

1.1 Opinion

The audit of the financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Commission.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Commission, and

whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Regulatory Levy receivable from Ceylon Electricity Board amounting to Rs. 81,852,700 had not been received to the Commission even as at 31 December 2018. Further, Regulatory Levy receivable from 28 per cent of licensees for the year 2018 had not been collected as at due date.	It is kindly informed that actions have been taken to collect the arrears of Regulatory Levy receivable from Ceylon Electricity Board amounting to Rs. 81,852,700 and the Secretary- Ministry of Power and Energy has been informed too.	Prompt steps should be taken to collect the money receivable.
(b) A sum of Rs. 1,134,697 receivable from a lubricant seller for the years 2013 and 2014, and an estimated Variable Registration Fee amounting to Rs. 5,000,000 with regard to the second half of the year 2017 from Ceylon Petroleum Corporation had not been received even by March 2019.	It has been informed that a sum of Rs. 1,134,697 receivable to the Commission from a lubricant licensee has been paid by its Parent Company to the General Treasury. It is kindly informed that confirmations have been called from the General Treasury regarding that and suitable actions will be taken after receiving answers. The outstanding amount of Ceylon Petroleum Corporation has not been received up to now, and it was requested to be settled soon.	Prompt steps should be taken to collect the money receivable.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sri Lanka Public Utilities Commission Act No. 35 of 2002 Section 3(1) and 3(2)	Although it should be required to fill the vacancy within 03 months from the occurrence of any vacancy in the Commission, one member position had been vacant from 30 September 2014.	Filling of the vacancy shall be done by the Minister of the line Ministry with the consent of the Constitutional Council. The Minister has been informed about the vacancy.	Prompt actions should be taken to fill vacancies according to the provisions of the Act.
(b) Public Administration Circular No 02/2018 dated 24 January 2018	In following occasions, it had not been acted according to the Circular.	Since the Commission engages in regulatory functions, a performance evaluation methodology has been prepared and implemented accordingly. Therefore, it is kindly informed that annual performance agreements as per the format presented in the Circular have not been signed.	Actions should be taken according to the provisions of the Circular.
	(i) Not signing annual performance agreements for whole staff.		

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| <p>(ii) Not preparing a suitable methodology to identify the gap between the competencies already gained relevant to the assigned responsibilities, and the competencies to be gained for the success of performing duties.</p> | <p>Participating those officers for training sessions conducted by the reputed institutions and assigning them suitable duties relevant to the training is being done at present.</p> | <p>Actions should be taken according to the provisions of the Circular.</p> |
| <p>(iii) Not preparing a Human Resources Development Plan as unique to the Institute.</p> | <p>It is informed that actions will be taken to prepare a Human Resources Development Plan for next year.</p> | <p>Actions should be taken according to the provisions of the Circular.</p> |
| <p>(iv) A minimum training opportunity not less than 12 hours should be assured every staff member within the Human Resources Development Plan. The cadre of the Commission consisted of 45 staff members as at 31 December 2018 and out of the whole staff, only 14 members or 31 per cent had received the training opportunities during the year 2018.</p> | <p>Training requirements have been fulfilled by considering the provisions of money, service requirements and requests of officers. According to the Circular, it will be done in the future.</p> | <p>Actions should be taken according to the provisions of the Circular.</p> |

- (c) Public Enterprises
Circular No. PED/12
dated 02 June 2003

Paragraph 6.5.3

Even though Annual Reports should be tabled in Parliament within 150 days from the end of the financial year, Annual Report of the Commission for the year 2017 had not been tabled in the Parliament even as at 31 December 2018.

It is kindly informed that Annual Report for the year 2017 has been submitted to the Ministry of National Policies and Economic Affairs on 31 March 2018, and 10 copies in three languages have been delivered on 03 December 2018. However, acknowledgment of tabling in Parliament has not been received.

Actions should be taken according to the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 106,029,515 and the corresponding surplus in the preceding year amounted to Rs. 111,090,475. Therefore a deterioration amounting to Rs. 5,060,960 of the financial result was observed. Increasing revenue of the year under review by Rs. 24,871,289 or 7.5 per cent as compared with the preceding year whilst increasing expenditure in the year under review by Rs. 29,932,249 or 14 per cent as compared with the preceding year had mainly caused to this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

