

Public Utilities Commission of Sri Lanka – 2016

The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and 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 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Commission on 19 June 2017.

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 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

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 2016 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Even though property, plant and equipment should be revalued once in three or five years in terms of Sri Lanka Accounting Standard 16, only the computers and office equipment had been revalued in the year 2011 and depreciation had been completed as at 31 December 2016. Nevertheless, the value of property, plant and equipment still in use amounted to Rs.32,721,378. Action had not been taken to eliminate the assets identified for elimination by the Reports of Annual Board of Surveys of the years 2015/2016 and to revalue the other assets.

2.3 Receivable and Payable Accounts

The following observations are made.

- (a) According to Section 46 of Electricity Act, No.20 of 2009 and Condition No.11 of the Generation Licence issued to the electricity generation licence holders, a sum of Rs.81,852,700 payable as annual regulatory tax to the Commission by the Ceylon Electricity Board pertaining to the years 2014 and 2015 and a sum of Rs.215,240 receivable from other institutions from the year 2013 up to 2016 had not been recovered even by June 2017.
- (b) Even though variable registration fees charged from lubricant companies should be paid half yearly to the Commission within 30 days after the end of relevant period, an estimated fees amounting to Rs.1,562,263 receivable from two companies relating to the last 06 months of the year under review had not been recovered even by June 2017. Further, the balance receivable from one institution over several years amounted to Rs.1,134,698.

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

The following non-compliances were observed.

Reference to Laws, Rules and Non-compliance Regulations

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| <p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 371(2) (c) and the Public Finance Circular No.3/2015 of 14 July 2015</p> | <p>Even though the sub imprest should be settled immediately after the completion of the purpose for which it is granted, the advance of Rs.55,000 paid for the programme of South Asian Forum for Infrastructure Regulation in the year 2012 had not been settled even by 31 December 2016.</p> |
| <p>(b) Government Procurement Guidelines - 2006
Guidelines 4.2.1(c) and 4.2.2</p> | <p>Detailed Procurement Plan and the Procurement Programme for the year 2016 had not been prepared.</p> |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating result of the year under review had been a deficit of Rs.3,082,655 as against the surplus of Rs.4,048,768 for the preceding year, thus indicating a deterioration of Rs.7,131,423 in the financial result of the year under review as compared with the preceding year. The increase of expenditure on personal emoluments by Rs.8,101,684 and the operating expenditure by Rs.6,722,483 despite the increase of income from variable registration fees by Rs.6,158,948 had been the main reasons for the above deterioration.

In analyzing the financial results of the year under review and 04 preceding years, a financial surplus was observed from the year 2012 up to 2015. The surplus had decreased by 84 per cent in the year 2015 as compared with the year 2014 and it had decreased by 176 per cent and had become a deficit in the year 2016 as compared with the year 2015. Nevertheless, in the readjustments of depreciations for employees remuneration and non-current assets to the financial result, the contribution of Rs.92,491,830 in the year 2012 had increased to Rs.98,274,006 with various fluctuations in the year under review.

4. Operating Review

4.1 Performance

The objectives of the Commission as stipulated by Section (14) of the Public Utilities Commission of Sri Lanka Act, No.35 of 2002 were as follows.

- to protect the interest of all consumers and to promote competition,

- to promote efficient in both the operation of and capital investment in public utilities industries namely the electricity, water and petroleum, to promote safety and service quality in public utilities industries and to promote an efficient allocation of resources in public utilities industries.
- To benchmark, where feasible, the utilities services as against international standards and to ensure that price controlled entities acting efficiently, do not find it unduly difficult in financing their public utilities industries.

The following observations are made with regard to the achievement of aforesaid objectives.

- Even though the regulating of the utility services such as electricity, water and petroleum should be done by the Commission in terms of the said Act, the legal provisions required to obtain the service of the Commission for petroleum industries and the water had not been included in the Acts pertaining to the establishment of said industries by the relevant institutions as yet. Therefore, the service of the Commission had been limited only to the electricity industry and it had become a burden to achieve the objectives of rendering services for water and the petroleum industries.
- Approval of the Commission had not been received for two activities valued at Rs.2,300,000 which included in the Action Plan of the year under review, thus the said activities could not be carried out.

4.2 Staff Administration

The following observations are made.

- Even though the Organization Structure of the new staff should be revised and the approval of the Department of Public Enterprises should be obtained therefor in terms of Paragraphs 9.2(d) and (e) of the Public Enterprises Circular No.PED/12 of 02 June 2003, action had not been taken accordingly.
- Approval of the relevant Ministry had not been obtained for the Scheme of Recruitment and Promotion with the concurrence of the Department of Public Enterprises in terms of Paragraph 9.3 of the Circular mentioned in (a) above.

5. Accountability and Good Governance

5.1 Budgetary Control

Overprovision ranging from 21 per cent to 42 per cent pertaining to 05 Items was observed in the comparison between the budgeted expenditure and actual expenditure of the year under review, thus indicating weaknesses in the use of budget as an effective instrument of management control.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Staff Administration	Failure to obtain the approval for the Organization Structure of the Staff
(b) Revenue Administration	Inefficiency in the recovery of licence fees and the regulatory fees in arrears.