Ceylon Electricity Board and its Subsidiaries - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 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 paragraph 1.5 of this report, the accompanying consolidated financial statements give a true and fair view of the financial position of Group as at 31 December 2020, 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 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) **Conceptual Framework for financial reporting**		
(i) Contrary to the paragraph 4.1(b) of the framework, expenses amounting to Rs.43.97 million which have no direct association between the cost incurred and earning of specific items of income of the board and which are the administration expenses of the separate entity had been recognized as expenses of the CEB in its income statement. (ii) Contrary to the paragraph 4.3, the assets valued at Rs.8 million which Economic benefits do not flow to the board and controlling power and right of assets lie with the board had been utilized by other entity.	Clause 12 (j) of the Ceylon Electricity Board Act has given the power to the Board to establish provident and pension funds. Hence, the establishment of the Provident Fund for CEB employees is a decision of CEB. According to the Clause No. 5 of the Provident Fund Rules, gazetted on 31st December 2003, the fund is managed and administered by a Committee appointed by the Board, therefore it is the responsibility of the Board to manage and administer the Fund. Hence the cost of managing and administering the Fund is born by CEB. Further, according to the Clause No. 20 (i) of the said rules, all the Administrative Expenses of the Fund, except for expenses related to inspection of Housing Loans, are being borne by CEB and this policy was in place from the inception of the Fund (from 1st November 1969) therefore the expenses incurred by CEB on behalf of Provident Fund are not recorded in the Financial Statements of the Fund. This matter was presented to the Management Committee meeting of the Fund held on 11th	Comply with the requirements of provision of accounting standards to recognize relevant expenses to the organization and utilized the assets for organizational purpose.

	February 2021, thereby the committee decided, to continue the existing practice and have a Board concurrence for the same. Accordingly a board paper was submitted to the CEB Board (Ref No: AFM(TM) / DFM (Provident & Pension Fund) /Adm/ 2021/01 Dated 2021-03-29) and having considered the matter in detail, the board has granted approval approved to continue the present policy of incurring Management and Administrative Expenses of the Fund by the Board.	
(iii) Ownership of the land of head office building is unable to verify due to non-availability of documents related to the right of the assets.	Relevant documents for ownership of the land of CEB Head Office building are not available and therefore, CEB has requested the Land Commissioner to make necessary arrangements to establish the ownership of the CEB Head Office building.	Make necessary action to establish the ownership of the Land of Head office Building.

(b)	**LKAS 2- Inventories and LKAS 16 –Property, Plant and Equipment** CEB is applying the standard cost method for valuing of 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 favorable material price variance and overhead rate variances aggregating to Rs.4,038,696,594 and unfavourable stores price variance of Rs.1,776,858,186arisen 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.	**Material Cost** As per LKAS 2**-** Inventories, para 25, the cost of inventories shall be assigned by using the FIFO or weighted average cost formula. An entity shall use cost formula for all inventories having a similar nature and use to the entity. Accordingly, CEB uses FIFO method to value its inventories and actual cost is used to record labour costs in Generation, Transmission, Asset Management and Projects Division which comprises 77% of the Work In Progress, 63% of the Property Plant & Equipment and 45% of the inventories of CEB as at 31 December 2020. Hence, a major portion of the PPE, Inventories and WIP are presented at costs in compliance with the relevant Accounting Standards. However, due to the complexity and huge volume of inventory, the Distributions Divisions in CEB uses a different cost technique, which is the standard cost. As per para 21 of LKAS 2, Techniques for the measurement of cost of inventories such as standard cost may be used for convenience if the results approximates to cost. During the year under review, the total net price variance is Rs. 347Mn (Dr) which is 0.3% of the total purchasing GRN value. So, this clearly indicates that the standard price approximates to cost. Hence, CEB is of the opinion that the valuation method used for the year is justifiable and in compliance with the relevant Sri Lanka Accounting Standards. **Overhead cost** The absorption of overhead cost to capital jobs at an annually predetermined rate is practiced only in Distribution Divisions of CEB. Annual Overhead absorption rate is calculated using the budgeted cost of each unit which are directly relating to the construction jobs. When the budgeted cost is compared with the actual cost of Distribution Divisions, it was noted that the actual costs incurred have exceeded the budgeted costs by 10%. Hence, the overhead absorption rate used is also reasonable.	Apply actual Cost or approximate cost base when valuing the stock.

(c) **LKAS 16 – Property, Plant and Equipment** The fixed assets amounting to Rs.171.2 billion out of Rs. 172.2 billion in the Transmission Division had not been physically verified during the year under review.	The physical verification pertaining to all movables fixed assets have been successfully carried out and records furnished for the attention of Audit. The immoveable assets, mainly related with existing the transmission lines, plant and machinery which are integral parts of electricity transmission network in providing continuous electrical energy supply in the county at present.	Conduct a physical verification of fixed assets in each year as per the LKAS 16.
(d)LKAS 37- Provisions, Contingent Liabilities and Contingent Assets The Board had not disclosed the amount of Rs.50 million which should be paid as per the court decision given and appeal made in relation to the court case.	Ms. Janaki Neththikumari had filed a case against CEB in District Court- Kaduwela under the case No. 259/M for claiming 50M as damages, because the reputation of the Plaintiff was damaged, due to publication in Newspapers about her misuse of electricity. After consideration of the evidence, the judgement was delivered by the District Court Judge of Kaduwela, on 22.08.2019 and ordered CEB to pay sum of Rs.50 Million to the Plaintiff. The CEB has lodged an appeal against the judgment of dismiss the Order. Actions will be taken to disclose this case in future.	Disclose the said matter as per the requirement of standards.

1.5.2 Accounting Policies

Audit Issue	**Management Comment**	**Recommendation**
The useful lifetime of the fully depreciated non-current assets which are being continuously utilized by the CEB had not been reviewed and adjusted prospectively as mentioned in the accounting policy no.2.4.6(e) and 3 (c). For instance, fully depreciated property, plant and equipment amount of Rs.187.58 billion are being still using without estimating the real life time.	More than 53% of the fully depreciated assets consist of Generation power plants and related assets. A Committee has already been appointed to review the useful life of the fully depreciated power stations. However, due to the complexity and uniqueness of the power station, it would take a considerable time for the valuation. The implementation of the revised useful lives for Motor Vehicles will be made in year 2021 with the approval of the Board. The major component of the balance assets is the transmission and distribution lines which is 38% of the fully depreciated assets. Actions will be taken to identify a mechanism to resolve the audit observation.	Review the useful life of the fully depreciated assets.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A debit balance of Rs.189.54 million (stock shortage) and a credit balance of Rs.114.64 million (stock excess) had remained in the Stock Adjustment Account for more than one year without being cleared.	The following actions have been taken to clear the stock adjustment. • Appointment of committees to resolve the matters • Conducting formal inquires against the responsible employees • Seeking legal advises, and • Submitting board papers. Accordingly, more than 46% of the shortage balance and 30% of the surplus balance are included in the above process.	Take necessary Actions to clear the stock excess and shortage within short period from the occurrence.
(b) Loan amount aggregating to Rs.159.18 billion obtained for the construction of Lakwijaya Power Plant should be transferred to the Lanka Coal Company (Pvt) Ltd (LCC) by the treasury and CEB should pay the equivalent amount required for debt servicing to LCC as per the requirements of the Cabinet decision no. 10/2434/423/034 dated 13 October 2010. According to the letter no. PE/EN/CEB/Equity/2014 dated 30 September 2014 issued by the Secretary to Treasury, these loans should be treated as direct loans of CEB. However, the CEB had recorded these loans as loans received from General Treasury even no any sub loan agreements entered with the General Treasury. Hence existence of these loans is in doubt and impact to the financial statements on repayment of these loans cannot be quantified.	As per the letter No: PE/EN/CEB/Equity/2014 dated 2014-09-30 with the subject implementation of Budget Proposals -2014 Debt to Equity Conversion signed by the Secretary to the Treasury, CEB has been advised that all loans obtained in relation to the Puttalam Coal Power Plant are to be treated as direct loans obtained by CEB and due to liquidity constraints servicing these loans would be continued by Treasury until CEB is in a position to meet the debt service cost Further, at the meeting held on 2018-01-11 at the Department of Public Enterprise it was emphasized that servicing of the said loans needs to be channelled to the CEB as the asset and the obligation both are in the balance sheet of the CEB. As the loan agreement is already signed between the Government of Sri Lanka and the respective lending agency the loan is recorded as a liability to treasury until treasury makes necessary arrangements to transfer the loan CEB. Considering the directions given by treasury through the letter No: PEP/I/CEB/2/II (i) dated 2019-10-17 sent by the Director General of Department of Public Enterprises, CEB has made adjustments for capital repayments of Rs.16,942,798,790.95 along with an interest of Rs. 3,556,442,931.30 in the books of CEB for the year 2019. Further, as per Letter No: PED/1/CEB/02/11 (i) dated 15.01.2021 sent by the Director General, Department of the Public Enterprise CEB has converted Rs.20,	Take necessary actions to adjust the books of CEB once the written direction received from Department of Treasury Operations or to pay the outstanding balances.

Further, an amount of Rs.20.5 billion including Rs.3.56 billion of interest payment and amount of Rs. 20.54 billion including Rs.3.15 billion of interest payment incurred by the treasury had been transferred to the equity of CEB in 2019 and 2020 respectively. However, CEB had charged interest expenses to the income statement which were transferred as interest to the equity even this expense was not incurred by the CEB. Hence, loss for the years 2019 and 2020 had been overstated by Rs.3.56 billion and Rs.3.15 billion respectively.

Further, CEB had charged Rs.11.89 billion and Rs.20.86 million to the income statement as exchange loss in the year 2019 and 2020 respectively even the Section 42(6) of Electricity Board act no. 17 of 1969 stated that the any loss or profit in relation to the revaluation of SriLanka rupee which the loan made to the board with approval and guarantee of the government should charged to the consolidated fund and government shall bear that losses or profit. Therefore, loss for the years had been overstated by Rs. 11.89 billion and Rs.20.86 million in the years 2019 and 2020 respectively.

536,545,932.04 to equity of GOSL in the books of CEB in line with the records of Department of Public Enterprises. Accordingly, the books of CEB has been adjusted in line with the directions given by Treasury.

In terms of sub-section 6 of section 42 of the Ceylon Electricity Board Act No.17 of 1969, Board does not account for any profits or losses arising from foreign exchange fluctuations, in respect of the capital and interest on foreign currency loans obtained through the Treasury, as the exchange rate risk is borne by the Government of Sri Lanka. The outstanding loans repayable are valued at the agreed exchange rate at the time of receipt of the loan by the Board.

However, in order to cover this expense the Government enters into a sub loan agreement with CEB at an interest rate compensating such losses of loans obtained for CEB by the government.

As Treasury has decided to treat these loans as a direct loans obtained by CEB such sub loan agreements has not been entered into. Since the debt servicing is done by Treasury due to Liquidity Constraints of CEB the actual payment made to the lending agency has been transferred to CEB as a conversion of debt equity.

Since CEB has recorded these loans at the rate they were initially obtained in par with the act and has not revalued the loans thereafter, the exchange loss related to the capital repayment which has also been included in the debt to equity conversion done by treasury. Accordingly, the exchange loss amounting to Rs. 20,862,022.88 related to exchange rate deviation from the beginning of the Year 2020 to the end of Year 2020 has been incorporated in the financial year 2020 and the exchange loss amounting to Rs.6,154,069,044.78 related to the exchange rate deviation up to the end of year 2019 has been adjusted to the year 2019.

Further, the exchange loss included in the 2019 debt equity conversion amounting to Rs.5,735,412,848.45 which has been accounted as a loan repayment in 2019 has been corrected in 2020 totalling the exchange loss for the year 2019 to Rs. 11,889,481,893.00.

