Ceylon Electricity Board - 2019

1.1 Qualified Opinion

The audit of the consolidated financial statements of the "Ceylon Electricity Board" (the CEB) and its Subsidiaries ("the Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of 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. The financial statements of LTL Holdings (Private) Ltd was audited by the firms of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiary.

In my opinion, except for the effects of the matters described in paragraph1.5 of this report, the accompanying consolidated financial statements give a true and fair view of the financial position of Group as at 31 December 2019, and of their financial performance and the cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's and Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

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 Board's and Group'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 Group'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 Group 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 Board and the Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board and Group has complied with applicable written law, or other general or special directions issued by the governing body of the Board and Group*;*

- Whether the Board and Group has performed according to its powers, functions and duties; and

- Whether the resources of the Board and Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Consolidation

Audit Issue	Management Comment	Recommendation
The Qualified Opinions on the financial statements of the following companies for the year ended 31 December 2019 had been expressed by me based on the following observations.		
(a) **Lanka Coal Company (Pvt.) Ltd**		
i. As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful life of the fully depreciated motor vehicles still in use had not been reviewed and accounted accordingly.	A certified valuation for all fully depreciated 3 vehicles belongs to LCC will be obtained and pass the necessary adjustment during the financial year 2020.	Take necessary action to comply with accounting standards.

ii.	As per paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), no disclosure had been made regarding the assessment of Rs.159,549,619 relating to the Economic Service Charge (ESC) for the year of assessment 2017/2018 and the penalties imposed of amounting to Rs.75,461,644 thereon in the financial statements of the year under review. Further, total ESC payable as at the end of the year under review was Rs.579,179,232. As per section 6 of the Economic Service Charge Act No 13 of 2006 duly amended, ESC liability should be paid on or before twentieth day of following month after quarter ending. However, the Company had not paid ESC payable even up to the date of this report.	A letter was sent to the Department of Inland Revenue requesting for an extension of the settlement of ESC and a request was also made to refrain from any recovery action or imposition of any levies against the company in this regard until an amicable agreement is made on the settlement of the ESC.	Liabilities should be settled before due date to avoid penalties.
iii.	As per paragraph 14 of the Sri Lanka Accounting Standard on Revenue (LKAS 18), revenue from the sale of goods had not been recognized. When importation of coal, a mark-up of 10 per cent added to the value at the point of Customs as a notional adjustment in ascertaining the value for the custom purpose. However, the Company had been added notional 10 per cent mark-up amounting to Rs.3,804,035,310 to the revenue and later the Company had given such amount as discount to the debtors and charged to the	LCC was given a directive by Inland Revenue Department (IRD) to add the customs margin to cost in the issuance of VAT invoices to CEB. This pricing mechanism was adopted following a meeting held in the ministry on 28th June, 2018 with the attendance of an official from Inland Revenue Department (IRD). IRD official is on record and minuted having told that LCC's base value for VAT on invoices to CEB cannot be less than the value for customs purposes. The 10% is, therefore, added solely on the directive of IR official. Since then CEB has challenged the directive and written to IR by their letter dated 2018-09-07 to which the response is yet to be received. Until such time we added 10% customs margin to invoice but do not remit any	Record should be maintained in accordance with requirements of Sri Lanka Accounting Standards.

	cost of sale. As a result, the cost of sales and revenue had been overstated by similar amount and additional ESC had to be paid thereon.	excess output VAT to IRD in the interim pending issuance of a ruling by IRD. Hence it is the reason for the apparent overstatement of revenue.	
iv.	A forfeiture (penalty) of Rs.205,000,000 had been imposed to the Company by Sri Lanka Customs on non-declaration of correct transaction value of the coal imported during 19 September 2016 to 09 April 2018. The Company had debited this penalty payment to the Sri Lanka Custom VAT account amounting to Rs.155, 426,118, VAT control account amounting to Rs.39,970,418 and CSCL liability account amounting to Rs.9,603,464 erroneously. As a result, the expenses had been understated by Rs.205,000,000 and assets had been overstated by Rs.195,396,536 and liabilities had been understated by Rs. 9,603,464. Further, the Company had recorded a sum of Rs.126,956,898 as receivable from CEB and payable of Custom VAT in relating to VAT in the ledger. However, supporting documents and clear reasons were not given to verify this value.	As per the investigation done by Sri Lanka Customs, Lanka Coal Company has not declared the correct transaction values of the coal imported during the period from 19/09/2016 to 09/04/2018. During that time the custom declaration totally handled by Ceylon Shipping Corporation (CSC) for a charge of Rs.1,000,000/- per shipment. S.L Customs had imposed a forfeiture of 205,000,000/- to LCC on above wrong declaration & the investigation officers of S.L Customs had informed to LCC Officers that no any final VAT payment to be done after this payment. LCC had already paid Rs37,594,744 as VAT to the relevant shipments earlier and was compelled to settle the sum of Rs 205Mn subsequently using the funds provided by CEB since S.L. Customs held the clearance of coal shipments. However, LCC has written this matter to Finance Minister through the line Ministry requesting to waive off the said forfeiture which was rejected. But this matter is under investigation by a special committee **(Nemmawatta Committee)** appointed by two secretaries of the ministries relating to CEB & CSC and awaiting their report to make the correct presentation in the financial statements.	Immediate action should be taken to resolve the issue and identify the responsible person for the issue.
v.	The Company had used the funds, which received from Ceylon Electricity Board (CEB) for settlement of shipment bills, to pay penalty mention in part IV of the	LCC had done the payment using the given funds by CEB since S.L. Customs hold the clearance of coal shipments. This matter is under investigation by a special committee **(Nemmawatta Committee)** appointed by two	Immediate action should be taken to identify the responsible person for the issue.

	above even without obtained board approval and had not been done a formal investigation to identify the persons who are responsible for the losses.	secretaries of Ministries relating to CEB & CSC and awaiting their report	
vi.	The Company had not taken necessary actions to recover the receivable balance amounting to Rs.539,192,079 from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL) with regard to short delivery of coal. TISCL/CSCL had not confirmed this balance and no provision had been made for impairment, even though the receivable balance outstanding over seven years.	Taurian Iron and Steel settlement was handled by a high level committee. The committee has not opined that the debt is bad and even the buyer has consented to settle the dues by supplying coal. According to information in our possession, the settlement proposal has been submitted for determination by the cabinet. Present Status of Outstanding amount receivable from Ceylon Shipping Corporation (Taurian Iron and Steel Company Ltd.) was referred to the Cabinet of Ministers and the Cabinet appointed a four-members Committee of the Treasury (Chairman), Ceylon Shipping Corporation, Lakvijaya Power Plant and Lanka Coal Company to negotiate with the Taurian Iron and Steel Company. Further, Cabinet has advised to submit the recommendations of the committee through Ministry of Ports and Shipping back to the Cabinet which is yet to be submitted	Immediate action should be taken to recover the receivable amount.
vii.	Brought forwarded Economic Service Charges (ESC) receivable amounting to Rs.894,151, Withholding Tax (WHT) receivable amounting to Rs. 77,719, Income Tax payable amounting to Rs.65,474,540, Nation Building Tax (NBT) receivable amounting to Rs. 3,371,326 and Value Added Tax (VAT) receivable amounting to Rs.12,758,801 which could not be verified in previous year audit been	**<u>ESC / WHT</u>** Irrecoverable ESC and WHT totaling Rs.971,868 formed part of the approval received from the Board to write off long outstanding unsubstantiated tax balances. **<u>Income Tax</u>** The Inland Revenue Department confirmed in writing that the outstanding income taxes were only Rs.2,049,484 and Rs.3,590,678 for the years 14/15 and 13/14 respectively. Therefore, tax payable of Rs.11,703,151 which was no	Correct treatment should be applied for long outstanding balances.

charged against retained earnings in 2018 as prior year adjustment. The Company had failed to correct these adjustments even as at the end of the year under review.

longer necessary was adjusted with the approval of the Board of Directors at the meeting held on 26/07/2018.
There was a further extra provision of Rs.65,474,540 for income tax. This too was no longer necessary according to written confirmation of Income Tax liability from IR referred to above. Therefore, the excess provision was reversed with the permission of the Board leaving out the payable as per written confirmation from IR.

NBT

NBT is paid by the company in the past had been accounted for as a receivable and stood at Rs.3,371,326 at the end of 2017. LCC being an importer and trader of coal is not entitled to claim refund of NBT paid. Therefore, Board permission was obtained at the meeting held on 26/07/2018 to adjust the above balance from the balance sheet.

