons for the diesel shortage to the value of Rs. 85,670,920 identified at the physical verification of the year 2014 were not made available to audit. Further, that shortage had not been investigated.

4.7 Matters in Contentious Nature

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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) 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. There were 333 employees who had been recruited in that manner during the year under review. As a result, the Board has lost the opportunity to recruit the most competent persons to the relevant posts.

(ii) 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) The shortfall observed between the Insurance Reserve Fund balance and Investment of Insurance Reserve Fund as at 31 December 2014 amounting to Rs.4,099 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.

(c) 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 between those two parties in order to ensure the smooth operation of the individual institutions.

(c) Any action taken for the following matters as reported in my previous years audit report was not observed in the year 2014 as well.

- 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 and tray (1 vehicles)
- Front cab and rear tray were replaced with used units (1 vehicle)
- A crane was fitted locally (1 vehicle)

Further, there is no proper updated vehicle database for both CEB owned and hired vehicles. Hence, the reasonability of incurring Rs. 216,773,402 in 2014 for vehicle maintenance could not be ensured in audit.

(e) Even though the CEB has 50 per cent ownership of the Trincomalee Power Company Ltd, a Joint Venture Company, only one directorship out of three had been allocated thereto. Hence, the possibility of making decisions in favour of other partners is very high.

4.8 Human Resource Management

The following observations are made.

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

(b) Three thousand six hundred and fifty five employees had been outsourced as at 31 December 2014 by superseding the latest cadre approved by the Board in 2012. The outsourced personnel were 20 per cent of the total staff strength of the Board.

(d) The following posts in the approved cadre had been in vacant by 31 December 2014 and most of those vacancies had been filled on contract and outsource basis.

Category	Number of Vacant Posts	Filled by Contract Basis / Manpower
Executive	367	09
Middle Level Technical Service	164	29
Clerical and Allied Categories	509	1174
Office Employee Categories	47	179
Drivers	28	535
Skilled Technical Service	647	805
Semi- Skilled Technical Service	1690	213
Other Skilled Grade	34	8
Total	**3,486**	**2,952**

(d) The approved cadre for Unskilled Field Service had been exceeded by 1356.

(e) Seniority is the only factor considered for promotions and no succession plan was made available. 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 and therefore, it was observed that the promotion is benefited to the employee but not to the entity.

(f) 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) keeping the posts open to other services, especially, for electrical engineers. Hence, the existing SOR could not be considered as a completed and accurate one.

(g) 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.

(h) According to the existing SOR, 50 per cent of the total cadre of Human Resource Officer 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.

(i) Experience required for direct recruitment of Human Resource Manager (HRM) and Human Resource Officer (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.

5. Accountability and Good Governance

5.1 Budgetary Control

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

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit will be brought to the notice of the Chairman of the Board by my detailed report that will be 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 Management
(e) Accounting and Financial Management
(f) Investments and Control over Subsidiaries
(g) Project Management and Control
(h) Budgeting
(j) Staff Loans
(k) Power Purchase Management.