(c) CEB had recorded the amount of Rs.25.23 billion as disbursed from foreign loans after 31 December 2014 for the Projects as sub loans from General Treasury even these loans had not been treated as sub loans in treasury financial statements after 31 December 2014. Further repayment of these loans had been assigned to the CEB as per the cabinet decision no.15/0228/613/012 taken on 18 March 2015. However, CEB had not paid or made the provisions for the capital repayment and interest payment for these loans. Hence, existence of these loans is in doubt and impact to the financial statement on repayment conditions (capital and interest payment) is unable to quantify.	As per the Cabinet Memorandum dated 2015-03-09 submitted by Ministry of Finance on Regularising the mechanism of Disbursement, Servicing, repayment and accounting of foreign financed development projects and the cabinet Decision dated 2015-03-18 in this regard CEB is expected to service and repay debt from the year 2015. As the Loan Agreements are already signed between the Government of Sri Lanka and the Lending agency, but obtained on behalf of CEB, initially these disbursements have been recorded as a liability to Treasury. Subsequently, at the meeting held on 2018-01-11 by the Department of Public Enterprise it was decided to convert the on lending loans made to CEB through the General Treasury after 2014-12-31 in to GOSL equity with approval of the cabinet of Ministers. Therefore, until the direction is received by treasury to transfer these balance in to equity CEB has recorded it as a liability to treasury.	Disclose the required matters.
(d) Six foreign loans valued at Rs.54.71 billion had been recognised as loan received from General treasury in the financial statements of the Board even no any sub loan agreements entered with General Treasury. Hence existence of these loans is in doubt and impact to the financial statements on repayment of these loans is unable to quantify.	These loans have been obtained through treasury on behalf of CEB even through sub loan agreements have not been finalized with General Treasury. As the disbursement are made to CEB these are recorded as a liability to treasury. Further, the loan agreements are already signed between the Government of Sri Lanka and the respective lending agency	Sign the Sub loan agreements with General Treasury.
(e) The jobs carried out by the CEB for supply, maintain and repair of power generators, lifts and air conditioners to 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	As the probability of collection of receivables from the Ministry of Power & Energy and Government Hospitals for the jobs carried out by CEB, is doubtful, prior to 2013, revenue has been recognized on cash basis and the actual cost of the jobs were shown as receivable in the books of accounts, until the money being collected from the client. As at 2020-12-31, the difference between the actual cost and the estimated value of the jobs carried out for Government institutions is	Value the said jobs at invoice values and record them accordingly.

receivables and retained earnings shown in the financial statements had been understated by Rs.66.99 million as at 31 December 2017. The CEB had not submitted the settlement details of these outstanding balances and invoices as at 31 December 2020 to audit.

Rs 43,421,695.18 and it is not Rs. 66,987,761 as stated in the query.

However, as directed by the Board, at its meeting held on 2020-10-06 under minute No.20.14.279, General Manager, CEB, by her letter No. CEB/FM/AFM(Corp)/DFM(P&I)/Debtors dated 2020-12-21, has sought the assistance of the Director General, Department of Public Enterprises to recover the long overdue amounts from Government Institutions to overcome the cash flow issues faced by CEB and we have not so far received a favourable response from the Department of Public Enterprises.

Further, the Audit committee has directed Assets Management Division to draft a Board Paper to write off the long-standing receivables which cannot be recovered, at its meeting held on 2020-12-21 under the meeting minute No.03.03 of 2020/03 which confirmed by the Board under minute No. 21.06.128A at the board meeting held on 2021-04-07, as the Assets Management Division was unable to recover the overdue receivables from Government Institutions even after the persistent efforts being taken. Accordingly, DGM(W&AS) has engaged in the process of drafting a Board Paper in this regard.

CEB has made a full impairment provision in compliance with section 5.5.4 of Sri Lanka Financial Reporting Standard (SLFRS) 9- Financial Instruments on these receivable balances, considering the expected financial loss which would result in, due to the probable non-recoverability of these balances.

Further, the section (9) (e)of SLFRS 15 – Revenue from Contracts with Customers does not suggest to re-state the receivable balance (i.e., invoice value)as mentioned in the query, since the collectability of these receivable balances is not probable. Even if the receivables that are stated at cost, are restated in the accounts to recognize the invoice values of the above jobs a 100% provision is to be made for impairment, as per the provisions in section 5.5.4 of SLFRS 9 – Financial Instruments.

Accordingly, restating the invoice values (increase in receivables and retained earnings) would lead to recognizing an impairment

	provision (decrease in receivables and retained earnings) due to non-recoverability of such balances. Considering all of the above, restating invoice values does not comply with the relevant provisions of the above quoted Accounting Standards as it would not have any significant impact on the financial performance and financial position of CEB. Hence, there is no any understatement in the financial statements as stated in the audit query. Most of the requested information for the audit had already been submitted by the Heads of the respective units and also any additional information that is needed, could be collected from them.	
(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 as payment of management fee during the year under review and amount of Rs.1.5 billion had been charged to the retained earnings. The balance amount of Rs.3.0 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.	Based on the Department of Public Enterprises letter No.PDE/I/CEB/2/11/(iii) dated 16.10.2019, in year 2019, this payment was considered as "Management Fee" paid to treasury and amortised over a period of 10 years from year 2017.	Charge the amount of Rs.5 billion paid to the General Treasury as levy in the year 2016 to the equity statement.
(g) Completed number of 7,546 Jobs valuing to Rs.6.18 billion is remained in work in progress account without being transferred to the assets in Distribution Divisions. The depreciation relating to those assets had not been charged to the income statement.	Continuous attempts are made to capitalize the completed jobs to PPE on time. Provincial level committees have been appointed to monitor continuously and handover the long outstanding capital jobs. Accordingly, DD1 has capitalized 21% and DD3 has capitalized 28% of the jobs over 4 years by 31 May 2021.	Take necessary actions to capitalize the completed jobs.

(h)Total cost of Rs.979.88 million in relation to the Upper Kothmale Hydro Power project which was completed in 2012 was still included in work in progress accounts instead of capitalizing. Hence, depreciation for the year under review and retained earnings had been understated by Rs.27.99 million and Rs.195.98 million respectively.	Expenditures amounting to Rs. 979,888,779 have been accumulated in WIP account as at December 2020 after the initial asset transfer. This amount comprised mainly with personnel expenses, legal fees for arbitration & cost of land acquisition etc. Actions have been already in place to resolve outstanding issues with Project office in order to transfer this remaining amount and this will be accomplished within the year 2021.	Take necessary actions to capitalize the said expenditure.
(i) Total cost of Rs.179.19 million vehicles purchased for the Puttalam Coal Power project which was completed in 2014 and it was still included in work in progress accounts instead of capitalizing. Hence, retained earnings had been understated by Rs.179.19 million.	Expenditure accumulated after the initial asset transfer amountingRs.528,013,647.76 was transferred to respective divisions in year 2020.However, Rs. 179,194,890 incurred for the procurement of vehicles was remained in the accounts due to non-transfer of ownership of the vehicles to the CEB (10 nos.) and this amount will be transferred to the respective divisions once ownership of the vehicles is transferred to the CEB.	Take necessary actions to capitalize the said vehicles.
(j) Amount of Rs.18.76 million of Interest income, VAT and surcharge received from bulk finalized customers against written off balances had not been recognized properly. Hence debtor balances was understated by same amount.	Necessary corrections will be made in future.	Take necessary actions to rectify the said matter.
(k) Provision for unrecoverable amount of Rs.30.56 million of Street lightening maintenance expenses had not been made in financial statements.	Street Light maintenance done by the provincial councils are reimbursed by CEB and recorded as receivable from Ministry of Power. The above balance is the accumulated balance relating to such reimbursements made by southern province since year 2013. However, no funds have been received from the Ministry to the above balance so far and hence, Southern Province has taken a decision to not to reimburse the future expenses.	Review recoverability of the said amount and made required provision in financial statements.
(l) The payable balance of Rs.29.97 million had been debited to the collection control account erroneously in Colombo City office. Hence debtor balance was overstated by same amount.	Balance will be corrected in 2021 financial statements.	Take necessary actions to rectify the said matter.

(m)	The sundry debtors balance had been overstated by Rs.585.69 million due to recognition of revenue relevant for the period from 01 January 2021 to 15 January 2021 as revenue of the year under review. Hence Revenue for the year had been overstated by same amount.	The above balance has created due to difference between the period for billing summary and calendar month. However, actions have been taken to make the billing summary matches to calendar month. Hence, such balance is not created since year 2021.	Take necessary actions to match the period of billing summary with calendar month.
(n)	Claimable period exceeded amount of Rs.1.57 billion of Economic Service Charge (ESC) had not been charged to income statement. Hence, Loss had been understated by same amount.	Rs.1,573,231,409 of ESC receivable represent the amount which is already time bared (exceed of three year period) required to be written off to the Financial Statements for the Year 2019 and 2020. The respective board paper was submitted in the year 2019 seeking approval for the write off. However, CEB Audit Committee recommendation was not to write off these ESC balance but to look at any alternatives to recover or set off this balances against any other payables by referring this matter to Ministry of Power and to General Treasury. It has been informed to General Treasury as part of National Budget Proposals 2018 and it was again informed to General Treasury through the Ministry of Power in year 2020 as part of a tax relief. A reply is not received so far.	Take appropriate actions to clear the said matter.
(o)	Work in progress balance in distribution divisions had been understated by Rs.52.06 million due to offsetting abnormal credit balances.	The reasons for the unusual credit balances for Rs.26,014,986 has been identified and will be rectified in year 2021 and actions are being initiated to review and clear the jobs relating to Lighting Sri Lanka Rathnapura Project for Rs. 26,045,997on an individual job basis.	Take necessary actions to rectify the said matter.
(p)	The amount of Rs.912.69 million is remained more than one year in Goods in transits account without being transferred to the relevant expenses. Hence loss had been understated by same amount. Further, abnormal credit balance of Rs.245.53 million is remained in the Goods in Transits account without being cleared.	Actions will be taken to rectify the balances in future.	Take necessary actions to rectify the said matter.

(q)	Cost and cumulative depreciation of Property, Plant and Equipment had been understated due to omission of the values of 12 numbers vehicles in financial statements.	Actions will be taken to trace the vehicles and record in the Fixed Assets appropriately.	Take necessary actions to record the vehicles to the Fixed Assets register.
(r)	Value of Power Station had been overstated by Rs.175.10 million due to capitalisation of expenses of incomplete assets in relation to the Kelnithissa Combined Cycle Power Station. Further capital expenditure amount of Rs.323.28 million and depreciation amount of Rs.27.04 million in relation to this incomplete asset had been charged to the income statement during the year under review. Hence loss for the year had been overstated by Rs.350.32 million and Work in progress balance had been understated by Rs.498.38 million.	Will be rectified in year 2021.	Take necessary actions to rectify the said matter.
(s)	The depreciation amount of Rs.54.14 million which are relevant for the assets completed in year 2018 and 2019 had been recognized as expense in Generation Division during the year under review. Hence loss for the year under review had been overstated by same amount.	Noted and actions will be taken to minimize such errors in future.	Take necessary actions to prevent such errors in future.
(t)	The board had not taken actions to treat as per the requirements of Financial Regulations 486 for the cheque returns amounting to Rs.690,183 which is remained more than one year.	Actions will be taken to rectify the balances	Take necessary actions to rectify the said matter.
(u)	The two projects valued at Rs.167.25 million which is remained without completion	Discussed with relevant officers and necessary action will be taken to clear the WIP balances of the two projects.	Take necessary actions to clear the WIP balances of the said

	from the year 2015 are shown under work in progress without being cleared.		projects.
(v)	The board had charged to the G.D income a sum of Rs.3,568,183 as cost of labour allocated for the electrical maintenance of Karapitiya Hospital which are belong to the year 2019 to the year 2020. Hence, G.D. income for the year under review had been understated by same amount. Further income receipt against the electrical maintenance jobs had been accounted on cash basis against the provisions of the Note no.2.1 of the financial statements. No provision had been made for the income and expenses relating to the said jobs for the year 2020 in Distribution Division 4. Hence, impact for the financial statements cannot be quantified due non submission of information for the audit.	Noted and actions will be taken to implement proper accounting procedure.	Implement the proper accounting procedure to record such kind of transactions.
(w)	Loss for the year under review had been overstated by Rs.0.99 billion due to over provision made in relation to the accruals of thermal power purchase	Total value of the certified invoices for the year 2020 is LKR 72.63 billion (refer to the working sheet 'Certified 2020'). Ledger balance of LKR 75.7 billion consists with following. Certified Invoices 74,623,248,756.56 Over accrual 2019 reversed in 2020 (2,937,738,548.88) Over accrual 2020 3,921,791,769.36 LC charges, VAT & commission 161,187,879.76 75,768,489,856.80 Material difference of LKR 0.9 billion is due to the difference between over accruals in 2020 and over accrual reversals in 2019. However, arrangements have been already made from January 2021 to obtain the certified invoices on time and account the same in the monthly	Take necessary actions to identify accruals relevant to the accounting period correctly.

		accounts in order to avoid the over/ under accruals in the expense account	
(x)	Loss for the year under review had been understated by Rs.1.1 billion due to omission of 77.2 Gwh of renewable energy purchases.	NCRE monthly accrual is carried out using the invoices received and the 'monthly NCRE generation report' prepared by the Subject Engineer. Invoices from the newly commissioned plants are usually received with a delay and sometimes even the ongoing plants submit their invoices with a considerable delay due to various reasons. Hence, invoices received with a delay are recorded in the period at which the information is received. Some of these delayed invoices are included in the January 2021 accounts as these purchases were included in the 'NCRE generation report' for the month of January 2021.	Take necessary actions to identify all energy purchase relevant to the accounting period correctly.
(y)	Renewable energy purchase of 12.2 Gwh amounting to Rs.212 million during the year 2019 had been accounted to the renewable energy purchase account of 2020. Hence loss for the year had been overstated by same amount.		
(z)	The amount of Rs. 808 million payable for renewable energy purchase up to 31 December 2020 from the renewable energy power producers who contract period of 15 years were completed had not been accounted. Hence loss for the year had been understated by same amount.	The renewal of SPPAs whose original term has been expired, was not carried out at the very instant of expiring the agreement due to various reasons. However, these power plants were operated continuously irrespective of having a signed agreement. Hence, the accrual of invoices was carried out as and when they are received subject to signing the respective extension to the agreement. Hence, there is a total of LKR 900 million accrual in the accounts for the month of January 2021 as an under accrual for the year 2020.	Take necessary actions to identify all energy purchase relevant to the accounting period correctly.
(aa)	As per the financial statements, delay payment interest during the year under review was Rs. 2,481 million and it was Rs.2,885 million as per the certified delay payment interest calculations for the year under review. Hence loss for the year had been understated by Rs. 404 million.	Value of the delayed interest certified for the year 2020 is LKR 2,885 million and there was an over accrued amount related to the year 2019 of LKR 383 million and an under accrual of LKR 21 million for the year 2020 included in the account in the year 2020. However, arrangements have been taken from January 2021 to calculate the delayed interest using the certified values in invoices in order to avoid the over / under accruals in the expense account.	Take necessary actions to identify delay payment interest relevant to the accounting period correctly.