VAT

Input VAT which has been accounted for as a receivable of Rs.12,758,801 at the end of 2017 was adjusted to reflect the correct position. We wrote to the IR department inquiring to the possibility of receiving a refund of input VAT. IR department by their letter dated 14/06/2018 explained that in terms of section 22(5) of VAT Act No. 14 of 2002 the input VAT paid by the company shall not be refunded. Accordingly, having obtained the Board permission at the meeting held on 26/07/2018 the above receivable amount was adjusted.

viii. A sum of Rs. 15,870,104 payable to Ceylon Shipping Corporation Ltd (CSCL) in respect of lightering VAT (Shipment number 151 to 154) which was paid by CEB had been neither paid to CSCL nor presented as an advance received from CEB. Further, the Company had not accounted the aforesaid lightering VAT as payable to CSCL though they have obtained the fund from CEB to settle the charge.	LCC did not pay the VAT on lightering charges Rs.15,870,104.32 from shipment no 151 to 154 to CSC because Inland Revenue Department issued a ruling making lightering liable for VAT @ 0%. This receipt was utilized to make the settlement of final VAT assessment for the 11 shipments from shipment no 124 to 142. A credit note has been issued on this regard in year 2020.	Correct accounting treatment should apply at the time of transaction occurred.
ix. The balance confirmations and evidences relevant to verification of accounts payable amounting to Rs.1,109,063 , Final VAT & Other Receivable from CEB amounting to Rs.180,416,885 , ESC receivable from CEB amounting to Rs.578,678,686 , Payable to CEB amounting to Rs.6,813,692 , Ceylon Shipping Corporation Limited – Old payable amounting to Rs. 28,347,444 , Misc Debtors amounting to Rs 18,075,801 , Receivable from CEB amounting to Rs. 4,677,509 , Trade debtor (CEB) Steam coal amounting to Rs.7,750,000 , Other Receivable from CEB amounting to Rs.1,760,500, receivable of Noble Resources International Pte Ltd amounting to Rs. 1,115,987 and Trade Creditors – Nobel Resources International Pte Ltd amounting to Rs. 85,887,776 were not made available for audit.	**Accounts payable Rs.1,109,063** The balances will be rectified in year 2020 **Final VAT & Other Receivable from CEB : Rs.180,416,885** This is the receivable amount for final VAT & exchange loss of the shipments from 123 to 155 and it is related to the 205 million payment done to S.L Customs. This matter is under investigation by a special committee appointed by two secretaries of CEB & CSC and awaiting their report. The entries will be passed according to the above report **ESC Receivable from CEB : 78,678,686** A letter was sent to the Department of Inland Revenue requesting for an extension of the settlement of ESC **Payable to CEB : Rs.6,813,692** This is the balance amount of Liquidated damage claimed from M/s Trafigura after deducting the related expenses & price reduction on M/s Trafigura shipments due to discrepancy of Umpire sample certificates. **Ceylon Shipping Corporation Ltd – Old payable Rs. 28,347,444** This balance was confirmed by Ceylon Shipping Corporation Ltd (CSC) and the	Evidence should be available to audit to ensure the existence of the assets and liabilities.

correction entries need to be passed by CSC since LCC has already submitted the invoices & receipts of the cargo insurance payments.

Misc. Debtors Rs.18,075,802
Initial investigations revealed that the amount consists of overpayment to customs. However, further analysis is carried out in order to identify the correct receivable balance**.**

Receivable from CEB Rs.4,674,041
The nature of the balance will be investigated and corrected accordingly.

Trade debtor (CEB) Steam Coal Rs.7,750,000
This balance consists of a payment made to M/s Mercator. This matter also is under investigation by the special committee **(Nemmawatta Committee)** appointed by two secretaries of Ministries relating to CEB & CSC and awaiting their report.

Other Receivable from CEB Rs.1,760,500
The nature of the balance will be investigated and corrected accordingly in future

Trade creditors Noble Resource Rs.85, 887,776
The balance mainly consists of an under drawn amount by Nobel Recourses Intl. Pvt. Ltd due to expiry of the LC validity period.

Receivable from Nobel Resources Rs.1,115,987
This debtor balance will be set off against the trade creditor Noble Resource Rs.85,887,776 above.

x. VAT payable on reimbursement expenses amounting to Rs.8,280,994 had not been accounted in the VAT control account. As a result, VAT liability had been understated by the similar amount.	As per audit query itself these are re-imbursement for which LCC possess bills. There is no any margin added for our services. As advised by our Tax consultant, re-imbursement of expenses is not liable for VAT.	Comply with the inland revenue act requirement.
xi. The Company had paid a sum of Rs.4,000,000 to supplier through Ceylon Shipping Corporation Ltd (CSCL) without a liability in the ledger account as payable to the said supplier or payable to CSCL in this regard. However, the Company had deducted this amount from CSCL payable balance erroneously. Hence, the liabilities had been understated by similar amount.	The nature of the balance will be investigated and corrected accordingly in future	Correct accounting treatment should be applied.
xii.The Company had paid a sum of Rs.136,236,370 as Custom VAT for the Shipment No.123 though actual VAT amount was Rs.106,969,404 as per to the Cusdec. Hence, the overpaid VAT amount was Rs.29,266,965 and in the financial statement it was shown as VAT receivable amounting to Rs. 26,507,084. Hence, a difference of Rs.2,759,882 between two balances were observed in audit.	The balance was rectified during the financial year 2020.	Correct accounting treatment should be applied.
xiii.The Company had debited a sum of Rs.5,218,271 to CSCL payable account. However, supporting documents and reasons were not given to verify this amount. Further, the Company had not reconciled the difference of Rs.31,916,562 between the balances of Lanka Coal Company (Pvt) Ltd and CSCL disbursement account.	Necessary correction entries will be passed during the financial year 2020.	Reasons for the differences should be identified regularly and necessary adjustments should be done accordingly.

xiv. Penalties on Economic Service Charge (ESC) amounting to Rs.500,546 , Nation Building Tax (NBT) amounting to Rs. 10,134,113 and Value Added Tax (VAT) amounting to Rs.1,900,938 have been imposed by the Department of Inland Revenue by their letter dated 04 January 2018 for default of payments of tax had been accounted under the tax payable and without disclosed as penalties payable.	Negotiations were made with the Inland Revenue Department to waive off the penalties hence, the necessary disclosures will be made in the financial statements of year 2020	Correct accounting treatment should be applied and system should be developed to avoid any penalties.
(b) The Qualified Opinion on the financial statements of the Sri Lanka Energies (Pvt) Ltd had been issued by me mainly based on the non-compliances with Sri Lanka accounting standards including following matters.		
i. Non-compliances in relation to the following SriLanka accounting standards were observed. - SLFRS 07 paragraph 08,31,33 - SLFRS 15 paragraph 01 - LKAS 01 paragraph 79,113,117 - LKAS 02 paragraph 37 - LKAS 07 paragraph 20 - LKAS 08 paragraph 28,30 - LKAS 12 paragraph 80,81 - LKAS 16 paragraph 73 (c) - LKAS 19 paragraph 57,140,141 - LKAS 24 paragraph 17 - LKAS 38 paragraph 118 (a,b)	The necessary arrangements will be made to adhere to these best practices according to the Sri Lanka Accounting Standards from 2020 onwards	Comply with the standard requirements.
ii. Section 2(2) of Economic Service Charge Act, No. 13 of 2006 (as amended), an entity turnover has exceeded 12.5 Million per quarter (threshold	Sri Lanka Energies (Pvt) Ltd will comply as required in future.	Company should comply with the requirements of the act.

per quarter) and liable for Economic Service charges. Turnover of the Company was Rs. 396 Million (total turnover). However, the Company had not paid Economic Service Charges for year 2019 and hence ESC liability has been understated by Rs. 1,983,064.		
iii. Staff of the Company had done administrative works of the subsidiaries also without charging any management fee. Hence Group's staff expenses amounting to Rs.24,847,325 had been charged to the Company erroneously.	Since the subsidiaries have not been generating adequate surplus during the year and the principle of charging management fees have not been effected and be adhered to from financial year 2020 onwards	Expenses incurred by the company on behalf of the subsidiaries should be reimbursed.

1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The auditor of the Trincomalee Power Company Limited (TPCL) has emphasized the following matter on its financial statements. The company, which operated with the sole purpose of developing a 500 MW Coal Power Plant in Sampur has ceased the development activities of that Power Plant and the expenses previously capitalized has been written off in the year 2018. Instead, Cabinet approval has been received to setup a 50 MW Solar Power Plant by TPCL on the same land provided to construct the Coal Power Plant in Sampur. Further, Cabinet approval has also been granted to develop a 500 MW LNG Power Plant at Kerawalapitiya. However, any improvement in respect of the development activities of the above power plants had not been carried-out even as at the end of year under review. Accordingly,	Since Cabinet approval was granted to develop 50 MW Solar Power and 500 MW LNG power plants, TPCL has decided to use the land allocated for coal power plant at Sampur for 50 MW solar project. The said matter was continuously discussed in the Board Meetings of TPCL held during the past periods and now the Board has decided to amend the articles of association of TPCL in order to implement the solar power project in TPCL. The board of TPCL will take necessary actions to sign joint venture agreement between CEB and National Thermal Power Company Ltd (NTPC), India during 2020 in order to commence the solar project. However required legal clearance should be obtained from Attorney General before signing the JV agreement. After series of discussions between CEB and NTPC now both parties have signed joint venture agreement on 25th	Necessary action should be taken to implement the new proposals immediately to minimize deficit of power and emergency and power purchases.

this indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern.	October 2019 for the development of the LNG power plant at Kerawalapitiya. Progress of discussions is on hold as of today due to impact of COVID 19. However the Board of TPCL is in the opinion that steps will be taken to implement the proposed projects during future periods.	