As compared with the preceding year, other income had increased by Rs. 12, 779, 629 and it was 128 per cent. Increase of interest income, sale proceeds received from a vehicle disposal and grant (recurrent) had mainly attributed to increase in income. However, stationary expenditure had increased by Rs. 738,778 or 101 per cent and legal and Research expenditure had increased by and Rs. 560,856 or 35 per cent in the year 2018 as compared to year 2017.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In order to regulate petroleum and water industry, actions had been taken to rent out the 17 th floor with effect from 01 July 2017 other than 06 th floor of Bank of Ceylon Merchant Tower Building where the office premises of the Commission situated. However, the relevant activity had not been commenced up to the month of April 2019, and a sum of Rs. 5 million had to be spent idly during the years of 2017 and 2018.	Since the regulatory activities in petroleum and water industry were assigned to this Commission and the space of the 6 th floor was not adequate, only a part of 17 th floor in the same building was rented out. Although draft bills relevant to the petroleum and water industry have been prepared, it was unable to pass so far. 17 th floor is being used for office purposes.	Expenses should be made efficiently and effectively.
(b) The Commission had not implemented a methodology to verify whether the lubricant sellers had made the payment of fee payable to the Commission biannually base on accurate value of total sales invoices. Although this situation had been indicated in previous audit queries, only 02 institutions out of 13 institutions had submitted sales reports for the year 2018.	It is kindly informed that sales values are used in calculating these fees by lubricant sales licensees, and they have been instructed to send the sales value certified by the auditor.	Required written evidences should be obtained to verify the accuracy of the fees charging.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Although powers in relation to regulatory activities in electricity field in Sri Lanka had been vested to the Commission, there were some	In performing regulatory activities of the electricity field, it is acknowledged that there were instances where the Ceylon	The responsibility of the Commission is to formalize of its regulatory functions

<p>occasions where certain recommendations and directions of the Commission had been avoided following by the Ceylon Electricity Board, and the Commission had not taken appropriate actions to rectify that situation. Such instances are observed as follows.</p>	<p>Electricity Board had not complied with the recommendations and directions issued by the Commission, and had not followed the regulatory instructions.</p>	<p>by exercising its powers.</p>
<p>(i) Although estimated Bulk Supply Tariffs should be submitted to the Commission once in six months, and obtained the approval by the transmission licensee, those tariffs details had not been submitted to the Commission by the Ceylon Electricity Board after the month of June 2018.</p>	<p>Since the estimated Bulk Supply Tariffs were not submitted to the Commission for approval from January 2018, it was unable to approve the tariffs.</p>	<p>-Do-</p>
<p>(ii) Uniform National Tariff Adjustment is prepared quarterly by the Commission using the actual revenue and cost data submitted by the transmission and distribution licensees and communicated to the transmission licensee, and the Ceylon Electricity Board has not submitted required data to the Commission from the month of January 2018.</p>	<p>Due to none submission of actual revenue and cost information from January 2018 to 2019 so far, the Commission is unable to approve and publish the quarterly tariff adjustments.</p>	<p>-Do-</p>
<p>(iii) Even though the charges and calculations to be levied next year for other services relating to electricity supply except electricity tariff should be submitted to the Commission for approval by the transmission licensee and distribution licensees before 15 November each year, in the year 2018 the Ceylon Electricity Board had not taken actions regarding the year 2019 accordingly.</p>	<p>It is informed that though the proposed charges to be levied next year should be submitted to the Commission for approval by relevant licensees, the Commission was not able to approve the charges of those licensees due to none submission of that information.</p>	<p>-Do-</p>
<p>(iv) An Incident Reporting System for recording accidents relating to electrical works had been introduced by the Commission for Ceylon Electricity Board and Lanka</p>	<p>It is informed that further actions regarding those accidents were unable to take since Ceylon Electricity Board refrained from entering</p>	<p>-Do-</p>

Electricity Company (Pvt) Ltd (LECO), and Ceylon Electricity Board had not updated the system after the month of May 2018.

information to the Incident Reporting System introduced for recording accidents relating to electrical works.

(v) With the assistance of a consultancy institution, agreements, applications and guidelines relating to provision of electricity connection to customers and electricity supply had been prepared during the year 2018 spending of Rs. 2.54 million. Although Ceylon Electricity Board had been invited for attending to discussions in several stages by the Commission, they had only attended to one meeting.

It is informed that although the opportunity was provided to present the views and suggestions of the licensees in formulating guidelines suitable for convenience and protection of the electricity consumers, Ceylon Electricity Board refrained from attending for those discussions, as such the possibility of granting consumer reliefs which result from those discussions and negotiations is obstructed.

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3.3 Delays in Projects or Capital Work

Audit Issue

Management Comment

Recommendation

(a) In examining the progress of activities relating to agreements for consultancy services entered during last 5 years, it was observed that effectiveness of the following Projects was at a minimum level due to lack of required data provided to the Commission by the Ceylon Electricity Board.