(bb)	The fixed assets amount of Rs.14 million which were disposed had been still shown in the fixed assets of the Transmission division.	Action will be taken to instruct all branches of Transmission Division in order to update the PPE with correct information.	Update the Fixed asset register.
(cc)	Existence of the loan amount of Rs.2 billion received from related party on March 2020 was unable to verify due to non availability of agreement entered by two parties. Hence impact to the financial position on repayment of loan is unable to quantify.	This credit facility is obtained from LECO to manage working capital requirement of CEB considering adverse financial situation of CEB and the necessity of providing uninterrupted power supply to the nation as per board decision No.20.03.060 dated 25.02.2020. A draft loan agreement is being reviewed by both parties in order to sign the loan agreement.	Take immediate actions to sign the loan agreement.
(dd)	The Board had charged a sum of Rs.6.54 million as surcharge erroneously in relation to the outstanding balance available in A/C No.3670100474 even surcharge calculation hold since 2007. Hence retained earnings had been overstated by same amount.	This outstanding surcharge balance of Rs. 6,540,244 related to the court case no. 43932/MR (District court – Colombo), CEB Management has instructed to hold this balance separately until the court case is finalized.	Take necessary actions to rectify the said matter.
(ee)	A provision of Rs.63.56 million for shipment charges of Coal had not been made in the financial statements. Hence loss for the year had been understated by same amount.	The above amount of Rs.63.56 million has not been recorded in CEB books of accounts as at 31.12.2020, since the particular payments were under being discussion with LCC. However, the reconciliation provided in the Financial Statements adequately disclosed the figures under from which only Rs.22,520,185.72 has been settled on 22.03.2021 after closing the accounts for year 2020.	Take necessary actions to identify accruals relevant to the accounting period correctly.
(ff)	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. However, financial	Restatements of financial statements are mainly done due to the complexity of the operation and volume of the transactions in CEB. However, actions will be taken to strengthen the internal control system to avoid the restatement of the Financial Statements.	Take necessary actions to strengthen the internal control system to avoid the restatement of the Financial Statements.

statements of the CEB are continuously restated since the year 2013 due to weaknesses in the internal controls established by the Board.		
(gg) A debit balance of Rs.557.94 million and credit balance of Rs. 556.81 million had been remained without being cleared since 2002 as inter divisions' current account balances as at 31 December 2020.	The said balance is carried forward since year 2002 on which the decentralization of the Distribution Divisions has taken place. Action will be taken to trace the supporting documents and clear the same.	Take necessary actions to clear the said balances.
(hh) An amount of Rs.2.08 million received from one customer had been incorrectly recorded to another customer account.	The above balance has already been rectified in year 2021	Strength the internal control on the recording customer receipts.
(ii) An amount of Rs.1.25 million of loan processing fee had been charged to the loan balance instead of income statement. Hence, loss for the year under review and loan balance had been understated by same amount.	Five billion loan facility received from National Savings Bank has been recorded as LKR 4,998,750,000 in financial statements as at 31.12.2020 after deducting the processing fee considering disbursed amount only. This had been corrected in monthly accounts April 2021.	Strength the internal control on the recording transactions.

1.5.4 Unreconciled Control Accounts or Records

Item	Management Comment	Recommendation
(a) A difference of Rs.753.61 million was observed between the balance shown as payable to the Ceylon Petroleum Corporation in the financial statements of the CEB as at 31 December 2020 and the corresponding balance shown as receivable in the financial statements of the Ceylon Petroleum Corporation as at that date. Further, this dispute had not been cleared even as at 31 December 2020 though it has been reiterated in audit reports since 2013 continuously.	The above balance has not been shown in CEB financial statements as a payable to CPC and it has been informed to CPC as well. However, CPC has shown in their financial statements as interest receivable from CEB to which CEB does not agree. A decision has been taken at the Audit Committee meeting held at the Ministry of Power to arrange a meeting with the representatives from CPC, CEB, Treasury and the Ministry of Power to resolve the matters.	Take necessary actions to solve the matter by the discussion with the relevant parties.

(b) Un-reconciled differences aggregating to Rs.41.18 million was observed between the balances of bulk trade debtors as at 31 December 2020 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.423.76 million is remained as unidentified since 2012.	Debtors' reconciliations are prepared by all Distribution Divisions and are submitted along with the Divisional Copies.	Take necessary actions to reconcile the ledger balances with the system balances in each division and every month.
(c) Reconciliation for the balance of Rs. 2,343 million and Rs. 149 million available in the Collection Control ledger account as debit and credit as at 31 December 2020 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 have been taken to make the ordinary supply billing cycle cut-off date to be same as the financial year cut-off date in year 2021.	Take necessary actions to reconcile the ledger balances with the system balances in each division and every month.
(d)Age analysis and detail schedule of the suspense balance amounting to Rs.117.58 million had not been submitted to identify the nature of the balance.	Information relating to Trade Debtors is generated through the system. However, the present system does not facilitate an age analysis for suspense balances. Hence, Distribution Division 2 and 4 prepares the age analysis manually which is a cumbersome process. Therefore, actions will be taken to develop an age analysis for suspense balance in future.	Take necessary actions to develop an age analysis for suspense balance.
(e)The amount of Rs. 38.76 million is remained outstanding since 2019 due to application of wrong tariff methodology for the customer by the Board.	A committee has been appointed to resolve the matter which is still in progress.	Take necessary actions to rectify the said matter.
(f) A difference of Rs.5.6 billion were observed in relation to the Thermal payable - Independent power producers between the balance shown in the financial statements	L5806- 'Thermal payable - Independent power producers' account was a part taken out from the account L-5920 'Accruals' in the year 2020. Balance shows the accrued balance booked using	Take necessary actions to book the accurate payable balance.

and sum of unsettled certified invoices.	the invoice values received for each month from IPP thermal power plants. These balances are adjusted at the point of certification for the payment. This over / under accrued balance booked is reversed at the payment. There is a difference of LKR 5.6 billion (refer to the work sheet) between the leger balance and certified outstanding invoice total at the end of the year 2020 to be reversed. However, arrangements have been made since January 2021, to certify the invoices early enough so that payable amount is booked using the certified values. Hence, there will be no difference in two balances going-forward.	
(g) A difference of Rs.20.7 million were observed in relation to the solar power purchase from net accounting between the balance shown in the financial statements and records maintained by the cebinfo system. (h) A difference of Rs.100 million were observed in relation to the solar power purchase from net plus between the balance shown in the financial statements and records maintained by the cebinfo system.	The net accounting and net plus expenditure is recognized based on the information available in the billing summaries. Accordingly, the Accountant (Revenue) of the province transfers the respective expenditure to Transmission Division since the purchase of energy is the responsibility of the Transmission Division. The PUCSL Report referred by the Auditors is a report created to provide overall CEB information where provincial data are not available. Hence, actions will be taken to check the accuracy of the information provided in the referred Report.	Take necessary actions to check the accuracy of the information provided in the referred Report.

1.5.5 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) 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	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*	Comply with the requirements of the circular in payment of allowances to the staff.

checks, it was revealed that such allowances totaling to Rs.1,544.4 million and Rs. 1,712 million had been paid in the year 2020 and 2019 respectively.	*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.	
(b) Instead of granting vehicle loans at the rate of interest ranging from 10 per cent to 14 per cent as per the Public Enterprises Circular No 130 dated 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 to 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.	Comply with the requirements of the circular in payment of loans to the staff or obtain an approval from the Department of Public Enterprise for any deviations.
(c) The CEB had not paid interest on consumer deposits as specified in the Section 28(3) of Sri Lanka Electricity Act, No.20 of 2009 and according to the computation made by audit based on the rate reported by the Public Utility Commission of Sri Lanka for the year 2020, the interest to be paid thereon was Rs.1,613 million and un paid accumulated interest as at 31 December 2020 was	As per Clause No. 3(1) (d), No 4 (1) (c) and No 30 of SL Electricity Act No.20 of 2009 (as amended), the Electricity Tariff shall be arranged by PUCSL. However, the prevailing electricity tariff which was granted in 2013 and adjusted in 2014 is not generating sufficient cash to run the business of CEB. The relevant clauses in the Act. is as follows; 3. (1) the functions of the Commission shall be to act as the economic, technical and safety regulator for the electricity industry in Sri Lanka, and—	Comply with the requirements of the provision in the Act.

Rs.6,731.90 million.

(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—

(*a*) 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

(*b*) 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 tariffs and distribution and supply tariffs, as the case may be, shall, in accordance with conditions specified in the relevant licence –

(a) be set by the relevant licensee in accordance with a cost reflective methodology approved by the Commission;

(b) permit the relevant licensee to recover all reasonable costs incurred in the carrying out of the activities authorized by its licence on an efficient basis,

(c) be approved by the Commission in accordance with the policy guideline approved by the Cabinet of Ministers under section 5; and

(d) 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 has to pay the interest for securities deposit 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 deposit 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 obtained by utilization of security deposit 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. If as per this clause if DL's going to pay the interest on security deposit 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. Further, by CEB letter Ref No: DGM(CS&RA)/GEN/1 dated 2021-05-28 addressed to Secretary, Ministry of Power with a copy to Secretary to the Commission, PCSELR (Presidential Commission on Simplification Laws and Regulations), CEB has requested to delete the Clause No 28.(3) from the Sri Lanka Electricity Act No 20 of 2009.of Existing.

1.5.6 Preparation of Consolidated Financial Statements

Audit Issue	Management Comment	Recommendation
The Qualified Opinion on the financial statements of the following companies for the year ended 31 December 2020 had been expressed by me based on the following observations. (a) Lanka Coal Company (Pvt.) Ltd		
i. 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, as per section 6 of 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 total ESC payable amounting to Rs.579,179,232 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.	Settle liabilities before due date to avoid penalties.
ii. A sum of Rs.12,073,788 receivable from CEB has contained in a suspense account that carrying a debit balance of Rs.2,559,819 at the year end of the year under review and the opening balance as at 01.01.2020 was Rs. 4,674,041. During the year under review the Company has debited a sum of Rs. 1,594,325	The above entries have been passed to rectify the errors identified in internal audit reports.	Take necessary actions to clear the balances in the suspense account.

	and credited a sum of Rs.3,708,547 to the above suspense account without any reasons.		
iii.	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 ascertainment of the value for custom purpose which is not actually incurred. However, the Company had been added such 10 per cent mark-up amounting to Rs.3,653,155,934 to the revenue and later the Company had given such amount as discount to the debtor and charged to the cost of sale. As a result, the cost of sales and revenue had been overstated by similar amount.	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 minute 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 excess output VAT to IRD in the interim pending issuance of a ruling by IRD. LCC has inquired from the Inland Revenue Department about the possibility of calculating the output VAT by removing the 10% notional margin, which is contents of the revenue.	Maintain records in accordance with requirements of Sri Lanka Accounting Standards.
iv.	The Company has not made any provision for the impairment of long outstanding management fee receivable amounting to Rs. 10,624,394 as at 31.12.2020 which comes over 3 years.	The matter will be resolved after obtaining a board decision at LCC Board.	Review recoverability of outstanding management fee and made appropriate impairment provision.
v.	Sri Lanka Customs had imposed a forfeiture (penalty) of Rs. 205,000,000 by on non-declaration of correct transaction value of the coal imported during the period from 19 September 2016 to 09 April 2018. In the year 2019, the Company had debited the above penalty payment to Sri Lanka Custom VAT account	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 and S.L Customs had imposed a forfeiture of 205,000,000/- to LCC on above wrong declaration & the investigation officers of	Conduct a formal investigation to identify the persons who are responsible for this loss.