1.5.3 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) **LKAS 1- Presentation of Financial Statements**		
(i) The Board had off set the balance of Rs.30,609,836 of sundry debtors against the creditors in relation to the POS counter payment and Post office commission. As a result sundry debtors and creditors balance had been understated by same amount.	The oversight entry has been rectified in 2020	Comply with the standard requirements.
(ii) The loan disbursed amount of Rs.1,262,503,405 to Green Power Development and energy efficiency improvement project had been shown as disbursement of Wind power project in the Note no.24.2.1.	The oversight entry has been rectified in 2020	Disclosure should be made to provide correct information for the users.
(iii) Rs. 25 million paid as loan processing fee for Rs. 83 billion loans obtained had been presented as other expense under administration expenses instead of presenting as finance cost.	The rectification of expenses categorization has been affected.	Correct classification of expenses should be applied.
(b) **LKAS 2- Inventories and LKAS 16 – Property, Plant and Equipment**		
The CEB is applying the standard cost method for valuing of labour, material and overhead costs of its capital and maintenance jobs, instead of applying the actual costs as per the provisions in the above Standards. As a result, the favourable material price variance and labour and overhead rate variances aggregating to Rs. 6,409,494,526 and unfavourable stores price variance of Rs.2,428,128,229 arisen	As per LKSA 2 paragraph 21 standard cost method for the measurement of inventories are recommended. Accordingly, CEB uses standard prices for valuing of stocks, WIP and Property plant and Equipment due to the practical difficulty of using actual costs. The committee formed to determine the standard prices of inventory hardly work on to ascertain	Actual Cost or approximate cost base should be applied when valuing the stock.

thereon had been brought to the financial statements. As a result of that, the operating results, assets, liabilities and equity of the CEB have been significantly affected due to high financial involvement in relation to the capital jobs. However, the impact to the financial statements thereon could not be ascertained in audit due to non-availability of required information relating to those capital jobs.	precise and reasonable estimation that very close to actual prices of the inventory. However due to complexity of technicality and huge volume of inventory, there is a gap between actual and standard prices. This matter would be resolved once the integrated accounting system is introduced. CEB has initiated the following actions to minimize gap between standard prices and actual prices. • Labour rate variance of DD4 and DD 3 has been eliminated from financial accounts of year 2019. Other two divisions will be able to do the same in year 2020. • With the adaptation of the weighted average method for inventory valuation as recommended by the committee which is appointed for, will be able to eliminate the impact of the material price variances to the Financial Statements. Since this is being addressed in the ongoing ERP system, this issue will be solved once the ERP system is in place. • Other than the Distribution assets which are transferred from WIP all other Property plant and Equipment (Land, Building, Motor Vehicle, Machinery, and Office Equipment) are valued at actual cost which complies with the recommendations of LKASs.	
(c) **LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** The useful lifetime of fully depreciated non-current assets which are being continuously utilized by the CEB had not	(i) <u>**Fully depreciated 1,683 numbers motor vehicles costing Rs. 3,918,235,311**</u> The data has been collected from the Divisions regarding the useful life of the motor vehicles and the	The useful lifetime of fully depreciated non-current assets which are being continuously utilized by the CEB should be reviewed as

been reviewed as mentioned in the accounting policies. For instance, fully depreciated four power stations and 1,683 numbers motor vehicles costing Rs.32,241,176,427 and Rs. 3,918,235,311 respectively are being still using without estimating the real life time.	analysis is in progress. A revised useful life could be recommended to record in the financial statements for year 2020 (ii) **<u>Fully depreciated four power stations Rs.32,241,176,427</u>** The Generation Division power plants are unique and complex in nature. The economic life span of the generators derived based on the Original Manufacturer's recommendation. A Committee will be appointed to revisit the economic life span of the power plants. As CEB has well maintained the power plants and Generators are operated beyond the Original Equipment Manufacturer (OEM)'s expected life span.	mentioned in the accounting policies.
(d) **LKAS 16 – Property, Plant and Equipment** The fixed assets amounting to Rs.172,019,335,924 in the Transmission Division had not been physically verified during the year under review.	Relevant instructions have been issued to conduct an Annual Physical Verification with regard physical existence of Fixed Assets of Transmission Division.	The fixed assets should be physically verified in each year as per the LKAS 16.

1.5.4 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A debit balance of Rs.3,535,799,151 (stock shortage) and a credit balance of Rs.90,343,073 (stock excess) had remained in the Stock Adjustment Account for more than one year without being cleared.	Actions have been taken by the respective divisions to pass necessary book entries where possible in 2020 and the rest of shortage balances would be cleared upon completion of legal actions.	Action should be taken to clear the stock excess and shortages within short period from the occurrence.
(b) As per the decision No. 10/2 434/423/034 of the Cabinet of Ministers, the CEB should repay the loan and interest	The repayment up to year 2018 had been absorbed by the General Treasury by considering materiality of liquidity position of CEB. However as per the	Necessary action should be taken to adjust the books of CEB once the written direction received from

thereon to the General Treasury for the loan amount of Rs.159,184,187,965 obtained for the construction of Lakwijaya Power Plant. However, the CEB had not paid or made provisions in its accounts for the above payments although the Department of External Resources of the General Treasury had paid an amount of Rs. 25,247,801,891 up to 31 December 2018 as interest for the said loan to the lending bank. As a result of non-provision of interest, retained earnings as at 31 December 2019 had been overstated by Rs. 25,247,801,891.	direction by Director General Public Enterprises Department, payment of the interest amounting Rs. 3,556,442,931.30 made by the Treasury for the period of 2019 had been adjusted in the books of CEB. Further, noted that adjustments will have to be made from year 2020 onwards subject to direction from Public Enterprise Department.	Department of Treasury Operations or to pay the outstanding balances.
(c)The amount of Rs.3,556,442,931 recorded to the equity on 17 October 2019 as per the request of the treasury on letter no. PED/1/CEB/2/11(i), had been charged to the income statement as interest expense during the year under review. Further, this amount had not been incurred by the CEB. As a result of that, loss of the board had been overstated by that amount.	According to LKAS 23 (Borrowing Cost) the borrowing cost of Rs. 3,556,442,931.30 incurred after commercialization of assets cannot be capitalized. Accordingly interest paid by the Treasury for the period of 2019 had been charged to income statement. Hence there is no over statement of loss of the Board as per the accounting standard	Expenses which are not incurred for the operation should not be taken in to account when preparing financial statements.
(d) The expenses incurred by the CEB on behalf of Employee Provident Fund maintain by the CEB amounting to Rs.41,816,475 had been treated as expenses of the CEB without being reimbursed and as such, the loss for the year under review had been overstated by similar amount.	According to the clause 20 (i) of the Provident Fund Rules published under the Ordinary Gazette Notification No. 1321/18 dated 31st December 2003, Expenses of managing and administering of the Provident Fund including expenses directly attributable to the buying and selling of Investments shall be a charge on the funds of the BOARD, unless otherwise decided by the BOARD from time to time.	CEB should amend the Employee Provident Fund rules and action should be taken to recover the expenses incurred by the CEB in administration of the fund.

	Therefore inclusion of expenses pertaining to CEB Provident Fund, amounting to Rs. 41,421,524.00, into CEB's Financial Statements is in accordance with the aforesaid CEB Provident Fund Rules. Hence, it is not required CEB to record Provident Fund expenses as receivables in the Financial Statements of CEB.	
(e) The jobs carried out by the CEB for supply, maintain and repair of power generators, lifts and air conditioners of the government institutions prior to the year 2013 had been valued at cost and accounted them accordingly instead of account the jobs based on their invoice values. As a result, the receivables and retained earnings shown in the financial statements had been understated by Rs.66,987,761.	Prior to 2013 debtors were accounted on cash basis and actual cost of the job was shown as receivables from the customer. Most of the receivables reflected in the financial statements prior to 2013 cannot be recovered. Those unrecoverable balances consist of the receivables from Ministry of Power & Energy, receivables from hospitals and jobs carried out by CEB based on the instructions received from Chairman, C.E.B. It is not prudent to invoice the unrecoverable balance based on estimated value and pay the VAT that will cause unnecessary loss to CEB. Therefore, the actual cost is shown as the amount to be recovered. This issue has been informed several times to the auditors but same issue is repeating. Also CEB has made the full provision for those unrecoverable receivables. Present deviation (as at 30th June 2020) with the actual cost an estimated value prior to 2013 is Rs. 53,052,302.10. Note: - the amount mentioned in the Auditor General report should be corrected as 53,052,302.10 instead of Rs.66,978,761.	Unrecorded value of the invoices should be accounted to minimize the risk of frauds.
(f) The amount of Rs.500 million out of Rs. 5 billion which was paid to the General treasury as levy in the year 2016 had been amortised to the income statement by classifying as	As per the Department of Public Enterprises letter No.PDE/I/ CEB/2/11/ (iii) dated 2019-10-16ment this payment was considered as "Management Fee" paid to treasury in the year 2019 and	The amount of Rs.5 billion paid to the General Treasury as levy in the year 2016 should be charged to the equity statement at the time

