

Public Utilities Commission of Sri Lanka - 2015

The Financial Statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2015 comprising the Financial Position Statement as at 31 December 2015 and the Detailed Income Statement, Changes in Equity Statement and the Cash Flow Statement 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 34 of the Public Utilities Commission Act 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 Managements 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 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 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. Subsections (3) and (4) 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.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2015 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 Sri Lanka Accounting Standard 37

The Commission had paid Rs. 300,000 as legal fees during the year under review with regard to a court case filed by an external person against the method of recovery used by the Commission. This case which had not been completed even by 17 March 2016 had not been disclosed in the financial statements.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non – compliances were observed.

| Reference to Laws, Rules, Regulations and Management Decisions | Non – compliance |
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| ----- | ----- |
| <p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p> <hr/> <p>(i) Financial Regulation 371 (2) (c)</p> | <p>Sub - imprests should be settled immediately after the purpose is completed. However, the advance of Rs.55,000 paid in 2012 for the South Asia Infrastructure Regulatory Programme had not been settled even by 31 December 2015.</p> |
| <p>(b) Paragraph 3.3 of the Public Enterprises Circular No . 02/2013 of 11 September 2013.</p> | <p>The Pay – As – You – Earn Tax of Rs.333,865 payable by the employees from January to March of the year under review had been paid by the Commission instead of being recovered from officers.</p> |

2.4 Accounts Receivable and Payable

The Annual Regulatory Tax totalling Rs. 81,852,700 recoverable from the Electricity Board for the previous year and the year under review in terms of Condition No. 11 of

the Electricity Generation Licence issued to licencees and the total tax of Rs. 460,676 recoverable from other institutions from 2011 to 2015 had not been recovered by the Commission even by 02 March 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the year under review amounted to a surplus of Rs. 4,048,768 as compared with the surplus of Rs. 24,670,710 of the previous year showing a deterioration in financial results by Rs. 20,621,942 in the financial results of the year under review. The increase in consultancy fees by Rs. 24,667,453 had mainly attributed to this deterioration.

An analysis of the financial results of the year under review and the past 4 years shows that the surplus of Rs. 55,978,423 in the year 2011 had deteriorated in the following 4 years and had decreased up to Rs. 4,048,768 during the year under review. While considering the employee's remuneration and the depreciation of non – current assets, the contributions from 2011 to 2015 had fluctuated and the contributions in 2014 had increased by 36 per cent as compared with the year 2013. It has again deteriorated by 13 per cent in 2015.

4. Operating Review

4.1 Performance

The objectives of the Commission as per Section 14 of the Public Utilities Commission of Sri Lanka Act No.35 of 2002 are as follows.

- To safeguard the rights of all consumers and to promote competition.
- To promote efficiency in the two aspects of activities and capital investments in the public utility industries such as electricity, water services and petroleum, their safety and promotion of quality of services and promotion of efficient allocation of resources for them.
- To benchmark utility services to be in line with international standards, wherever possible, and to take care to avoid misappropriation of money provided to public utility industries which are efficiently by operated price controlled institutions.

The following matters were observed with regard to checks carried out on fulfilment of the above objectives.

- (a) According to the above Act, the Commission should attend to regulatory activities pertaining to industries such as, electricity, water and petroleum which had been shown as utility industries. However, so far, the legal provisions needed to obtain the services of the Commission for petroleum and water allied industries had not been included in the Acts establishing those industries by the respective institutions. As

such, the services of the Commission had been restricted only to electricity related industries and it had barred the objective of supply of services for fulfilment of water and petroleum related industries.

- (b) Seven functions included in the Action Plan for the year 2015 had not been completed even by 31 December 2015.

4.2 Operating Activities

Performance bonds had not been obtained from contractors for 3 projects amounting to Rs.900,382 which had been shown as work in progress in the Financial Position Statement as at 31 December 2015. An agreement had not been entered into between the contractor and the Commission with regard to one Project.

4.3 Personnel Administration

The following observations are made.

- (a) According to paragraph 9.2 (d) and (f) of the Public Enterprises Circular No. 12 of 02 June 2003, the organizational structure the new staff should be referred to the Department of Public Enterprises for approval. However, such action had not been taken.
- (b) According to paragraph 9.3 referred to at (a) above, proper methods had not been prepared with regard to recruitment and promotions.
- (c) According to the directives of the Committee on Public Enterprises of 17 October 2011, 09 August 2012 and 20 August 2014, it was directed that action should be taken in terms of the Circular No. 39 of the Management Services dated 26 May 2009 for recruitment of employees and determination of salaries of staff. So far, such action had not been taken.

5. Accountability and Good Governance

5.1 Action Plan

The budget, procurement plan and the internal audit plan etc, had not been included in the Annual Action Plan prepared as stated in the Public Enterprises Circular No . 01/2014 dated 17 February 2014.

5.2 Internal Audit

An internal audit programme pertaining to financial activities had not been prepared in terms of Financial Regulation 134 (2) and action had not been taken to furnish internal audit reports to the Auditor General in terms of Financial Regulation 134 (3).

5.3 Budgetary Control

It was observed that the budget had not been utilized as an instrument of financial control as there were over provisions ranging from 25 to 59 per cent in 08 items of expenditure of the budget for the year under review.

6. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Commission from time to time. Attention should be paid with regard to recruitment of employees and the method of promotions and obtaining of approval for the revision of salaries as per circular concerned.