	amounting to Rs.158, 186,165, VAT control account amounting to Rs.39,970,418 and CSCL liability account amounting to Rs. 6,843,417 erroneously. Hence, opening balance of retained earnings had been overstated by Rs. 205,000,000 and assets had been overstated by Rs.198,156,583 and liabilities had been understated by Rs. 6,843,417. The Company had used the funds, which received from Ceylon Electricity Board (CEB) for settlement of shipment bills, to pay above penalty of Rs.205,000,000 even without obtained board approval and had not been done a formal investigation to identify the persons who responsible for this loss.	S.L Customs had informed to LCC Officers that no any final VAT payment to be done after this payment. At that time LCC had paid Rs.37,594,744 to Sri Lanka Customs as final VAT to the above related shipments and LCC was compelled to settle the sum of Rs 205Mn subsequently using the funds provided by CEB to make the settlement of CSC outstanding since S.L. Customs held the clearance of coal shipments.	
vi.	The Company had failed to take actions to recover the long outstanding receivable balance amounting to Rs.539,192,079 from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL). Ceylon Shipping Corporation had not accounted the above balance in their financial statements as at 31.12.2020. TISCL/CSCL had neither confirmed this balance nor had not made any provision for the impairment. Therefore it was unable to ascertain the accuracy and existence of the above balance.	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.	Expedite the recovery process of the long outstanding balance.

vii. The balance confirmations and evidences relevant to verification of Rs. 578,678,686 ESC receivable from CEB, Rs 18,075,801 of Miscellaneous Debtors, Rs. 1,115,987 of receivable of Noble Resources International Pte Ltd, Rs 85,887,776 of Trade Creditors – Nobel Resources International Pte Ltd and Rs.8,048,531 of SGS charges 50% receivable from Liberty Commodities Ltd were not made available to the audit.	i. ESC Receivable from CEB : 578,678,686 A letter was sent to the Department of Inland Revenue requesting for an extension of the settlement of ESC ii. Misc. Debtors Rs.18,075,802 Initial investigations revealed that the amount comprises of Rs.17,839,949 of irrecoverable NBT & PAL. Being further investigated to ascertain source/origin. iii. Receivable from Nobel Resources Rs.1,115,987 There is a credit balance for a sum of Rs.85,887,776 for Noble Resources and we will set off this debtor balance against the same. iv. 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. v. SGS Charges 50% receivable from Liberty Commodities Ltd : Rs.8,048,531 Draft Survey Charges at discharge port for 17 nos of vessels in the season 2015/16 are included. An email was sent in 2019 informing M/s Liberty Commodities Pte Lte to make this payment based on the signed agreement. Arbitration process is going on this matter.	Maintain corresponding documents relating to the said balances.
viii. Without not disclosing the amount of Rs. 285,375,105 paid by CEB for the freight and VAT charges for the forthcoming financial year separately and it had been deducted from the account of, “Trade Debtors (CEB) for thermal Coal Shipments”. As a result, the balances of “Trade Debtors (CEB) for thermal Coal Shipments” and Advance received from CEB had been understated by Rs. 285,375,105 collectively.	The accounting is done for each coal season according to the existing accounting methods of the LCC. The net value due for the season 2020-21 is shown as the balance to be received from the CEB as at 31st December 2020. As shown in the audit, the net balance due at the end of the year has been disclosed but the total amount due from CEB and the advances received have not been disclosed separately. Advances received in next year's financial statements are expected to be disclosed separately.	Take necessary actions to disclose the advance received separately.

ix. Without a liability in the financial statements the Company had paid a sum of Rs.4,000,000 to M/s Mercator Singapore (Pvt) Ltd in 2019 through Ceylon Shipping Corporation Ltd (CSCL). However, the Company had deducted this amount from the CSCL payable balance erroneously. Hence, the liabilities had been understated by similar amount.	This payment had done to M/s Mercator Singapore (Pvt) Ltd through Ceylon Shipping Corporation Ltd in the year 2019 & being investigated to ascertain source/origin of the Mercator liability & will pass the relevant entries to CSC accordingly.	Investigate to ascertain source/origin of the payment to the M/s Mercator Singapore (Pvt) Ltd.
x. According to the financial statements final VAT and other receivable and trade debtors receivable balance as at 31.12.2020 from CEB were Rs.197,452,711 and Rs.12,073,788 respectively. However it had not confirmed by the CEB. Therefore audit was unable to ascertain the accuracy of trade debtor balance since no evidence was not made available for audit.	Final VAT & Other Receivable from CEB Rs.197,452,711 : As per the investigation done by Sri Lanka Customs, Lanka Coal Company did not declare the correct transaction values of the coal imported during the period from 19/09/2016 to 09/04/2018. LCC and CEB officers have calculated the VAT payable as per the Customs officers' directions and were found that Rs. 195,780,909 to be paid for the shipments from 123 to 154. In addition to that LCC asked to pay Rs.1,671,802 for exchange loss related to the said shipments. Currently, the above VAT payable Balance is further analyzed for future settlements. The breakup of the Trade Debtors (CEB) - Steam Coal Rs. 12,073,788 is given below. • Receivable from CEB Rs.2,563,287 : Amount left after settlement of the account with CEB in 2017. Being further investigated to ascertain source/origin. • Trade debtor (CEB) Steam Coal Rs.7,750,000 : The amount paid to M/s Mercator on behalf of CEB. Being considered to ascertain source/origin. • Other Receivable from CEB Rs.1,760,500 :Amount left after settlement of the account with CEB in 2017. Being further investigated	Maintain corresponding documents relating to the said balances and call confirmations from CEB.

		to ascertain source/origin.	
xi.	The Company had paid a sum of Rs. 136,236,370 as Custom VAT for the Shipment No. 123. However according to the Cusdec the actual VAT amount was Rs.106,969,404. Hence, the over payment was Rs. 29,266,965.	The following documents were submitted to Sri Lanka Customs for the over payment of Rs.29,266,965. • Final Cusdec (Custom Declaration) 1183769 of 09/11/2016 on Mv.Star Lutas • Final VAT calculation • Copy of the latest customs refund letter dated 10th February 2021.	Take necessary actions to recover the over payment.
	(b) Sri Lanka Energies (Pvt) Ltd		
(i)	According to paragraph 37 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), an entity shall disclose the information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. However, entity had not disclosed different classifications of inventories.	Value of the inventories stated under the Financial Statements are related to the Meter Enclosure Manufacturing of SLE and this value is basically consisted with values of raw materials, work in progress and finish products of Meter Enclosures. This will be detailed and adhere to this best practice from next time onwards.	Comply with the requirement in the Act.
(ii)	Disclosures of Income tax expenses in the note to the financial statement in accordance with paragraph no 80 (a) of LKAS 12 Income Tax standard had not been made with regards to details of the Income tax provision.	Actions will be taken to provide the details of the income tax provision in the future.	Provide the details of the income tax provision in the financial statements.
(iii)	As per the paragraph 118 (a) and (b) of the Sri Lanka Accounting Standard (LKAS) 38 – Intangible Assets, an entity shall disclose whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rate used and the amortization method used for intangible assets with finite useful lives. However, the entity had not presented the required	Will adhere to this best practice in future.	Comply with the requirements of the standard.

disclosures in the financial statements.		
(iv) Under Note no. 07 Trade and Other Receivable in the financial statement, the Withholding tax receivable amount stated is Rs. 2,120,524. For which original of WHT certificate were not made available for audit perusal.	Will adhere to this best practice in future	Provide required documents to the audit timely.
(v) Company has not accrued a sum of Rs. 187,500 payable as chairman's allowances for October, November and December 2020.	Monthly allowance for the chairman was paid for the October, November and December 2020 and an error was identified that it was recorded under the Salary under Administration expense mistakenly. Will attend to the needful to avoid these errors in record keeping.	Take necessary actions to avoid such kind of errors.
(vi) Documentary evidences were not provided for a sum of Rs. 13,861,600 pertaining to Transfer ID 1944619, 1944620, 1956018 and 1956014.	Each and every payment was proceeded with properly approved documents and if the each payment dates and values can be provided in detail, we will be able to sought out this doubt.	Provide required documents to the audit timely.
(vii) As per LKAS 8- Accounting Policies, Changes in Estimates and Errors; Company had not disclosed fully depreciated assets of which purchase cost is Rs.9,573,376.	Will adhere to this best practice in future	Comply with the requirements of the standard.
(viii) The Company had not recognized a suspense balance of Rs. 2,218,582 exist in the 31 December 2020 financial statements under review.	Actions will be taken to investigate the balance and resolve in future.	Take necessary actions to investigate and resolve the said matter.
(ix) A sum of Rs. 729,992 shown in the financial statements as accrued expenditure as at end of the year under review which had been brought forward from the year 2017 had remained without been settled.	Actions will be taken to rectify this immediately	Take necessary actions to rectify the said matter.
(c) Lanka Electricity Company (Private) Limited		
(i) As per paragraph 32 of LKAS		

	1, the company shall not offset assets and liabilities or income and expenses, unless required or permitted by a SLFRS. However,		
-	Delay charges received from the suppliers amounting to Rs.64,314,868 had been offset against operating expenses of the year under review.	In future the captioned charge will be extracted periodically and will be presented as an Other Income instead of setting off against Cost of Purchases.	Comply with the requirements of the standard.
-	The company had offset credit balances of customers amounting to Rs.9, 174,474 against the trade receivables of the year under review.	It is impracticable to show credit balances separately in the financial statements. Value of the credit balances not material when compared to the total value of the debtors. Solar loan installments paid by consumers are the main reason for these credit balances. Solar loans, as per the agreement have to be paid on specific dates but consumers pay it on different dates. Therefore, Billing system is unable to recognize this. We will take steps to incorporate the payment mode after these specified dates. However, necessary steps have been taken time to time to generate several reports from the billing system to identify the credit balances and make the payments to NSB.	
-	Debit balance of advance payment amounting to Rs. 9,385,853 had offset against the sundry creditors and accrued expenses of the year under review.	This includes an amount of Rs. 8,772,473 to which the related LC value has not been entered to the system as at 31.12.2020 and therefore showing a debit balance in creditors.	
(ii)	According to the financial statements, the balances of Capital Work in Progress of Nugegoda, Negombo, and Galle branches as at 31 December 2020 were Rs.215,834,467, Rs.29,970, 666 and Rs.77,226,400 respectively. However, as per	There were some entries migrated from previous version of the Pronto system in 2016. It found that certain job entries were duplicated in the job costing module. This might be the reason for this gap. IT department is investigating about this matter with the Pronto system service provider.	Take necessary actions to resolve the issue in the system.

	the report of capital jobs in progress, the aforesaid balances were Rs.237,329,923, Rs.35,308,618, and Rs.65,301,260 respectively. Accordingly, there were differences of Rs.21,495,456, Rs.5,337,952 and Rs.11,925,140 between balances respectively.		
(iii)	There was a difference of Rs. 13,548,574.00 in respect of debtors balance shown in the financial statements and the Billing system as at 31 December 2020.	Noted the comment. This balance appears in the PRONTO with the system migration in year 2016. The matter will be discussed at the Audit Committee Meeting and rectifications will be done accordingly.	Take necessary actions to rectify the said matter.
(iv)	Interest income on term deposits and fixed deposit had not been recognized in the year under review. As a result, the value of other financial assets interest income shown in the financial statements as at 31 December 2020 had been understated by Rs.136,806,661 and by Rs.67,972,005 respectively.	Noted and will do the necessary adjustments during the year 2021	Take necessary actions to identify all interest income relevant to the accounting period.
(v)	Cash deposit amounting to Rs.5,997,445 made on 31 December 2020 by the Nugegoda branch had been recognized as bank overdraft in financial statements of the year under review.	This was rectified in the books of account in March 2021.	Take necessary actions to rectify the said matter.
(vi)	According to the financial statements, the balances of right of use assets as at 31 December 2020 were Rs.164,892,477. Even though, as per the right of use asset schedule, the aforesaid balances were Rs.154,739,719. Accordingly, Right of use assets had been overstated by Rs.10,152,759.	These RoU and Borrowing Liability were created according to the rent agreement signed for lands & buildings obtained by LECO for monthly rent basis. This calculation gap is arose due to the difference of expected lease period estimate is different from current year to last year and as a result of that differences of net present value. We will revisit the calculations in the year 2021 and do the relevant adjustments in the books of account.	Take necessary actions to rectify the said matter.