payment of management fee during the year under review and prior year adjustment had been made for Rs. 1 billion. The balance amount of Rs.3.5 billion is shown as other debtors in the financial statement instead of being charged to the equity statement. However, no management services had been obtained by the CEB from the General treasury. Therefore loss for the year had been overstated by Rs.500 million.	amortized over a period of 10 years starting from year 2017. It is noted that Treasury is providing and facilitating CEB for arrangements of finances to routine operation of CEB.	of transaction occurred. .
(g) CEB had not paid or made the provisions for the interest due to the General Treasury amounting to Rs.2,495,574,443 as per the conditions in Sub-loan Agreements.	CEB has not been instructed or directed by the Department of Public Enterprise to make any provision for interest on sub loan agreements. Hence CEB has not made any provisions in this regard.	The CEB must be paid or made the provisions for the interest due to the General Treasury as per the conditions in Sub-loan Agreements.
(h)An amount of Rs.4,200,000 named as dividend tax 10 per cent from treasury is remained as unidentified other debtor in the books of headquarters. No provision had been made in the accounts for this amount.	The amount represents dividend tax 10% deducted by Lanka Transformers Ltd when paying gross dividend of Rs.42,000,000 for the year 2005/2006. This has been rectified in 2020.	Necessary accounting treatment should be applied.
(i)An amount of Rs.31,119,302 delay interest payable to Ceylon Petroleum Corporation had been omitted from the books of accounts. Hence loss for the year under review had been understated.	Action has been taken to record the delay interest in the Financial Statement for the year ended 31 December 2020.	Expenses related to the accounting period should take in to account when preparing financial statements.
(j)Jobs completed valuing to Rs.734,574,801 is remained in working progress account without being transferred to the assets in the Distribution Division 1. The depreciation relating to those assets had not been charged to the income statement.	**Province** — **Amount (Rs.)** NCP — 80,000,759 CC — 441,076,386 NP — 213,497,656 **Total** — **734,574,801** Though the above audit query shows Rs.80 Mn. for NCP (under cost centres 420.20 & 420.30), according to the books of accounts as at 31st December 2019, the capital WIP balance of those	Jobs completed should be transferred to assets account at the time of completion.

	cost centres shows Rs.794 Mn. and from that balance Rs.309 Mn. has been transferred under cost centre 420.20 and Rs.4 Mn. has been transferred under cost centre 420.30 to assets in the year 2020. Accordingly, altogether Rs.313 Mn. has been transferred from WIP to assets under NCP in the year 2020. From the above balance under Colombo City province, total value Rs. 59,668,220.81 has been transferred to assets in the year 2020. In addition, as per the instruction of DGM (NP), respective officers of NP are also calculating their transferable WIP balances in accordance with completion reports and that will be adjusted during the year 2020. In general periodic review and monitoring process is carried out by all the provinces on the WIP balance and transfer the completed jobs at the time of completion.	
(k) The amount of Rs.128,264,040 payable for power purchase from Moragahakanda Power plant had been omitted from the books of accounts during the year under review. Hence loss for the year had been understated by same amount.	The necessary actions have been taken to accrue all the outstanding invoices relevant to Moragahakanda Power Plant in the books of accounts for the period ended 2020-07-31. Action will be taken to record all the invoices promptly.	Internal control should be developed to identify the cut off for recording transactions.
(l) The amount of Rs. 944,030,864 of work in progress relating to the Upper Kothmale Hydro Power project which was completed in 2012 had not been transferred to the fixed assets. Hence depreciation for the year under review and retained earnings had been understated by Rs.26,972,310 and Rs.161,833,862 respectively.	This project was commissioned in year 2012 and initial asset transfer was executed in year 2014 to the respective divisions. However, expenditures amounting to Rs. 944,030,864 have been accumulated in WIP account as at 31.12.2019 after the initial asset transfer. This amount comprised mainly with personnel expenses, legal fees for arbitration & cost of land acquisition. Actions will be taken to transfer the balance cost to respective divisions within the current year.	Work in progress should be transferred to the assets at the date of completion.

(m) The amount of Rs. 603,573,159 of work in progress relating to the Puttalam Coal Power project which was completed in 2014 had not been transferred to the fixed assets. Hence depreciation for the year under review and retained earnings had been understated by Rs.20,119,105 and Rs.100,595,526 respectively.	This project was commissioned in year 2014 and initial asset transfer was executed in year 2015 to the respective divisions. However, expenditures amounting to Rs. 603,573,159 have been accumulated in WIP account as at 31.12.2019 after the initial asset transfer. Actions will be taken to transfer the balance cost to respective divisions within the current year	Work in progress should be transferred to the assets at the date of completion.
(n)A credit balance of Rs.367,390,040 had been remained as inter divisions current account as at 31 December 2019 without being off setting with the inter division balances.	Out of the total balance Rs. 352Mn has been rectified during the financial year 2020.	Intercompany balances should be off set and should reconcile regularly.
(o) Sum of Rs. 999.03 million disbursed during the year under review had not been recorded. Hence liability and work in progress amount had been understated by same amount.	The above mentioned difference is related to Loan No 3146 and 3147. Loan No 3146 is utilized by several parts of the project of Green Power Development Energy Efficiency Improvement Project Tranche -1. Major part of the above unrecorded disbursements relates to the Moragolla Hydro Power Project. At the time preparing the CEB financial statements the ERD statement was not updated with this disbursement and hence the financial statements were unable to be updated with the above amount. Therefore, it is updated in the ledger for year 2020.	All the disbursements should be taken in to account when preparing the financial statements to identify the actual work in progress.

1.5.5 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) A difference of Rs.764,717,080 was observed between the balance shown as payable to the Ceylon Petroleum Corporation in the financial statements of the	Action has been taken to reconcile and the record the unrecorded delayed interest charges in the financial statements of 2020.	Action should be taken to solve the matter through discussion with Ceylon Petroleum Corporation.

	CEB as at 31 December 2019 and the corresponding balance shown as receivable in the financial statements of the Ceylon Petroleum Corporation as at that date. However, this dispute had not been cleared even as at 31 December 2019 though it has been reiterated in audit reports since 2013 continuously.		
(b)	Un-reconciled differences aggregating to Rs.31,813,455 was observed between the balances of bulk trade debtors as at 31 December 2019 shown in the billing system of the Distribution Divisions 01, 02, 03 and 04 and the corresponding amount shown in the financial statements for the year under review due to omission of some balances in billing system and as well as in the financial statements. Further, an amount of Rs.423,764,624 is remained as unidentified since 2012.	The process of recording billing transaction in the CEB billing system and the financial transactions record in the General Ledger will not be agreed at any given date. Distribution Divisions carry out a reconciliation to determine the reasons to such differences. Heavy supply debtor's ledger balance includes active debtors, finalized debtors. However billing report extract from IT branch, includes only active debtors balance. Therefore difference between billing report extract from IT branch balance and the ledger balance is mainly due to finalized debtors.	Action should be taken to reconcile the ledger balances with the system balances in each and every month.
(c)	Reconciliation for the balance of Rs. 4,073,824,173 and Rs. 129,863,150 available in the Collection Control ledger account as debit and credit as at 31 December 2019 had not been done as per the instruction letter issued by the AFM(DD1) on 26 July 2005 and reasons for such balances had not been submitted to the audit. Hence accuracy of the balance available in Collection control account was unable to verify.	These differences are arisen due to ordinary supply billing cycle cut-off date deviate from financial accounts cut-off date. Therefore, the action has been initiated to make the ordinary supply billing cycle cut-off date to be same as the financial year cut-off date.	Action should be taken to implement the same cutoff date for the billing cycle and the accounting period.

(d) Age analysis had not been submitted for 66 per cent of the total value of Rs.79,512,030 in relation to the suspense balance and sum of Rs.70,306,494 remained over one year without being cleared.	Continuous effort has been in placed to recognized unidentified customer payments to credit to respective consumer accounts. Most of the balances appeared above are beyond the recognition by the CEB until complaints are received from the consumers. This balance is under strict monitoring and preview.	Collection which exceed the considerable time period should be recognized as income of the organization.