(i) Project for Benchmarking Transmission and Distribution cost which is implemented spending of Rs. 10.2 million and has a possibility of minimizing Transmission and Distribution cost.

Even though this Project has a possibility of reducing the cost of electricity transmission and distribution, the activity was unable to complete within the expected period due to the lack of required estimated data provided by the Ceylon Electricity Board.

Appropriate steps should be taken to obtain required data for achieving expected results from consultancy services.

(ii) A sum of Rs. 12 million worth

Although programmes, formats

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- Project for Develop Dispatch Audit Guidelines which is for examining whether the Transmission licensee has purchased electricity at a minimum cost from the Distribution licensee.
- and guidelines required to carry out the audit have been prepared by the consultancy institution, the task was unable to implement since the Ceylon Electricity Board has not completed and submitted those formats.
- (iii) Project for Tariff Formulation which is supportive in preparation of policies regarding future electricity tariff.
- Although the data and information required for preparation of policies regarding future electricity tariff were requested from the Ceylon Electricity Board, expected task had to halt since that information was not provided.
- (iv) Project for Study on Generation Cost Benchmarking which is for approving estimated Bulk Supply Tariff submitted by Transmission licensee biannually.
- Expected results could not be achieved due to lack of relevant details provided by the Ceylon Electricity Board, though the Project was supportive in examining and approving estimated Bulk Supply Tariff of transmission licensee.
- (v) Network Stability Study : Stability of the existing electricity network in Sri Lanka, weaknesses and recommendations for rectifying those weaknesses had been presented by the consultancy institution in their final report, and it was unable to verify the success or failure of that due to lack of information provided by the Ceylon Electricity Board.
- Though the study was carried out, information had not sent by the Ceylon Electricity Board to follow up whether the recommendations of the Commission were implemented.
- (b) The Commission had selected a university for obtaining consultancy services in relation to prepare a Safety and Technical Management Plan expecting the safety of licensees, and awarded the contract worth Rs. 7.75 million on 16 April 2018. Following observations are made in this regard.

(i)	Although in terms of the Paragraph 9.5.1 and 9.5.2 of Guideline for Selection and Employment of Consultants issued in the year 2007 by the National Procurement Agency, the Commission had to sign a formal agreement with the consultancy institution that awarded the Contract, it had not been done accordingly.	As there is an agreement on supply of goods and services according to the letter of award, no separate agreement has been signed.	It should be done according to the Procurement Guidelines.
(ii)	According to the procurement time schedule mentioned in Terms of References of this Contract, Safety and Technical Management Plan should be completed within 5 months. However, relevant activity had not been completed by the consultancy institution even as at 15 March 2019.	This has been unable to complete, since the permission to enter into power plants and other premises of the Ceylon Electricity Board in order to obtain the data and information required to prepare the final report has not been given.	The Management should take actions to achieve the expected results of the Project.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation	
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(i)	According to the Paragraph 9.2 (d) and (e) of the Public Enterprises Circular No. 12 dated 02 June 2003, though the amendments to the organizational structure should be submitted to the Department of Public Enterprises and obtained the approval, it had not been done accordingly.	It is kindly noted that the organizational structure of the Commission which is a regulatory body has been prepared as per the approval of the Commission and it has been done according to the Section (1) 12 (a) of the Act no 35 of 2002.	It should be adhered to the provisions of the Circulars.
(ii)	According to the Paragraph 9.3 of the Circular mentioned in (i) above, though there should be a proper scheme for recruitments and promotions, and that scheme should be submitted to the relevant Ministry with the concurrence of the Department of Public Enterprises and taken the approval, it had not been done accordingly.	Since the actions have been taken based on the powers vested in the Section 12 of the Sri Lanka Public Utilities Commission Act No. 35 of 2002, no requirement has arisen for obtaining another approval.	It should be adhered to the provisions of the Circulars.

(iii) The approved carder was 51 as at 31 December 2018, and hence the actual carder as at that date was 43, the number of vacancies was 8.

It is kindly noted that the approved carder is 51, and actual carder is 43, and no officers have been recruited outside the approved carder.

Actions should be taken to fill vacancies or amend the approved carder.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue

According the annual action plan of the Commission, progress of 21 activities within 8 divisions was at a minimum level, and it was observed that it may adversely affect the entire performance of the Commission.

Management Comment

The reasons for that were none provision of the necessary data required to perform those activities by licensees, and delays in appointing procurement committees due to changing the roll of the Ministry.

Recommendation

The Management should ensure that the activities of the Action Plan are performed.