(vii)	Income tax expenses of Ante Leco Metering Company (Private) Limited of the year under review was Rs.6,092,227. However, it had not been considered in preparing consolidated financial statements of the year under review.	Noted the comment and do necessary adjustments in the year 2021, if required.	Take necessary actions to rectify the said matter.
(viii)	Depreciation on Right of Use Assets amounting to Rs.48,719,696 had been included under the inventory. As a result, the profit of the year under review has been overstated by similar amount.	Accounting entries relating to RoU Assets depreciation were posted to relevant G/L accounts correctly. However when preparing Financial Statements manually, these GL codes were erroneously mapped to the inventory balance. We will rectify this error in 2021.	Take necessary actions to rectify the said matter.
(ix)	Interest received on security deposit for the first quarter of the year 2020 amounting to Rs.8,703,024 had been erroneously recorded under the interest receivable on investments. As a result, the interest income of the year under review had been understated by similar amount.	Necessary adjustments will be made in year 2021.	Take necessary actions to rectify the said matter.
(x)	It was unable to obtain share certificate or any other sufficient appropriate audit evidence in respect of the investment amounting to Rs 5,000,000 made on ordinary shares of the Lanka Broad Band Network (Private) Limited as at 31 December 2020.	LECO is seeking legal advices from Attorney General Department to recover this balance since the share certificates relating to the investment were not given by the company though several requests were made.	Take necessary actions to obtain the share certificate or recover the said balance.

1.5.7 Going Concern of the Subsidiaries

Audit Issue	Management Comment	Recommendation
The auditor of the Trincomalee Power Company Limited (TPCL) has emphasized the following matter on its financial statements.	The Cabinet approval was given to develop 50 MW solar power and 500 MW LNG plants in May 2018. It has been decided to develop 50 MW solar power plant by	Take necessary actions to implement the proposed projects.

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 during the financial year 2016 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, 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.

TPCL at the land allocated for coal power plant at Sampur. Further to develop 500 MW LNG power plant at Kerawalapitiya by a new company formed with 50:50 shares by NTPC and CEB.

The said matter was continuously discussed in the Board Meetings of TPCL held during the past periods and the Board decided to amend the articles of association of TPCL in order to implement the solar power project by TPCL and the Board will take necessary actions to sign joint venture agreement between CEB and NTPC during 2021 in order to commence the development of solar power. However required legal clearance should be taken from Attorney General before signing the JV agreement.

After series of discussions between CEB and NTPC both parties have signed joint venture agreement on 25th October 2019 to develop the LNG power plant in Kerawalapitiya. Further Attorney Generals clearance received for the Articles of Association in July 2021.

Progress of discussions are on hold as of today due to impact of COVID 19. However Board of TPCL is in the opinion that steps will be taken to implement the proposed projects during future periods.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Out of trade debtor balance of Rs.42,358 million as at 31 December 2020, a balance of Rs.5,122 million relating to both ordinary and bulk supplies had remained outstanding for over one year and out of them Rs.2,671 million had remained unrecovered for more than five years.	When the trade debtors balance was analysed 88% of the Trade debtors balance is aged less than one year and only 12% is outstanding for over one year. Out of the over one year balance 52% of the balance is over five years and it amounts to 6% of the total debtors. This indicates that all Distribution Divisions take continuous effort to follow up the recovery of the trade debtors. However, when the over one year debtors' balance was further analysed, it is noted that more than 55% of the balance comprise of Finalized Debtors and continues effort is being taken to collect the long outstanding balances.	Take immediate actions to recover the outstanding balances.
(b) Sundry debtor balances aggregating Rs.7,135,654,703 had remained unrecovered for more than one year as at 31 December 2020.	The sundry debtors balance mainly consists of the following balances	Take necessary actions to recover or clear the outstanding balances.

Nature of the balance	Amount (Rs.)	Reasons and further actions taken
ESC Receivable	3,914,723,821	The Rs. 1,573,231,409 of ESC receivable represent the ESC write offs which were supposed to be written off to the Financial Statements for the Year 2019 and 2020. The respective board paper was submitted in the year 2019 seeking

approval for the write off. However, CEB Audit Committee recommendation was not to write off these ESC balance but to look at any alternatives to recover or set off this balances against any other payables by referring this matter to Ministry of Power and to General Treasury.

The ESC burden on CEB due to time bar limitation to three years was already been informed to General Treasury as part of National Budget Proposals 2018 and it was again informed to General Treasury through the Ministry of Power in year 2020 as part of a tax relief. However, time bar of the remaining ESC balance of Rs. 2,341,492,412

		has not been elapsed.
WHT Receivable	149,252,278	The Rs.149,252,278 represents Withholding (WHT) and Notional Tax receivables from Year 2016. These balances are included as WHT and Notional Tax refunds in the respective income tax returns. The income tax files are not yet finalized by the Department of Inland Revenue and have requested relevant supporting documents including WHT certificate sand Notional Tax Declaration of the Auditors.
AES Kelanitissa	1,368,961,445	A meeting is to be arranged by the Ministry of Power with the representatives from CEB, CPC, Treasury and the Ministry of power to resolve this long outstanding disputed balance.

Sustainable Energy Authority	897,025,999	According to the committee report issued based on the investigation carried out, it has been recommended to write off this balance from the books of accounts. Hence, actions will be taken for the same.
Removed Transformers	497,144,445	Actions will be taken to investigate the reasons and clear the balance appropriately.

(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 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 cabinet committee had been appointed and the final report 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.	Take necessary actions to recover the due balances.
(d) A sum of Rs.115,093,276 shown under Government institution receivable for the supply of Lift, air conditioner and power Generators of Asset management division is remained without being recovered for more than five years.	The series of actions that have been taken by the management to recover the overdue receivables from Government Institutions, have been much elaborated above in my answer to the query No.1.2.3(e) and the same answer is applicable to this query as well. However, to overcome the issues reported in the previous years, in 2018, the Addl.GM(AM), has issued guidelines to implement sound internal controls especially on cost recovery jobs of Government Institutions, and accordingly, the undertaking	Take necessary actions to recover the outstanding balances and recover receivables at the time of transaction taken place.

	of cost recovery jobs and money receivable from the clients will be monitored on a regular basis.	
(e) Staff loan amount of Rs.3,835,654 had been remained in Distribution Division 01 without being recovered.	Out of the total balance in the query Rs. 622,684.25 relates to employees who have resigned or vacated from post. Hence, the loan balance has been informed to EPF Branch to recover from their EPF balance. Further, an employee who had a loan balance of Rs. 1,049,150 had been on overseas leave and returned to work since year 2021 and the respective balance has been sent to the payroll unit to recovery from his salary.	Take necessary actions to recover the outstanding balances.
(f) An amount of Rs.16,995,630 is remained more than four years without being recovered from sacred places of Distribution Division 1.	The above balance includes the temporary illumination jobs carried out in North Central Province at the request of the District Secretariat for various religious functions such as PosonCeremony, DaladaPeraharaand PichchamalPooja etc. Total receivable from 2012-2015 was Rs. 19,995,630 and District Secretariat has paid Rs 3 Mn up to 2014 June. The balance remained unsettled since then and the District Secretariat has been requested to settle the same where no satisfactory solution is given.	Take further actions to recover the outstanding balances.

1.6.2 Payables

Audit Issue	Management Comment			Recommendation
(a) The following credit balances aggregating Rs.4,306,803,673 had remained unsettled for long period as at 31 December 2020.	**Name of Creditor**	**Amount**	**Reply**	Take necessary actions to settle the liabilities.
		Rs.		
	Custom	1,065,828	The demurrage payment in 2017/18 season of Rs. 1,065,828.00 has not been approved by Lakvijaya demurrage payment committee until 31st December 2020. This amount will be paid once approval of Lakvijaya demurrage payment committee is received.	

Name of Creditor	Amount Rs.
Custom	1,065,828
China machinery Engineering Corporation	3,034,971,432
Deemed dividend tax payable	1,270,766,413

		China machinery Engineering Corporation	3,034,971,432	Operation & Maintenance Fee to CMEC has been paid for the year 2014,2015,2016 & 2017 by instalments based on Cabinet approval. Rs.4,195,528,596.54 appears in financial statements includes Operation & Maintenance fee payable for the year 2017,2018,2019 &2020. CEB pays only USD 1 million per month due to present adverse financial situation.
		Deemed dividend tax payable	1,270,766,413	The deemed dividend tax payable amount of Rs.1,270,766,413 represent the unsettled liability of deemed dividend tax for the Y/A 2013/2014 which is due to set off against the deemed dividend tax refund requested for the Y/A 2009/2010 and 2010/2011. The refund requests have not been finalized yet by the Department of Inland Revenue in order to set off this liability in the accounts.
(b)	The amount of Rs.2.9 billion payable to the Northern Power Company (Pvt) Ltd is remained as trade creditors of Transmission Division without being settling more than two year.	The Northern Power Plant has been shut down since 2015-01-27 due to a stay order issued by the Magistrate Court of Mallakam. However, the company has issued monthly invoices for capacity charges declaring this as a Force Majeure situation. CEB has accounted these invoice values as payable since the Court decision was pending. The Supreme Court has ruled that power plant has been operated violating the environmental law, therefore CEB does not have a liability to settle these invoices.		Take necessary actions to write-off the said amount.

		Necessary actions will be taken in due course to write-off these amounts.	

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 7(1) and 43(1) of SriLanka Electricity Act No.20 of 2009 as amended	Without authorization of the regulator, Energy of 732.192 Gwh valued at Rs.18.91 billion had been purchased during the year under review from the three Independent Power Producers (IPPs) who haven't obtained generation license.	There are no any legal impediments from sections 7(1) or 43(1) of Sri Lanka Electricity (Amended) Act, No. 20 of 2009 (Electricity Act), for Transmission Licensee to purchase electrical energy from retired IPP power plants. CEB had requested the approval of PUCSL to extend the expired Power Purchase Agreements (PPA) of these three retired IPP power plants and submitted the extended PPAs for their approval. CEB had to extend the PPAs of these power plants to comply with the duty of CEB (as the holder of Transmission license) under section 24(1)(c) of the Electricity Act to ensure that there is sufficient generation capacity to meet forecasted demand for electricity. CEB had done so with the approval of the Cabinet to avoid power cuts.	Comply with the requirements of the said provisions in the Act.
(b) Section 7 (1) Section 43 (2), and 43 (7) of Sri Lanka Electricity Act, no. 20 of 2009 as amended.	Without approval for the PPAs, additional power capacity of 100 MW from power producers whose generation licence was not granted had been purchased for the six months during the year 2019. It had been extended for further 6 months since February 2020. Energy of 78.669 GW valued at Rs.3.26 billion had been purchased during the year under review.	Both Cabinet and PUCSL granted principal approval for CEB to purchase 100 MW of supplementary electrical power during the year 2019. CEB followed the due procurement process as per NPA guidelines and continued with the procurement and once the procurement process was over, and all due approvals as required under government tender procedure was obtained, submitted to PUCSL the draft PPA to be signed as required under section 43 for its approval. In order to comply with the duty of CEB (as the holder of Transmission license) under section 24(1)(c) of the SLEA to ensure that there is sufficient generation capacity to meet forecasted demand for electricity, CEB with the approval of the Cabinet, went	Comply with the requirements of the said provisions in the Act.

			ahead with the procurement. Similarly, for year 2020 both Cabinet and PUCSL granted principle approval to extend the PPAs signed under above procurement for additional six months. After following the due process of obtaining the Cabinet approval, the draft PPAs were submitted for PUCSL approval.	
(c)	Ceylon Electricity Board Act, No. 17 of 1969 Section 46 and Section 11(a) and (b) of Part II of the Finance Act, No. 38 of 1971	CEB had invested only Rs.8,996 million as at 31 December 2020 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 invest equal of 0.1% of the gross fixed assets in insurance reserve investment account once the CEB Liquidity position and cash flows are improved.	Comply with the requirements of the said provisions in the Acts.
(d)	Section 9.4 of the PED circular No.12 issued by Department of Public enterprise.	Contrary to the provision, the Board had paid a sum of Rs.79.13 million during the year under review as salary and other payments to the 56 employees who were released for the line ministry and CEB Provident Fund.	<u>Releasing of Employees to the Line Ministry</u> 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 <u>Releasing Employees to Provident Fund</u> According to the clause No. 20 (i) of the Provident Fund Rules gazette on 31st December 2003, all Administrative Expenses of the Fund, except for expenses related to inspection of Housing Loans, are being borne by CEB and this policy was in place from the inception of the Fund (from 1st November 1969) therefore the expenses incurred by CEB on behalf of Provident Fund are not recorded in the Financial Statements of the Fund. Further, having presented this matter in the Management Committee of the CEB Provident Fund (being the governing body established in the gazette), the Committee decided, at the meeting held on 11th February 2021, to continue the present	Comply with the requirements of the said provision in the circular.

			practice of incurring Management and Administrative Expenses of the Fund by the Board and the Board also approved to continue the present policy of incurring Management and Administrative Expenses of the Fund by the Board.	
(e)	PED Circular No 95 dated 14 June 1994 issued by Department of Public Enterprises and Decision taken on 25 September 2020 in Audit committee of Ministry.	Contrary to the provision and the decision, the amount of Rs.1.2 billion had been paid as leave encashment in the year 2020.	With the approval of the Board, the CEB has been paid to incentive payment for unutilized sick leave for its employees since 1984. Board approval was granted in 2006 to continue this scheme for years to come until the Board decides to change otherwise.	Comply with the said provision and the decision.
(f)	Section 47 of Employee Provident act No.15 of 1958.	Contrary to the provision, CEB had considered highest allowance from Exodus Allowance, postgraduate degree allowance and professional allowance/ Semi professional allowance when computing the earnings.	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. Accordingly, highest allowance was considered for calculation of EPF payment on behalf of the employee.	Comply with the requirements of the said provision in the Act.
(g)	Section 6.1.3 of the Power purchase agreement entered with West Coast Power (Pvt)	The electrical energy supplied by the CEB to the company at 220kv shall be at the cost of power charged by the company to the CEB at the time of	The provisions given in the PPAs and CEB's application of tariff with respect to the import energy have been ambiguous in most of the IPP thermal power plants where the connected voltage is above 33kV. Therefore, a comprehensive investigation shall be conducted and recommendation of	Take necessary actions to rectify the said matter.