1.6 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) The Board is continuing its salary payment on circular no.2014/GM/46/Pers dated 27 November 2014 which was illegal as per the court decision given under case no.CA/WRIT/193/2015.	The Hon. Attorney General has given an opinion on how to comply with the court order. CEB is following the opinion given by the Hon. Attorney General	CEB should follow the court decisions.
(b) Various staff allowances had been paid from time to time to the staff of the CEB on the approval of the Board in contrary to the decision taken by the Cabinet of Ministers on 14 November 2007 and the provisions in the Management Services Circular No. 39 of 26 May 2009. At the audit test checks, it was revealed that such allowances totaling to Rs.1,712 million and Rs. 1,873 million had been paid in the year 2019 and 2018 respectively.	The Hon. Attorney General has given an opinion on how to comply with the court order. CEB is following the opinion given by the Hon. Attorney General According the Ceylon Electricity Board Act No. 17 of 1969, under the clause 12 powers of the Board are listed. Clause 12 (m): to make rules in respect of the administration of the affairs of the Board Clause 12(n): to do all other things which, in the opinion of the Board are necessary to facilitate the proper carrying on of its Business Accordingly, mentioned findings are related to the benefits given by the Board to its employees to uplift their morale towards working for the	The CEB should comply with the Circular requirements in payment of allowances to the staff.

	betterment of the organization. Further, the act itself provides the authority for the Board to make rules in respect of administration of the Board affairs.	
(c) Instead of granting vehicle loans at the rate of interest ranging 10 per cent to 14 per cent as per the Public Enterprises Circular No 130 of 08 March 1998, the CEB had granted these loans at an interest rate of 4.2 per cent. Further, it was observed that the staff loans have been paid without any control even though the CEB faces severe liquidity problems.	According the Ceylon Electricity Board Act No. 17 of 1969, under the clause 12 powers of the Board are listed. Clause 12 (m): to make rules in respect of the administration of the affairs of the Board Clause 12(n): to do all other things which, in the opinion of the Board are necessary to facilitate the proper carrying on of its Business Accordingly, mentioned findings are related to the benefits given by the Board to its employees to uplift their morale towards working for the betterment of the organization. Further, the act itself provides the authority for the Board to make rules in respect of administration of the Board affairs.	The CEB should comply with the Circular requirements in payment of loans to the staff or approval from Department of Public Enterprise should be obtained for any deviations.

1.7 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
(a) Assets Management		
(i) Long delay was observed in completing the capital works in the Distribution Divisions.	The process of transfer of the completed jobs is one of the regular monitoring activities by the respective Provincial DGMs and the Divisional AGMs at their executive team meetings.	Necessary action should be taken to transfer the completed jobs at the time of completion.
(ii) Delay was observed in survey, valuation and protection of lands of the CEB scattered Island wide.	Actions are being taken to expedite the survey and valuation of the CEB Lands. Instructions have been sent to all the Head of the Branches to mark survey and protect boundaries of CEB lands. According to the progress of survey and valuation of CEB lands as at 2020-10-05, valuation reports have been received for 30% of the total lands identified. Divisional details are attached herewith.	Expedite the survey and valuation process of land of CEB.

(b) Inventory Control

(i) Stock discrepancies in each division were observed during the audit.	Follows Generally Accepted Accounting Principles (GAAP). For stock valuation in Generation, Assets Management and Transmission Divisions use FIFO while Distribution Division follows standard pricing method. All stock related transaction records are maintained through the inventory module in the MITFIN System.	Goods receipts and issues should be recorded properly.
(ii) Continuous stock shortages and excesses were observed in relation to the coal stock.	Regarding the subject matter, the Electronic weigh scale at Conveyor "0" has been refurbished as below: 1. All worn out/damaged mechanical components were replaced. 2. Necessary Electrical/I &C parts were replaced. 3. Dynamic calibration with I& C section is in progress. 4. The Instrumentation & Control Section is in progress.	Coal stock should measure at the receipt and stock taking should be done at the end of the year by applying proper method to recognize the real stock value.
(c) Project Management Delays in completion of the project were observed.	All the project activities and reporting requirements are being monitored by the AGM Project division.	Project implementation should be done as planned.
(d) Accounting System Continuously restate the financial statements of the CEB since the year 2013 due to weaknesses in the internal controls remained in the accounting system.	Action will be taken to strengthen the internal control system to avoid the restate the Financial Statements.	Action should be taken to strength internal control system to avoid the restatement of the Financial Statements.
(e) Operational Manual Five Manuals had not been updated on time to smooth the operations of the Board.	CEB will comply with the requirement.	Update the manual on time to smooth the operations of the Board.

1.8 Accounts Receivable and Payable

1.8.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Out of trade debtor balance of Rs. 25,985,253,072 as at 31 December 2019, balance of Rs. 4,359,841,435 relating to both ordinary and bulk supplies had remained outstanding for over one year and out of them Rs.2,306,048,005 had remained unrecovered for more than five years.	Out of above balance a sum of Rs.2, 649,155,825 is representing finalized debtors that require either litigations or setting off procedure and it take some time. From the remaining balance Rs. 1,051 Mn represent dispute cases and Committees were appointed to get the recommendations. Another sum of Rs. 530Mn. write off actions were initiated. Rest of the balances forwarded for arbitration or legal actions. Accordingly, CEB has a proper system of monitoring and recovering outstanding debtor balances.	Immediate action should be taken to recover the finalized customers.
(b)The following sundry debtor balances aggregating Rs. 2,635,007,475 had remained unrecovered for more than five years as at 31 December 2019.		Internal control should be strengthen to recover the expenses for any jobs at the time of transaction taken place.

Name of Debtor	Amount Rs.	Description	Management Comment
General Treasury	225,000,000	Recovering cost of street lightening & maintenance.	The receivable amount of Rs.225Mn. could not be cleared in the books of CEB from year 2015 to comply with direction given by the Department of Treasury Operations as to set off through the repayment of sub loans payable to General Treasury.
Government Institution receivable for the supply of Lift, Air conditioners and Power Generators	120,653,322		This is the value of revenue to be received for supply of power generators from the President House. With referred to funds request of President's House, the Treasury Operation Department (TOD) directed to CEB to set off against the repayment on the

			Treasury Loans. Hence, it is expected to proceed as per the direction given by TOD.	
WIP Non capital	8,601,341		This balance represents amount receivable for Government Installation Works and action has been taken to clear these long outstanding balances.	
Wood Group Gas Turbine Ltd.	8,264,352	Payments made for constructing an access road to the West Coast Power Plant.	To be received.	
Ministry of Power and Energy	6,142,277	Payments made for the opening ceremony of Kerawalapitiya Combined Power Plant.	To be received.	
Sri Lanka Sustainable Energy Authority	897,025,999	Tariff adjustment paid by the CEB to the Mini Hydro Developers.	It has been transpired that a Board Paper has been initiated by AFM (Transmission) to write-off the receivable balance amounting to LKR 897,025,999 from SEA. In addition, an Investigation Committee has also been appointed for this issue.	
AES Kelanithissa (Private) Ltd.	1,368,961,445	Amount to be recovered on payment of price differences.	To be received.	
Northern Power (Private) Ltd.	358,739	Amount to be recovered from augmentation job completed in 2011	To be received.	
Total	2,635,007,475			

(c) A sum of Rs.714,965,435 due from Lanka Coal Company for coal shortage had remained outstanding for more than five years without taking any recovery action.	This balance comprises of Rs. 478,179,795.00 related to M/s Taurian Iron and Steel Company and Rs. 236,785,639.43 related to M/s Liberty Commodities Ltd. with regard to Taurian Iron dues a	Legal action should be taken immediately to recover the cost and avoid the opportunity cost.

	cabinet committee was appointed and the final report was handed over to the Secretary Ministry of Ports & Shipping. In the case of Liberty Commodities LCC has commenced an arbitration process. This balance will be cleared after the legal actions taken by Lanka Coal Company against M/s Liberty Commodities Ltd.	
(d) A sum of Rs.151,421,219 shown under other receivables of Asset management division is remained without being recovered for more than five years. Out of that an amount Rs. 142,477,285 is to be recovered from the government institutions and CEB had not taken necessary action to recover at the initial stage of the transactions.	All these jobs had been carried out on the directions given by higher officials of either Ministry or C.E.B. depending on the gravity of the circumstances. Reminder letters were already sent to the relevant institutions requesting to settle the outstanding and the respective Unit Heads and Accountant (W&AS) were requested to follow up to obtain the outstanding. Most of the balance consists of receivables from Ministry of Power & Energy and Government Hospitals. At present, CEB follows a controlled procedure as per the guidance given by Addl. General Manager (Assets Management) before undertaking jobs and the outstanding payments will be monitored on a regular basis.	Action should be taken to recover receivables at the time of transaction taken place.

1.8.2 Payables

Audit Issue	Management Comment	Recommendation
(a) The following credit balances aggregating Rs. 4,947,283,160 had remained unsettled for long period as at 31 December 2019.		Action should be taken to settle the liabilities to avoid any dispute with service provider.
Name of Creditor — **Amount Rs.**		
Custom — 1,065,828	Out of Rs.4,947,283,160, Rs. 1,065,828 is demurrage payment to Lanka Coal Company was related to the coal season 2017/2018. It will be cleared in year 2020.	
China machinery Engineering — 3,596,324,467	Payable to China machinery Engineering Corporation (CMEC) Rs. 3,596,324,467 included in the above balance. CMEC Outstanding payments for the year 2014 and 2015 were settled. Payments for the year 2016, 2017, and 2018 are pending. CEB releases only USD 2 million per month due to present adverse financial situation.	
Corporation Deemed dividend tax payable — 1,270,766,413	Deemed dividend tax payable of Rs. 1,270,766,413 has been disputed by CEB with IRD on the basis liability was determined based on the "Accounting Profit" for the Y/A 2013/2014 and several discussions were carried out with DIR and General Treasury in this regard. Since this matter had not yet been resolved, it is requested involvement of Secretary to the General Treasury to resolve this matter by Chairman CEB's letter -No.FM (AFM (HQ)/ DFM (Tax)/Deemed Dividend Tax dated 2020-07-08.	
Capital expense — 10,928,756	Rs. 10,928,756 is the final payment to be made for DGM office complex of Northern Province. This payment is outstanding due to unavailability of Cabinet Rate Committee approval.	
Sundry creditors including accrued expenses of Puttalam Coal Power Project — 68,197,696	Out of Rs.4,947,283,160 balance Rs.68,197,696 is accrued expenses of Puttalam Coal Power Project. Actions will be taken to adjust this amount in books of accounts in the current year.	
Total — 4,947,283,160		

(b) The amount of Rs.3,371,599,434 is remained as Trade creditors of Transmission Division without being settling more than one year.	Action has been taken to ensure the possibility of settling those outstanding balances. As per the records Rs. 3.1 Bn out of 3.3 Bn represents amounts relating disputed invoices with regards independent power purchases. These invoice are being studied in order to evaluate and find appropriate accounting treatment.	Action should be taken to settle the liabilities to avoid any dispute with suppliers.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 28(3) of Sri Lanka Electricity Act, No.20 of 2009	The CEB had not paid interest for consumer deposits as specified in the act and according to the computation made by audit based on the rate reported by the Public Utility Commission of Sri Lanka for the year 2019, the interest to be paid thereon was Rs.1,592 million and un paid accumulated interest as at 31 December 2019 was Rs.5,118 million.	As per the clause No. 3 (d) and No. 30 of SL Electricity Act No. 2009 the electricity tariff shall be sent by PUCSL. However the prevailing electricity tariff is not generating sufficient cash to run the business of CEB. The relevant clause in the Act as follows; 3(1) the function of the Commission shall be to act as the economic, technical and safety regulatory for the electricity industry in Sri Lanka, and – (d) To regulate tariffs and other charges levied by licensees and other electricity undertakings, in order to ensure that the most economical and efficient service possible is provided to consumers; 30 (1) this section shall apply to – Tariffs or charges levied by the transmission licensee for the transmission and bulk sale of electricity (hereinafter referred to as “transmission and bulk sale tariffs”); and Tariffs or charges levied by the distribution licensee for the distribution and supply of electricity (herein after referred to as “distribution and supply tariffs”) (2) Transmission and bulk sale	The Board should comply with the requirements of the act.

tariffs and distribution and supply tariffs, as the case may be, shall, in accordance with conditions specified in the relevant license –
Be set by the relevant licensee in accordance with a cost reflective methodology approved by the commission;

Permit the relevant licensee to recover all reasonable costs incurred in the carrying out of the activities authorized by its license on an efficient basis,

Be approved by the Commission in accordance with the policy guideline approved by the Cabinet of Ministers under section 5; and

Be published in such manner as may be required by the Commission, in order to ensure public knowledge.

As per Clause No 28 (3) of SL Electricity Act No.20 of 2009 each Distribution License (DL) has to pay the interest for securities deposits to its customers. The relevant clause in the Act. is as follows;

Clause 28 (3) "Where any sum of money is provided to a distribution licensee by a way of security in pursuance of this section. The licensee shall pay interest on such sum of money at such rate as may from time to time be fixed by the licensee with the approval of the commission, for the period in which it remains in the hands of the licensee."
Presently CEB is not receiving sufficient cash collection to run its business and as a result CEB is using the security deposits of its customers as a part of its working capital and

		balance working capital is obtained from bank overdrafts, short term loans etc. The benefits obtains by utilization of security deposits of its customers as its working capital by CEB i.e. saving in interest on bank overdraft is distributed among all its customers by way of reduced tariff. In other word CEB has distributed more than Rs.1,562 million among all its customers for the year 2018 which is the estimated value given in draft audit report based on if the security deposits is deposited in a bank the interest that would have been earned. If as per this clause if DL's going to pay the interest on security deposits it will be an added financial burden for DL's and additional cost to the industry. Hence we have recommended the complete deletion of clause No 28 (3) from SL Electricity Act No 20 of 2009 to Ministry and requested Ministry to take further action on this regard.	
(b) Subsection 4 C (ii) of Section 43 of Sri Lanka Electricity (amendment) Act, no. 31 of 2013	CEB had made emergency power purchases (2,165.51 GWh worth of Rs.59.4 billion) for the period of April 2016 to December 2019 without applying Tender procedure as per the requirement of the act and those plants are operated without obtaining the generation licence from the regulator.	**Subsection 4 C (ii) of Section 43 of Sri Lanka Electricity (amendment) Act, no. 31 of 2013** **CEB added thermal generation plants during the period from April 2016 to December 2019 under following two categories.** 1. Procurement of supplementary electrical power on short term basis following International Competitive Bidding (ICB) process. 2. Extension of Power Purchase Agreements (PPA) of retired IPP thermal power plants.	Requirements of the act should be met when procuring the power.

The total units purchased and cost incurred during the period under review are as follows.

Year	Number of Units Purchased (GWh)	Total Cost (LKR billion)
2016	442.26	11.93
2017	859.43	23.57
2018	474.79	13.85
2019	734.99	22.20
Total	**2,511.47**	**71.56**

1. Procurement of Supplementary Electrical Power on Short Term Basis.
   Under this category, following procurements have been carried out following International Competitive Bidding (ICB) procedures.

   i. Tender no. DGM (EPT) /EmPwr/2016/02 (Supply of 60 MW of Power on Short Term Basis)Added capacity - 60 MW for six months

   ii.Tender no. DGM (EPT) /EmPwr/2017/01 (Supply of Supplementary Electrical Power to CEB on Short term Basis)Added capacity - 56 MW for six months

   iii. Tender no. DGM (EPT) /EmPwr/2019/01 (Supply of Total 100 MW of Supplementary Electrical Power on Short term Basis)Added capacity - 100 MW for six months

All these procurements have been carried out in compliance with Section 43 of Sri Lanka Electricity

(Amended) Act, no. 20 of 2009.

The total units purchased and cost incurred during the period under review is as follows.

Year	Number of Units Purchased (GWh)	Total Cost (LKR billion)
2016	-	-
2017	167.03	5.39
2018	36.80	1.96
2019	142.13	5.06
Total	**345.96**	**12.41**

2. Extension of the Power Purchase Agreements (PPA) of Retired IPP Thermal Power Plants.

   Under this category, the Power Purchase Agreements (PPA) of retired IPP thermal power plants have been extended as follows. We have not identified any legal impediment from the Section 43 of the Sri Lanka Electricity (Amended) Act, no. 09 of 2009 for the extension of Power Purchase Agreements whose original term has been expired.

   i. 100 MW power plant of Ace Power Embilipitiya (Pvt) Ltd.
      a. One year from 2016-04-06
      b. One year from 2017-04-06
      c. Three years from 2018-04-06

   ii. 20 MW power plant of Ace Power Generation Matara (Pvt) Ltd.
      a. One year from 2017-03-25
      b. Two years from 2019-04-08

   iii. 50 MW power plant of Asia Power (Pvt) Ltd.
      a. Two years from 2019-04-12

The total units purchased and cost incurred during the period under review with respect to Ace Power Embilipitiya plant is as follows.

Year	Number of Units Purchased (GWh)	Total Cost (LKR billion)
2016	358.74	8.48
2017	513.34	11.84
2018	362.84	9.16
2019	460.92	12.70
Total	**1,695.85**	**42.18**

The total units purchased and cost incurred during the period under review with respect to Ace Power Generation Matara plant is as follows.

Year	Number of Units Purchased (GWh)	Total Cost (LKR billion)
2016	-	-
2017	62.29	1.64
2018	19.55	0.51
2019	53.20	1.74
Total	**135.05**	**3.89**

The total units purchased and cost incurred during the period under review with respect to Asia Power plant is as follows.

Year	Number of Units Purchased (GWh)	Total Cost (LKR billion)
2016	83.52	3.45
2017	116.76	4.69
2018	55.59	2.22
2019	78.73	2.70
Total	**334.61**	**13.07**

(c) Section 46 and Section 11(a) and (b) of Part II of the Finance Act, No. 38 of 1971	The CEB had invested only Rs.8,996 million as at 31 December 2019 in the Insurance Escrow Fund although it was stated that a contribution of 0.1 per cent of the total value of the gross fixed assets as at the end of each year since 1989 should be transferred to that Fund.	This difference has arisen mainly due to non-investment in Insurance Investment Escrow Account due to CEB is experiencing adverse cash flow situation from many years. However, action will be taken to investment equal of 0.1% of the gross fixed assets in insurance reserve investment account once the CEB Liquidity position and cash flows are improved.	Considering the asset base, reserve should be maintained to recover any losses for the assets.
(d) Section 9.4 of the PED 12 circular issued by Department of Public enterprise.	Contrary to the 9.4 of the PED 12, the Board had paid Rs.49,138,383 as salary during the year under review and other payments for the 26 employees who were released for the line ministry from time to time since 2008 and that amount had not been reimbursed as at 30 September 2020.	Since the CEB is not in a position to withhold the requests made by the line ministry to release its employees, the expenses incurred cannot be controlled by the CEB	Comply with the circular requirement.