	Ltd on 10 January 2007	such supply if there are no terms and conditions applicable to the supply of electrical energy at 220kv by the CEB to the CEB's Industrial consumers at the time of the such supply. Contrary to the provision, the CEB considered only energy charge to compute the rate of the electrical energy supplied by the CEB to the company without considering the capacity charge and the other charges.	an expert committee is necessary to regularize this issue.	
(h)	Decision of Cabinet of Ministers dated 18 September 2018	CEB has failed to implement the decision of Cabinet of Ministers on the utilization of standby Generators owned by Government entities.	The above decision has not yet been implemented due to various reasons	Implement the decision of Cabinet of Ministers.
(i)	Section 24 (1) (c) of Sri Lanka Electricity Act, no. 20 of 2009 as amended.	CEB (transmission licensee) has failed to ensure that there is sufficient capacity from generation plant to meet reasonable forecast demand for electricity due to power plants are not commissioned as per the Long Term Generation Expansion Plan and thermal power are purchased on short term basis.	CEB's Long Term Generation Expansion Plans (LTGEP)s contain the short term, medium term and long term power capacity requirement for the 20 years. Thus, even the short term capacity requirement of the immediate few years too is indicated in LTGEPs, either in the base case or under contingency analysis. When long term, low cost power plants are not developed as anticipated on time, (for which there are numerous reasons, most of which are beyond the control of CEB), CEB is compelled to procure short term supplementary capacity to avoid ensuing shortfall and to comply to the duty of CEB (as the holder of Transmission license) under section 24(1)(c) of the Electricity Act to ensure that there is sufficient generation capacity to meet forecasted demand for electricity.	Implement the least cost LTGEP to comply with the said provision.

	Thus, the said procurement is made to comply to section 24(1)(c) and hence is not a violation of the same.	

1.8 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
The Cabinet of Ministers had 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)/ Advanced Personal Income Tax (APIT) tax liability to employees. However, the CEB had paid the PAYE tax/ Advanced Personal Income Tax (APIT) amounting to Rs.4.98 billion from its owned fund without deducting it from the salaries of the respective employees during the period from 2010 to 2020 in contravening to the above decisions taken by the Cabinet of Ministers and circular no. 3/2016 issued by the Department of Public Enterprises. The amount so paid during the year under review was Rs.57.04 million including tax on tax charge amounting to Rs.5.48 million.	From November 2020 onwards, the Advance Personal Income tax (APIT) is paid by employees of CEB.	Comply with the cabinet decision and circular continually.

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. 53,831 million as compared with the pre-tax loss of Rs.97,319 million for the preceding year, thus indicating an increase of the financial results of the year under review by Rs. 43,488 million. Decrement of cost of fuel, coal and power purchases by 43 per cent, 8 per cent and 9 per cent respectively due to increase the generation of hydropower by 3 per cent and decrement of operational and maintenance expenses of Divisions by 23 per cent were main reasons for this growth. Further, extraction of demand and decrease in fuel and coal prices are also affected for this growth.

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. 73,895 million was Rs. 101,054 million and it had decreased by Rs. 12,699 million or 11 per cent as compared with the previous year.

2.2 Trend Analysis

(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 2020 as compared with the previous year is given below.

Source	**2020**	**2019**	**Increase/(Decrease)**	
	GWh	**GWh**	**GWh**	**%**
Hydro	4,958	4,795	163	3
Thermal	4,179	5,012	(833)	17
Coal	5,754	5,361	393	7
Wind	332	348	(16)	5
Other Non-Conventional Renewable Energy	218	220	(2)	1
Rooftop Solar	269	182	87	48
Small islands	**3**	**4**	**(1)**	**25**
Total	**15,713**	**15,922**	**(210)**	**1**

Accordingly Hydro, coal, and rooftop solar during the year under review had been increased by 3 per cent, 7 per cent and 48 per cent respectively while decreasing of Thermal, Wind and other Non-Conventional Renewable Energy generation by 17 per cent, 5 per cent and 1 Per cent respectively due to the favorable whether condition in the country.

(ii) **Direct Cost**

A source wise analysis of direct cost of the year 2020 as compared with previous year is given below.

Description	**2020**		**2019**	
	Rs. million	**Percentage**	**Rs. million**	**Percentage**
Fuel	30,195	11	53,238	17
Coal	42,805	16	46,566	14

Power Purchase	108,401	40	118,665	37
Operation and Maintenance	56,481	21	73,121	23
Depreciation	32,252	12	30,932	10
Direct cost	**270,134**	**100**	**322,522**	**100**

According to the above information, it was revealed that the hydro power generation had increased by 3 per cent and as a result of that cost of power purchases, coal and fuel cost for the year 2020 had decreased by Rs.10,264 million, Rs.3,761 million and 23,043 million or 9 per cent or 8 per cent and 43 per cent respectively as compared with the previous year while operational and maintenance cost of the project had decreased by 23 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.

2.3 Ratio Analysis

2.3.1 Working Capital Management

The Working Capital of the Group as at 31 December 2020 was reflected as a negative figure of Rs.59,370 million whereas the previous year negative balance was Rs.93,834 million. Hence, working capital of the year under review had been increased by 37 per cent as compared to the previous year.

2.3.2 Debt to Equity

Equity balance of the Group as at 31 December 2020 had been increased by Rs.19,936 million or 6 per cent as compared with the previous year. Further, 84 per cent or Rs.475,440 million of the total capital employed by the Group as at 31 December 2020 had been financed through borrowings. Further, the Debt to Equity Ratio of the Group had increased to 119 per cent in the year under review from 114 per cent in the previous year.

2.3.3 Profitability

The average cost per unit of the year under review was Rs.21.21 as compared with Rs 24.12 in the year 2019 and sold at an average price of Rs.16.72 per unit (previous year average selling price was Rs. 16.63 per unit). Accordingly, the average gross loss per unit of the year under review was Rs. 4.49 and it was 40 per cent decrease as compared with the previous year average gross loss of Rs 7.49 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)**	
	2020	**2019**
	Rs.	**Rs.**

Domestic	(6.35)	(9.16)
Religious	(13.99)	(15.98)
General Purpose	2.72	0.65
Hotel	(3.11)	(5.58)
Industrial	(6.37)	(8.57)
Government	(3.14)	(5.11)
Bulk Sup. to LECO	(5.18)	(10.67)
Street Lighting	(21.18)	(23.28)
Contribution (average gross loss)	(4.49)	(7.49)

When consider the total number of unit sold, the tariff category of General Purpose was only the positive contributor to the total contribution of the year under review and it also had increased by 318 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. Operating Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(a) As per the Long Term Generation Plan 2018-2037, Seethawa Ganga Hydropower Project should be commissioned by 2022. A project management unit (PMU) was established in September 2016 and carried out activities such as feasibility study, detailed design and preparation of the draft tender documents. Total cost of Rs.289 million had been incurred by the project at the end of the year 2020. However, the board had decided to windup the project activities of the board	CEB set up the PMU in year 2016 to carry out the Seethawaka Ganga Hydropower Project (SGHP) as a CEB owned generating facility with the intention that the loan finances to carry out the project will be provided to CEB by Government of Sri Lanka since CEB has no authority to secure finances on its own. Accordingly, the PMU engaged in the activities of undertaking the feasibility study, detailed design, seeking financier and preparation of draft tender documents etc. A sum of Rs.289 million has been expensed for these activities and obviously feasibility study (Technical and Financial) of a project is very key item. However, on 2020-07-09, CEB was informed by the Ministry of Power by way of its letter PE/DEV/02/171/ 2016 suggesting to consider the following two financing options. • Issuance of Green Bond to raise funds • To go for tenders on the basis of Build-Own-Operate and Transfer (BOOT) As a result, CEB was compelled to revisit the development model and to change the	Share all studies carried out to factor in to a lower bid price/ development cost.

	meeting held on 20 December 2020. Further, the board had decided developing the above project through the Sri Lanka Energies (pvt) Ltd and it was also decided to seek approval of the cabinet of ministers to award this contract as a " single source Procurement" to SLE at the board meeting held on 23 February 2021. Therefore it was observed that incurred cost of Rs.289 million for the project was remained as expenditure to CEB, if it is unable to share these studies.	development model from a CEB owned plant to a BOO plant and call for competitive tendering. CEB proposal was to share all studies carried out, including the feasibility study, EIA, all Test reports, designs etc. with prospective bidders (or developers) so that such studies assist bidders (developers) to lower their risk levels and thus to be factored in to a lower bid price/ development cost. Thus, part of costs incurred for studies were expected to be returned to CEB by way of lower tariffs (whoever is the final project developer).	
(b)	Sum to Rs.18.83 million had been spent for opening ceremony of Mannar Wind power Generation Project even budgeted amount was Rs.13 million. Approval of the Board had not been obtained for the exceeded amount. Even opening ceremony of this Project was held in December 2020, connection of Wind power to the National System was delayed till May 2021 due to delay in completion of Nadukuda Grid.	**Opening Ceremony of Mannar Wind Power** CEB has taken a strategic decision to develop Mannar Wind Power Project, the largest wind park in the country having 100 MW of capacity. As this is a massive Renewable Energy project which comes under the purview of the Government policy framework and CEB Corporate Goals, CEB Board requested General Manager, CEB to arrange media coverage to educate the public on this development work. In the latter part of 2020, CEB management decided to expedite the development process even with the COVID 19 pandemic situation. CEB management highly appreciated the commitment of the entire project team and decided to grid connect the part of the capacity of the project. Further, CEB was informed by the Ministry of Power to arrange the opening ceremony as a "State/National Ceremony" with the participation of Hon. Prime Minister as the Chief Guest. The budget was prepared on estimation basis since the location of the event; Mannar, Nadukuda is very far and remote, it was difficult	Incur expenses within budgetary allocation or amend the budget if required under the approval of the board.

to estimate the exact cost components for event management services. As the actual cost is more than the estimated cost for event management services, a submission was made to the Divisional Procurement Committee – Project Division with the actual cost incurred. The DPC approval was obtained on 23rd December 2020 for the actual amount of Rs. 9,674,887.86 incurred for event management services.
In addition to the above, Rs. 4.4Mn has been utilized from the Approved Budget 2020 of DGM (B&OS) and AGM (Projects) to create awareness of general public on CEB development activities/current affairs etc.
Hence, the cost for the opening ceremony of Wind Power Plant was incurred with necessary budgetary approvals.

Delay in completion of Nadukuda Grid
Construction of Nadukuda Grid Substation is a totally separate contract funded by an ADB Loan. As per the contractual proceedings, the contract completion date is 15.04.2021. Accordingly, it was completed by 15.04.2021 and hence there is no any contractual delay therein.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Even though a quantity of 51,439.64 MT valued at Rs. 1,044,791,162 has been identified as deficit of the coal stock as at 16 October 2020, a physical verification had not been carried out by the Board of survey team as at 31 December 2020. However, the quantity of 51,439.64 MT valued at Rs.1,044,791,162 had been adjusted to income statement as shortage of coal stock as at 31 December 2020. Hence it was unable to verify the accuracy of the coal stock	A physical verification had been carried out as per CEB General Manager's circular No. 2020/GM/42/FM dated on 3rd September 2020; Quote; "Verification of coal stock in Lakvijaya power plant and spare parts in generation and transmission divisions should be carried out in most appropriate and convenient time as decided by the respective Division and Branch Heads." Unquote. The aforementioned Stock adjustment has been cleared off from the books of accounts as per the board approval and necessary committee reports. Any	Establish the procedure to measure the stock at the receipt and conduct a physical verification at the end of the year.

	value at Rs.9,991,897,000 available as at 31 December 2020. Further, the amount of Rs.3,207,727,326 remained as coal stock shortage and the amount of Rs.1,301,433,359 remained as coal surplus up to 31 December 2019 had been charged to retained earnings on the board decision on 06 October 2020.	remaining will be cleared during the year 2021.	
(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 with them.	**<u>Agreement with LECO</u>** The progress made on this matter is given below. • A committee with the participation of higher ranking officers of both CEB and LECO has prepared a draft agreement and has sought Attorney General's (AG) opinion on the same. • The committee has made required amendments as per AG's opinion and has submitted " Final Power Sales Agreement" to AGM (Transmission). • General Manager, CEB has written to General Manager, LECO regarding some endorsements made by 03 officers of LECO on the report furnished by the committee. On the same letter, GM CEB has suggested to take this matter at a Board meeting of LECO. Regarding the endorsements made by 03 officers of LECO on the report furnished by the committee, please refer the details given bellow. Please refer letter dated 28th January attached, and the minutes of the GM, CEB dated 30 January 2020 on the same accordingly, GM, CEB has agreed in principal to the recommendations therein. Further, Distribution Coordination Committee (DCC), CEB has appointed a committee to prepare a roadmap for the handing over 33kV injection points and	Enter into an agreement with those two parties in order to ensure the smooth operations with them.