1.10 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) The Cabinet of Ministers has taken decisions on 13 December 2007 at the time of salary revision and on 20 May 2015 at the time of consideration of Collective Agreement, to shift the Pay As You Earn (PAYE) tax liability to employees. However, the CEB had paid the PAYE tax of Rs.4,919,156,644 from its owned fund without deducting it from the salaries of the respective employees during the period from 2010 to 2019 in contravening to the above decisions taken by the Cabinet of Ministers and circular no. 3/2016 issued by the public enterprise Department. The amount so paid during the year under review was Rs.709,110,273.	The PAYE Tax liability of CEB employees has been borne by the CEB since its employees were made liable for PAYE Tax. This was informed to the Ministry of Power & Renewable Energy and Salaries and Cadre Commission on several times and discussions were also held with Trade Unions. However, no consensus was reached regarding reverting it back to employees. The Collective Agreement signed on 2018-01-04 has been published by the Extra Ordinary Gazette No. 2068/5 dated 2018-04-23. It appears now a violation of the collective agreement to change the agreed remuneration and would create further legal repercussions.	Action should be taken to recover PAYE tax from employees.

(b)	The value of non-cash benefits specified by the Commissioner General of Inland Revenue in the Gazette Notification No.1706/18 dated 20 May 2001 should be considered when calculating the PAYE tax of each employee. However, the CEB had not taken into account the non-cash benefits such as provision of quarters, apartments and motor vehicles for private use etc. for this purpose.	The instructions was issued through 2018/GM/39/FM, Accounts Circular No 526 to take the non-cash benefits such as quarters, apartments and motor vehicle for private use etc. for the PAYE calculation. Since the instructions was issued with the implementation of the new Inland Revenue Act in 2018, it will take reasonable period to comply with this by all the Divisions of the CEB.	Action should be taken to consider all the non-cash benefits in the calculation of PAYE tax.

2. Financial Review

2.1 Financial Results

According to the financial statements presented for audit, the operations of the CEB during the year under review had resulted in a pre-tax loss of Rs. 73,367 million as compared with the pre-tax loss of Rs.22,395 million for the preceding year, thus indicating a decrease of the financial results of the year under review by Rs. 50,972 million. Increment of fuel cost, coal and power purchases by 28 per cent, 20 per cent and 40 per cent respectively due to decrease the generation of hydropower by 25 per cent and increment of operational and maintenance expenses of the Generation Division by 16 per cent were main reasons for this deterioration. Further increment of finance cost by Rs.9,489 million or 73 per cent was the other reason for this deterioration.

However, the value addition of the CEB for the year under review after taking into account the personnel emoluments, tax expenditure and depreciation aggregating Rs. 100,214 million was Rs. 37,406 million and it had increased by Rs. 39,285 million or 51 per cent as compared with the previous year.

2.2 Ratio Analysis

2.2.1 Working Capital Management

The Working Capital of the CEB as at 31 December 2019 was reflected as a negative figure of Rs.90,673 million whereas the previous year negative balance was Rs.28,924 million. Hence, working capital of the year under review had been decreased by 213 per cent as compared to the previous year.

2.2.2 Debt to Equity

Equity balance of the CEB as at 31 December 2019 had been decreased by Rs.63,846 million or 19 per cent as compared with the corresponding decrease of 8 per cent due to continuous net loss of the CEB. Further, 37 per cent or Rs.334,671 million of the total capital employed by the CEB as at 31 December 2018 had been financed through borrowings. Further, the Debt to Equity Ratio of the CEB had increased to 123 per cent in the year under review from 88 per cent in the previous year.

2.2.3 Profitability

The average cost per unit of the year under review was Rs.23.29 as compared with Rs 19.12. in the year 2018 and sold at an average price of Rs.16.63 per unit (previous year average selling price was Rs. 16.29 per unit). Accordingly, the gross loss per unit of the year under review was Rs. 6.63 and it was 134.27 per cent increase as compared with the previous year average gross loss of Rs 2.83. per unit. The following table shows the tariff category and the contribution per unit (kWh) of electricity sold in the year under review as compared with the previous year.

Category	**Contribution per unit (kWh)**	
	2019	**2018**
	Rs.	**Rs.**
Domestic	(9.16)	(5.52)
Religious	(15.98)	(11.84)
General Purpose	0.65	4.66
Hotel	(5.58)	(1.50)
Industrial	(8.57)	(4.40)
Government	(5.11)	(0.89)
Bulk Sup. to LECO	(10.67)	(3.59)
Street Lighting	(23.28)	(19.12)
Contribution	(6.66)	(2.83)

Accordingly, the tariff category of General Purpose was only the positive contributor to the total contribution of the year under review and it also had decreased by 86 per cent compared to the previous year. The tariff on industrial and domestic category were the highest negative contributor to the total contribution of the year under review and the tariff on religious, hotel, government, sales to LECO and street lightening had also shown unfavorable contributions thereto.

3. Operational Review

(i) Power Generation and Direct Cost (Other than Distribution and Transmission)

Although the main objective of the CEB is to supply of power at low cost to the country, the CEB was unable to achieve this objective due to unfavorable conditions in the Power Purchase Agreements, high cost incurred for generation of Thermal Power and less contribution from Wind and Other Non-conventional Renewable Energy Sources.

Further, Significant delays were observed in implementation of the activities included in the Long Term Generation Plan and the Transmission Plan of the CEB. As a result, the CEB had made emergency power purchases which were affected to the least cost objective of the CEB.

The position of power generation in 2019 as compared with the previous year is given below.

Source	2019	2018	Increase/(Decrease)	
	GWh	GWh	GWh	%
Hydro	4,795	6,381	(1,586)	(25)
Thermal	5,017	3,629	1,388	38
Coal	5,361	4,764	597	13
Wind	348	327	21	6
Other Non-Conventional Renewable Energy	220	185	35	19
Rooftop Solar	182	88	94	107
Total	**15,923**	**15,374**	**549**	**4**

Accordingly, thermal, coal, other non-conventional renewable energy and rooftop solar during the year under review had been increased by 38 per cent, 13 per cent, 19 percent and 107 per cent respectively while decreasing of hydropower generation by 25 per cent due to the unfavorable whether condition in the country.

(ii) **Direct Cost**

A source wise analysis of direct cost of the year 2019 as compared with previous year is given below.

Description	2019		2018	
	Rs. million	Percentage	Rs. million	Percentage
Fuel	53,216	21	41,553	21
Coal	46,566	19	38,823	20
Power Purchase	118,665	48	84,497	44
Operation and Maintenance	16,019	6	13,812	7
Depreciation	14,281	6	14,744	8
Direct cost	**248,747**	**100**	**193,429**	**100**

According to the above information, it was revealed that the hydro power generation had decreased by 25 per cent and as a result of that cost of power purchases, coal and fuel cost for the year 2019 had increased by Rs.34,168 million, Rs.7,743 million and 11,663 million or 40 per cent or 20 per cent and 28 per cent respectively as compared with the previous year while operational and maintenance cost of the project had increased by 16 per cent during the year under review. Further, it was revealed that, the fixed cost of power generation is unavoidable in term of conditions in the power purchase agreements and as a result, the CEB is not able to achieve one of its most important objectives of supplying power at low cost to the general public.

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though a amount of 4,952.85 MT valued at Rs. 95,211,376 has been identified as deficit of the coal stock as at 05 October 2019, a physical verification had not been carried out by the Board of survey team. However the amount of 28,006.66 MT valued at Rs.456,197,162 had been adjusted to income statement as surplus of coal stock as at 31 December 2019. Hence it was unable to verify the accuracy of the coal stock balance available as at 31 December 2019.	Currently the coal verification procedure is under study. All the aforementioned factors will be considered during the year 2020 physical verification process	Procedure should be established to measure the stock at the receipt and physical verification should be done at the end of the year.
(b) Even though the CEB had sold electricity to LECO and purchasing fuel from Ceylon Petroleum Corporation for several years, there were no sales and purchase agreements entered with those two parties in order to ensure the smooth operations between these two Institutions.	Steps have been taken to prepare power sales agreement between CEB and LECO with participation of high ranking officers of both parties with Legal clearance. However, it was not able to enter in to an agreement with the parties concerned so far. LECO has requested some actions from PUCSL by the letter issued on 24th July 2018 in this regard. CEB higher management has been appointed a committee to study and formulate Fuel Supply Agreement (FSA) between CEB and CPC. Accordingly, several discussions have been held between CEB and CPC to finalize FSA. Finally drafted FSA has been submitted for the attention of Chairman– CEB through GM – CEB	Agreement should be entered to avoid any disputes among these organizations.
(c) A sum of Rs.134,447,792 had been deducted by the lending agency in 2019 as commitment charges from the loans given for implementing the foreign funded projects of the CEB due to un-utilization of the funds in timely	Commitment charge is common to all projects and it cannot be avoided even the project is on schedule due to stringent loan covenants in the loan agreements. Commitment and interest charge are not a part of loan for the first three	Project activities should be implemented as planned to avoid additional commitment charges.