		33kV/11kV primary substations dedicated to LECO power distribution before submission of the board paper. The said committee is processing the matter at present. With the competition of this task, long awaited issues of “Addressing the issue of LECO supply points owned by distribution licensees (DLs)” as minuted on the report of march 2015 by then Head of Operations LECO /MR.H.N Gunasegaram, Then Head of Engineering, LECO/Mr PSN De Silva and then CFO LECO/Mr WDAS Perera will be resolved, and will make way for signing the sales agreement. LECO has requested some action from PUSCL on this matter. **<u>Agreement with CPC</u>** The draft Fuel supply agreement with CPC is still under negotiation. There are certain matters to be agreed upon by both parties viz., CPC requests a 30 billion guarantee from CEB where treasury shall issue concurrence. Therefore agreement has not yet been finalized.	
(c)	A sum of Rs. 92,693,772 had been deducted by the lending agency in 2020 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 manner. However, the accuracy of the commitment charges cannot be verified due to non-availability of calculations.	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. However, out of the above balance Rs. 38,881,225.27 relating to 3 projects is not borne by CEB. Further, there is no commitment charge for Clean Energy Network Efficiency Improvement Project for the year 2020.	Implement project activities as planned to avoid additional commitment charges.
(d)	According to the Long Term Generation Expansion Plan 2018 – 2037, new generation of 500 MW, 657 MW and 430 MW were planned to implement in the year 2018, 2019 and 2020 respectively. However, power plants aggregating capacity of 381.85 MW out of the planned	Even though CEB prepare Long Term Generation Expansion Plans, CEB do not have the authority on its own to carry out the development of such plants identified in the LTGEPs. CEB is heavily dependent on other agencies and are governed by the Rules and Guidelines of other institutions such as "Electricity (Procurement) Rules No. 02 of 2016" published by the PUCSL	Expedite commissioning of power plants as per the Least Cost Long Term Generation Expansion Plan to achieve least cost objectives.

new addition capacity of 1587 MW had been only commissioned. Therefore, Progress of implementing new generation plants was significantly low and objective of the plan to produce least cost power supply was not achieved. As a result of that, quantity of 811 Gwh valued at Rs.22.2 billion had been purchased as emergency power during the year under review.

and Government Procurement Guidelines. Some of these processes are overlapping too.

For example, as per section 2(xi) of Electricity (Procurement) Rules No. 02 of 2016 published by the Commission, CEB is required to submit the draft Request for Proposal (RFP) (among many other documents) to the Commission to get the preliminary approval as required under section 43(2) of the Electricity Act before proceeding with procuring generating capacity. However, the same RFP document is required to be submitted to a procurement committee (often a SCAPC) appointed pursuant to National Procurement Guidelines for approval. When either PUCSL approved RFP is changed by SCAPC or SCAPC approved document is changed by PUCSL, again, the document needs to go through a review process and be submitted to either entity for approval.

CHANGING OF POLICIES AND ATTRIBUTES

Further, regularly changing policies, ordering to change key attributes of ongoing power procurement in mid-way (such as changing technology, location, ownership model from BOO to BOT, capacity), and complete cancellation of a power project at a very mature stage, can cause the procurement to move significantly backwards by months and years.

LACK OF FINANCES

There are also delays to secure finances (as shown in the case of Seetawaka Ganga HP mentioned elsewhere in the report).

Under section 38 of the Ceylon Electricity Board Act, No. 17 of 1969, Board was given authority to ensure that revenue of the Board is sufficient to (also) meet a reasonable proportion of the cost of development of services of the Board. However, the "tool" that was available with CEB (under Part V of the CEB Act)

		to secure such finances, namely powers to set tariffs and charges, was taken off from CEB in 2009 and was given to PUCSL by Sri Lanka Electricity Act. Since then, CEB was unable to carry out any development work out of its own funds due to not being given a cost reflective tariff. Further, due to other government circulars and Acts, all requests of funds from lending agencies need to be channeled via Department of External Resources. Due to constraints in the government fiscal space, both transmission and generation projects can get delayed at such stages due to lack of finances.	
(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 with delay of 3 years. However, formal investigation had not been conducted against the officer who was responsible for the shortage amount of Rs.2,510,056 even up to the date of this report. Further amount of Rs. 31,257,161 had been adjusted in ledger accounts in the year 2020 against the amount of Rs.39,551,696 which a court case (Case no B/1164/15) had been filed against in Magestrict Court, Trincomalee by the Criminal Investigation Department in 2015 by mentioning that goods were received after 6 years. However no any actions had been taken against persons who are responsible for the delay of this stock and opportunity cost of the delayed project.	**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 (PE 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/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. Further to this, AGM (DD1) has instructed to recover the shortage by letter No. AGM(DD1)/DGM(C&C)/HRO/DD1/162 dated 2020-09-03 by 180 installments subject to the formal inquiry decision. **Stock Shortage of Rs. 31,257,161**	Conduct the formal investigation against the officer who was responsible for the stock shortage and complete the disciplinary action taken against person who is responsible for the delay of the stock within considerable time.

	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. 28,331,000.00 including the 25% Board charges due from this company to CEB for acquiring payments totaling to Rs. 22,584,800.00 fraudulently without delivering the materials. In addition, further verification of stock materials was 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. 8.30Mn. after made some adjustments. Currently, internal inquiry has been finalized and accordingly disciplinary action will be taken against the store keeper Mr. U. P. Uadara Gunarathne (P. F. No. 37475). Furthermore, the court case No. B/1164/15 is pending at Magistrate Courts, Trincomalee. Disciplinary action is in progress.	
(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 from 20 November 2006 to 20 February 2012, in Asset Management Division (Power Plant) even the formal investigation was completed. Further, the same employee had committed a fraud in another office of the CEB and his duty had been terminated after recovering only Rs. 99,155 as the value of the fraud without considering the prior fraud.	The CEB has sought Attorney General's opinion on litigation and the meeting was postponed due to prevailing Covid-19 situation in the country.	Take necessary actions to recover the loss and if any fraud was occurred, conduct investigation within a reasonable time period and take disciplinary action immediately on investigation report to avoid losses to CEB.
(g) An officer who was 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	In the audit report, the stock shortage is mentioned as Rs. 3,789,893.00. However, the Committee appointed in the year 2010 to investigate the stock variance, had recommended the stock shortage amount as Rs. 1,953,484.15.	Take necessary actions to recover the loss and if any fraud was occurred, conduct investigation within considerable time

	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 was allowed to retire the defaulter.	Mr. Samarasinghe has retired on 2011-10-15 after reaching the age of 60 years. Actions were taken at his retirement to stop the pension and gratuity payment till a decision on stock shortage issue is finalized. A committee comprising of 03 DGMM has been appointed to inquire the non-recovery of stock shortage. The committee report has been submitted recently and the process of obtaining approval for the recommendation by the committee is in progress for implementation.	period and take disciplinary action immediately on investigation report to avoid losses to CEB.
(h)	The some provinces had used one control account for all debtors' transactions even the system has reserved four separate control accounts for heavy and ordinary customers to recognise active and finalised debtor balances separately.	Most of the provinces have used sub account codes under A 3600 which enables to identify the balances separately.	Use separate control accounts to recognize active and finalized debtor balances separately.
(i)	The board had not taken necessary action to acquire the right of dams which valued at Rs. 62,951,457,952 properly.	The value shown in the report represented follows, Power Station — Asset Value Victoria Power Station — 14,412,751,075.25 Kothmale Power Station — 22,087,081,294.30 Ukuwela Power Station — 2,581,412,890.05 Bowathenna Power Station — 1,968,826,674.74 Randenigala&Rantambe Power Stations — 21,901,386,018.15 Total — 62,951,457,952.49 All the other dams relating to above mentioned power plants are operated, maintained, and managed by Mahaweli Authority of Sri Lanka by its act. However, the Board has acquired only the waterway up to the power intake at the reservoirs and those are fully operated,	Take necessary actions to acquire the right of dams.

	maintained and managed by the relevant power stations.	
(j) The amount of Rs.1 million had been transferred to the depreciation reserve which is established under section 47 (2) (a) of Ceylon Electricity Board act No.17 of 1969 without obtaining approval of the Board and without the proper basis.	In 2020, Rs. 1Million was transferred to Depreciation Reserve and it will be continuing every year in complying with CEB Act. No 17 of 1969 Section 47(2)(a). The balance of the depreciation reserve is Rs. 25Mn as at 31.12.2020. From 2021, action has been taken to obtain board approval from next year onwards, if required.	Obtain board approval to transfer the money to the depreciation reserve.
(k) The amount of Rs.1,222,713,673 had been transferred to the Self Insurance reserve which is established under section 47 (1) (a) of Ceylon Electricity Board act No.17 of 1969 without obtaining approval of the Board and without the proper basis.	In 2020, 0.1% from gross fixed assets was transferred to self-insurance Reserve and it will be continuing every year in complying with CEB Act. No 17 of 1969 Section 47(1)(a). From 2021, action has been taken to obtain board approval from next year onwards if required.	Obtain board approval to transfer the money to the insurance reserve.
(l) Not taking actions to expedite the survey, valuation and protection of lands of the CEB scattered Island wide.	Actions are being taken to expedite the survey and valuation of CEB lands. According to the progress of survey and valuation of CEB lands as at 2021-08-26, additional 1,300 lands have been identified and valuations are in progress.	Expedite the survey and valuation process of the lands of the CEB.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs.2,667,400,265 representing 10 per cent of the total consumable stock of Rs.26,751,970,000 had been shown in financial statements as slow moving, non-moving and damaged stock as at 31 December 2020. Maintaining this much of non-moving and slow moving stock may cause to increase damages, cost of holding and fraud etc.	Actions have been taken to dispose the slow moving, non-moving and obsolete stocks through appointing committees, board of survey and obtaining board approvals. Accordingly, Distribution Division 2 has already obtained Board Approval to dispose Rs. 38,947,687.46 worth of slow moving stocks.	Take remedial actions to reduce the nonmoving and slow moving stocks to avoid the damages, cost of holding and fraud etc.
(b) Only 16 activities out of the 76 activities of the Action plan had been achieved by the	Although financial progress shown in activity plan is only 16, the activities stated in the plan are in progress.	Expedite completing the activities stated in the plan.

	Generation Division during the year under review.		
(c)	Even though Minimum Guaranteed Energy Amount (MGEA) relating to PPA entered with ACE Power Embilipitiya (Pvt) Ltd is 697,674,432 kwh per year, energy delivered during the year under review was 475,831,835 kwh under the per unit cost of Rs.24.42. Accordingly, energy of 221,842,597 kwh had not been obtained during the year under review. (Capacity charge on not obtained energy was paid). In addition to the power plant in Embilipitiya, PPAs for 20MW in Matara, 24 MW in Hambanthota and 24MW in Galle had been entered for supplying energy to the southern province on short term basis. Accordingly, aggregating energy of 130,526,364 kwh had been purchased from these plants at the aggregating cost of Rs. 4,069,542,205 during the year under review. Per unit cost of these plants were Rs.28.30, Rs.36.84 and Rs.39.52 respectively while average selling price is Rs.16.72. Therefore, excessive cost of energy purchase could have been reduced, if power plants were commissioned as per the Least Cost Long Term Generation Expansion Plan to cater the real time demand requirement instead of using emergency power plants at excessive cost.	It should be noted that power plants are dispatched as per the real time demand requirement based on its energy cost and hence it is not realistic to compare the generation dispatch with its MGEA since MGEA is considered only for capacity charge payments based on the plant availability. Thus there is no relationship with MGEA and real time energy dispatch. It is also to be noted that the said power plants of ACE Matara, Hambanthota and Galle supplementary power plants have been dispatched in addition to the ACE Embilipitiya plant to cater the real time demand requirement. Hence, CEB has always dispatched low cost ACE Embilipitiya plant over ACE Matara, Hambanthota and Galle supplementary power plants with high variable cost. Finally, all thermal plants have been dispatched based on the merit order to meet the Electricity demand of the country.	Commission the power plants as per the Least Cost Long Term Generation Expansion Plan to cater the real time demand requirement instead of using emergency power plants at excessive cost.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) As per the Electricity Act No. 20 of 2009 as amended, Non conventional renewable energy (NCRE) projects after the 6 August 2013 will have to follow procurement procedures instead of using the standardized tariff. However, only 7 procurements for NCRE projects aggregating capacity of 390 MW has been initiated up to 31 December 2020 and power plants aggregating capacity of 24 MW had been only commissioned as at 31 December 2020.	Seven bids have been initiated for procurement of energy from NCRE projects for a total capacity of 390MW. It is not correct to state that tender procedures shall be followed for the procurement of electrical energy after the 2013-08-06. In fact, tender procedure should have been followed for the procurement of electrical energy from 2009-04-08 (enactment date of the Electricity Act). However, there has been an element of ambiguity among the stakeholders of the industry on the viability of this approach. Therefore, the procurement of NCRE based electrical energy have been continued using a standardized tariff system until July 2017 when Hon. Attorney General has given his opinion (for the third time) that procurement of electrical energy shall be based on competitive bidding. However the status of the 6 bids is as follows • 10MW solar plant at Vaunathivu: Bid has been opened in September 2017, and the LOI has been issued in May 2018. Due to inability of the Developer to secure the land identified by SLSEA for development activity and to obtain the required clearances from relevant stakeholder institutions, even the PPA could not be signed by 31.12.2020. • 10MW Polonnaruwa solar plant. Bid has been opened in February 2017 and the LOI has been signed in September 2018. Due to the inability of the developer to secure the land identified by SLSEA for development activity and to obtain the required clearances from relevant stakeholder institutions, PPA could not be signed by 31.12.2020. • 1MW * 90 solar plant Bid. Bids were opened in April 2018, and awards were made to 84 companies during October 2018 to August 2019 on getting Cabinet of Ministers approval. Awards for 6 bids could not be awarded due to bid bonds being expired and	Expedite the procurement process for NCRE projects.