manner. However, the accuracy of the commitment charges cannot be verified due to non-availability of calculations.	projects of the schedule and Treasury is incurring the commitment charges on behalf of the Government. As CEB, we are not in a position to record such commitment charges until it is notified by Treasury. Thus, the figures cannot be verified without the receiving the information's from Treasury. For the rest of the projects, commitment charges have been recorded in the books of accounts after extracting from ERD statements. Commitment charge is part of the loan for these projects and disbursement made by lending agencies are shown in the ERD statements. However, it was noticed that the figures shown in the Project division accounts are not tallied with the Auditors figures for some projects. This might be due to some projects have multiple tranches and parts and different tranches / parts are handled by different divisions of CEB. Therefore figures shown by auditor might be a total accumulated figure combining different parts of the projects.	
(d) According to the Long Term Generation Expansion Plan 2018 – 2037, new generation of 657 MW which consists of 370 MW from thermal and 287 MW from renewable energy should be added to the national system. However, only 222 MW thermal power which were not in the plan and 25.25 MW renewable energy had been added to the system during the year under review. As a result of that, quantity of 735 Ghw valued at Rs.22.2 billion had been purchased as emergency power during the year under review.	Due to under mentioned reasons proposed Power Plants have been delayed. • LNG fired Combined Cycle Power Plant in the Western Region. Originally, delayed due to a court case. Cabinet approval received in February 2020, authorizing CEB to issue an LOI and enter into a Power Purchase agreement with Lakdhanavi Ltd with PUCSL approval. Project Committee has discussed with Lakdhanavi Ltd and submitted the report to Ministry of Power & Energy and CANC. This document was reviewed by a special committee appointed by the Cabinet and the report of the Committee has been	CEB should comply with Least cost long term Generation plan to achieve least cost objectives.

submitted to Secretary Ministry of Power & Energy. (Annexure 14Refer Annex 17)

- Gas Turbines

Tendering carried out. TEC report submitted. Having considered the TEC report, SCAPC has requested CEB (on 22.04.2020) to secure funds and inform so as to make decision on the procurement. (Annexure 14)
(Refer Annex 17)

- Uma Oya HPP

Delayed due to problems occurred during construction (water ingression into pressure tunnel) and social issues. Project falls under the purview of Ministry of Mahaweli Development and Environment. As per current estimates, Power plant is expected to be commissioned in 2021. (Annexure 14) (Refer Annex 17)

- Wind Power Plants

Construction delayed due to tendering & awarding. (Annexure 14) (Refer Annex 17)

In order to meet power shortage, following power plants have been operated with respective approvals as depicted below.

- Furnace Oil fired Power Plants until major power plants are implemented.

100 MW capacity was procured as short term supplementary power to meet the electricity demand requirement in year 2019. Cabinet approval was granted on 2019-01-14 as per the cabinet paper no 19/0173/113/001. These power plants had generated 142.13 GWh in year 2019 at a cost of 5.06 Billion rupees.

	• Expired Power Purchase Agreements (PPA) with ACE Power Matara, ACE Embilipitiya and Asia Power with a cumulative capacity of 171 MW were extended until year 2021 to provide electricity demand requirement. Cabinet approval was granted on 2018-03-27 as per the cabinet paper no 18/0525/727/014/TBR. These three power plants had generated 592.86 GWh in year 2019 at a cost of Rs.17.15 Billion.	
(e) A special investigation had been carried out by the Internal Audit Branch in respect of stock shortage of Rs.39,551,696 identified in 2014 under project of Uthuruwasanthaya in April 2017. However, no disciplinary action had been taken against the officer who is responsible for the shortage amount of Rs.2,510,056 out of total shortage of Rs.39,551,696 even up to the date of this report. Further, a court case (Case no B/1164/15) had been filed against other officer in Magestrict Court, Trincomalee by the Criminal Investigation Department in 2015 in this regard. Further, information relating to present position of the court case was not made available for audit.	Stock shortage of Rs.39,551,696 identified in 2014 in Uthuruwasanthaya Project The above Rs.39, 551,696 Mn has comprised of two balances, viz. stock shortage – Rs.2,510,056 and stock shortage – Rs.37,041,640 respectively. Stock Shortage of Rs.2,510,056 DGM (NP) has appointed a committee by his letter No. NP/DGM/HRO/Inquiry dated 2017-05-04 and the committee report has been submitted to DGM (NP) on 2019-10- 03. Accordingly, DGM (NP) has instructed to recover the stock shortage amount of Rs.2, 510,056.88 (including Board charges) from the Store Keeper Mr. J.A.M.Asanka Jayakodi (PF No.37432) via his letter No.NP/ DGM/ HRO/ INQUIRY dated 2019-10-09. The store keeper has been transferred to DGM (NCP) in October 2019 and the balance which is to be recovered from him (Rs .2.5 Mn) has been recorded under other receivable. AGM (DD1) has instructed to recover this amount from the employee by his letter no. DGM(C&C)/DD1/ HRO	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.

	/ADMN /10 dated 2019-11-28.However Mr. Jayakodi in his letter dated 2020-01-06 requested to conduct a formal inquiry and accordingly charge sheet has been issued accordingly. Further to this, AGM (DD1) has instructed to recover the shortage by letter no. AGM (DD1)/ DGM(C&C)/ HRO /DI /162 dated 2020 -09-03 (Annexure 15 18) by 180 instalments subject to the formal inquiry decision. Stock Shortage of Rs.37,041,640 In this regard a Letter of Demand has been issued by the Legal Officer of the CEB to Richardson Projects (Pvt) Ltd to recover Rs. 28,231,000 including the 25% Board charges due from this company to CEB for acquiring payments totaling to Rs. 22,584,800 fraudulently without delivering the materials. In addition, further verifications of stock materialswere carried out by in an expeditious manner to identify any further adjustments against the loss. Accordingly, the amount of loss has been reduced to Rs.8.3 Mn. after made some adjustments. Currently, internal inquiry has been finalized and accordingly disciplinary action will be taken against the store keeper Mr.U.P Udara Gunarathne (P.F. No. 37475). Furthermore, the court case No.B/1164/15 is pending at Magistrate Courts, Trincomalee.	
(f) The prompt actions had not been taken by the Board up to 16 August 2018 against the person who was liable for stock shortages of Rs.3,674,861 which had been occurred during the period of 20 November 2006 to 20 February 2012, in Asset Management Division (Power Plant) even the formal	A new committee has been appointed by Addl. General Manager (Assets Management) to investigate the issue of stock shortage and action will be taken in accordance with that report.	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.

investigation was completed. Further, the same employee had committed a fraud in another office of the CEB and his duty has been terminated after recovering only Rs.99, 155 as the value of the fraud prior to the aforesaid fraud.		
(g) An officer who is liable for the stock shortage of Rs.3,789,893 had been allowed to retire on 15 October 2011 without being recovered the loss as recommended by the committee appointed for investigation. Further, the above material amount had remained in the books of account without being taken any remedial action. The board is in the process to write off this amount without taking actions against the officers who is allowed to retire the defaulter.	A new committee has been appointed by Addl. General Manager (Assets Management) to investigate the issue of stock shortage and action will be taken in accordance with that report.	Investigation on fraud should be done within considerable time period and disciplinary action should be taken immediately on investigation report to avoid losses to CEB.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Scheme of Recruitments and Promotions (SOR) of the CEB had not been updated for a longer period.	Two volumes of SORP associated to Senior Executives and Junior Executives are already submitted for the approval of the Board. The SORP of other staff is under review and those will be submitted to the Board as soon as possible	Immediate action should be taken to develop the Scheme Of Recruitment.
(b) Even though the key post in the HR Division is DGM (Personnel), required qualifications and experience for that post had not been specified in the Scheme of Recruitments and Promotions (SOR) and keeping the posts open to other services, especially, for electrical engineers.	The academic qualifications and professional qualification which are necessary to be fulfilled by key posts are included. Further, DGM (P) is selected from Electrical Engineers – Class I who are having a postgraduate degree in HR or Business Administration fields	Qualification and experience of the department head should be included in the Scheme of Recruitment.

(c) According to the existing SOR, 50 per cent of the total cadre of Human Recourse Officers (HRO) 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 the employees who are externally recruited, in the promotion scheme as two engineers covered the functions of the Divisional Head over a longer period of the CEB's history.	In order to accommodate the given recommendation, major structural change has to be done in CEB which is under discussion at the moment.	Scheme Of Recruitment should be amended to provide a clear promotion path for the employees who are externally recruited.
(d) Experience which is required for the 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. It is observed that aforesaid experience is inadequate as compared the staff strength need to be handled in the CEB.	The given recommendation is incorporated to the new SORP of Senior Executives which is already submitted for the approval of the Board	Approval for the amended Scheme Of Recruitment should be obtained immediately.
(e) The Chief Legal officer position which is the key position in the legal department is vacant from 04 June 2014.	The Board is decided to recruit a suitable CLO on external recruitment basis and at the moment relevant works are under progress.	Key posts should be filled within shorter period to maintain operations of the organisation effectively and efficiently.