		not being extended by the bidders. Only 70 nos. of LOI s were issued (out of 84 awards) due to 14 bid bonds being forfeited. 35 Nos. of PPA s had been signed by 31.12.2020 rest of the developers were unable to submit the required clearances by 31.12.2020. • 10MW solar plant with Agriculture/farming. Bids were opened in May 2019, and the award was made in June 2020. Developer was unable to secure the required documents to sign the LOI within 31.12.2020. • 60MW wind plants in 1-10MW range. Bids were opened in March 2020 for the five Grid Substations. No bids were offered for Bolawatta and Kappalthurai Grid substations (GSS) resulting in 25MW being not offered. Cabinet approval to award 10MW at Trincomallee GSS was granted on 31.12.2020. 15MW offered for Mannar GSS was awaiting Cabinet of Ministers approval for awarding till 31.12.2020. 10MW offered at Madampe GSS was re-tendered in November 2020 and was pending bid closing as at 31.12.2020. • 150MW solar bid (1-10 MW range). Bidding was closed in July 2020. TEC evaluations were completed and submitted to SCAPC by October 2020. No decisions were delivered from Cabinet of Ministers till 31.12.2020. It is to be noted that, from March 2020, Covid 19 pandemic first outbreak occurred in the country and the second wave occurred in October 2020. This has resulted in most of the activities being blocked and caused delays in almost all the works.	
(b)	Request for proposals (RFP) were invited on 20 February 2017 for procuring 60 solar power plants with the capacity of each 1MW. 65 Bids were received only for 38 plants and Letter of Intent had been issued to 35 plants out of 36 successful bidders on rates ranging from Rs. 12.73 per Kwh to	This was the first ever tender published by CEB for the procurement of solar PV power plants through competitive bidding process after the enactment of Electricity Act on 2009-04-08. On top of that, government made a policy decision of limiting the maximum capacity of a plant to 1 MWp thus enabling a wider participation of small scale project proponents across the country who are new to the industry. Therefore, this endeavour has been a learning process for both CEB and projects proponents.	Expedite the commissioning of power plants.

	Rs. 18.37 per Kwh. Even though extended commissioning date of plants was on or before 31 December 2020, only 20 plants were commissioned as at 31 December 2020.	In addition, after issuing LOI on 2018-02-08, the following Force Majeure situation occurred in the country which severely affected the physical progress of projects. 1. The Board was not available from November 2018 to January 2019. 2. The Easter Sunday bomb attack crippled the country until end of 2019. 3. The occasional onset of several waves of Covid-19 pandemic globally since beginning of 2020 and subsequent introduction of lock down procedures locally since March 2020 to June 2021. Hence, with careful assessment of the situations, the Board has already granted time extensions to the milestone of Commercial Operation Date until 2021-06-30. As at 2021-06-30, 27 projects have been commissioned which has been an excellent achievement amidst the above referred situations.	
(c)	Rate for mini hydro plants on the avoided cost method for the year 2020 was Rs.19.51 for wet season and Rs.21.25 for dry season. Avoided cost method is based on the thermal plant dispatch and it is vary with fuel cost. Therefore, rate decided on the said method is no any relation to the actual cost of the mini hydro plant. It was observed that average unit cost of hydro should be less than Rs.10 and CEB hydro cost per unit was Rs.2.49. Further, it was exceeded the average unit sale price of Rs.16.72.	The Avoided Cost based tariff system was introduced at the beginning to attract the investors for emerging field of NCRE power plant development. Subsequently, the drawbacks of this system had been identified and a new tariff system identified as 'Cost Reflective, Technology Specific Three Tier Tariff' was introduced in the year 2008. Later, this system was also replaced by competitive bidding process where the tariff was decided by market forces.	Review the ability of changing the method or rate used for mini hydro plants which are currently operated under the avoided cost method.
(d)	Flat rate of Rs.23.10 for solar power plants was approved by the Cabinet of Ministers on 07.03.2014 as a standardized tariff. As per the Electricity Act No. 20 of 2009 as amended,	The competitive bidding has been specified for the procurement of electrical energy since 2009-04-08. Due to the ambiguities prevailed in the industry on this matter, the procurement of NCRE based electrical energy has been continued using the standardized tariff until 2017.	Follow procurement procedures for Non-Conventional Renewable Energy projects.

Non Conventional Renewable Energy projects after the 6 August 2013 will have to follow procurement procedures instead of using the standardized tariff. However, five solar power plants with the capacity of each 10 MW were commissioned in 2016 and 2017 under the said standardized tariff instead of using rates decided through the procurement procedures. (PPAs were signed in 2014). It was observed that rates decided through the procurement conducted in 2017 for new solar power plants (1MW x 60) were ranging from Rs.12.73 to Rs.18.37.		
(e) Standardized tariff which was approved by the Cabinet of Ministers on 07.03.2014 were applied for the projects on the Bio Gas Plant, Dendro Power Plants, Mini Hydro Plants and Wind Power Plants aggregating capacity of 135.62 MW which were commissioned after 6 August 2013 (PPAs were signed after 6 August 2013) instead of using rates decided through the procurement procedures.	It is not correct to state that tender procedures shall be followed for the procurement of electrical energy after the 2013-08-06. In fact, tender procedure should have been followed for the procurement of electrical energy from 2009-04-08 (enactment date of the Electricity Act). However, There has been an element of ambiguity among the stakeholders of the industry on the viability of this approach. Therefore, the procurement of NCRE based electrical energy have been continued using a standardized tariff system until July 2017 when Hon. Attorney General has given his opinion (for the third time) that procurement of electrical energy shall be based on competitive bidding.	Follow procurement procedures for Non-Conventional Renewable Energy projects.
(f) Cabinet of Ministers had given approval for five Municipal Solid Waste Plants to be implemented based on Waste to Energy technology at Rs.36.20 per Kwh (flat tariff for 20 years) in 2017 even	It is not correct to state that tender procedures shall be followed for the procurement of electrical energy after the 2013-08-06. In fact, tender procedure should have been followed for the procurement of electrical energy from 2009-04-08 (enactment date of the Electricity Act). However, There have been an element of ambiguity among the stakeholders of the	Follow procurement procedures for Non-Conventional Renewable Energy projects.

procurement procedure should be followed for Non-conventional renewable energy projects after 6 August 2013. One Municipal Solid Waste Plant was connected to the grid in December 2020. Total tariff of Rs.36.20 per Kwh is bear by CEB and Rs. 13.10 out of Rs. 36.20 should be reimbursed from Treasury as per cabinet decision.	industry on the viability of this approach. Therefore, the procurement of NCRE based electrical energy have been continued using a standardized tariff system until July 2017 when Hon. Attorney General has given his opinion (for the third time) that procurement of electrical energy shall be based on competitive bidding. In addition, CEB has complied with the Cabinet decisions dated 2017-10-10 and 2019-02-12 for signing PPAs for Colombo Waste to Energy (Municipal) Power Project respectively Thumbowila Karadiyana Waste (Municipal) Power Project. The balance portion of tariff paid to Western Power Company (Pvt.) Ltd has been invoiced to the General Treasury for reimbursement.

3.5 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 once it is finalized by the committee appointed for the same purpose.	Take immediate actions to develop the SOR and obtain approval from Management service department.
(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 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.	Include the required qualification and experience for the department head in the SOR.
(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	In order to accommodate the given recommendation, major structural change has to be done in CEB which is under discussion at the moment.	Include a clear promotion path for the employees who are externally recruited in the SOR.

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.		
(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 was 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 to the approval of the Board.	Obtain approval for the amended SOR immediately.
(e) The Chief Legal officer position which is the key position in the legal department is vacant from 03 June 2014.	The Board is decided to recruit a suitable CLO on external recruitment basis and at the moment relevant works are under progress.	Take necessary actions to fill the key posts to maintain operations of the organization effectively and efficiently.
(f) Post of Secretary to the Board of Directors which is important and confidential post is vacant from 08 July 2016 and no action had been taken to fill this vacancy by the Board.	The Secretary to the Board is directly responsible for administrating the activities of the Board. However, the Board did not grant a permission to recruit a Secretary to the Board externally.	Take necessary actions to fill the key posts to maintain operations of the organization effectively and efficiently.
(g) The post of Project Manager (ERP) has been vacant for more than 3 years from 29 May 2017 and is being holding by the Deputy General Manager of Western Province South 1 as an acting post.	The post of Project Director (Enterprise Resource Planning) was internally advertised in CEB in the year 2017. However there were no relevant applications for the post. Therefore, General Manager of CEB has appointed Mr. GADRP Seneviratne to cover up the duties of Project Director (Enterprise Resource Planning) for six month period with effect from 29th May 2017 in addition to his normal duties as Deputy General Manager (Western Province South 1).	Take necessary actions to fill the key posts to maintain operations of the organization effectively and efficiently.

	The design phase of the Enterprise Resource Planning Project commenced, in the month of June 2017 after the selection of M/s KPMG Sri Lanka as the consultants for the project on a competitive tender. During the design phase of the project, preparation of the Functional Requirement Specifications, Non- Functional Requirement Specifications, RFP documents were carried out. 1800 professionals of the CEB attended 80 Nos workshops to design the ERP system during the design phase of the project. 07 Nos Steering Committee Meeting, 65 Nos other meetings were also held during the above period. Subsequently the project team manage to obtain concessionary financing for the project through ADB. Subsequently tender procedure commenced and the tender process is still going on. Development of an ERP system is a complex process and the active participations of the stakeholders. The Leadership from the top management is an essential pre requisite for the successful completion of an ERP system. Giving the due concern to above facts and the progress of the fact that project is still in progress. The Board of Directors of the CEB in time has extended the period assigned to MR. GADRP Seneviratne to cover up the duties of the Project Director (ERP) post.	
(g) Instead of deploying the number of staff approved by the Board of Directors on behalf of the Asset Management Division, an additional 28 employees were attached to 04 posts as at 31 December 2020 by indicating management inefficiency when there are human resource shortages in other sectors.	13 Nos. of Technical Mates in Personnel Plan 2018 have been promoted to Skilled Technical Mate during 2018-2020. Number of Skilled Technical Mates in 2020-12-31 is increased due to this internal promotion. Promoted Skilled Technical Mates are doing similar type of work at their present workstations. Nos. of Technical Mates as at 2020-12-31 are less than that in Personnel Plan 2018 due to these internal promotions. 08 Nos. of employees who are in CEB Volleyball team were transferred from Personnel Branch to Security Unit of AM Division in 2020. They are in office employee category and due to this transfer, no. of office employees in AM Division has increased in	Take necessary actions to rectify the said matter.

	2020. 05 Nos. Data Entry Operators transferred to AM Division are covering the duties of vacant posts of Administrative Coordinators and Typist in AM Division.	
(h) It was observed that 1050 excess employees were attached to the 35 posts of Distribution Divisions 01, 02 and 04 and allocation of employees was not done in formal and effective manner due to existing shortage of such posts in other sections.	The matter will be analysed and reviewed by relevant Divisions. Accordingly, excess staff will be allocated to places where the staff shortage has identified. This will be carried out after detail analysis of relevant job categories.	Take necessary actions to rectify the said matter.