

Ceylon Electricity Board Pension Fund - 2021

1. Financial Statements

1.1 Opinion

The audit of financial statements of the Ceylon Electricity Board Pension Fund for the year ended 31 December 2021 comprising the statement of net assets available for benefits as at 31 December 2021 and the statement of changes in net assets available for benefits, the statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 14(1) of the extraordinary Gazette No. 1321/18 read in conjunction with provisions of National Audit Act No.19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Fund's financial reporting process.

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

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

Reference to Laws, Non-compliance Rules Regulations etc.	Management Comment	Recommendation	
<p>Pension Fund Regulations published in extraordinary gazette No. 1321/18 dated 31 December 2003</p>	<p>(i) The Fund had increased the pension payment by 15 per cent and 10 per cent in the year 2015 and the year under review respectively without obtaining the approval of the Labor Commissioner and Commissioner General of Inland Revenue and the amendments had not been published through a gazette notification up to 04 November 2022.</p>	<p>Increases in pension payments made in years 2015 and 2021 were approved by the Board of CEB in terms of amended rules 23.2, 23.3 & 23.4 as agreed to publish through a gazette notification. As per the request made by Ministry, On June 22nd, 2022, the legal draft of amended rules had been again forwarded to the Secretary of the Ministry of Power & Energy for the recommendation of Hon. Minister to publish in Gazette.</p>	<p>Should be complied with the Pension Fund Regulations, obtained proper approvals for amendments and make arrangements to legalize amendments to the Pension Fund rule.</p>
(a) Rule 18	<p>(ii) The Fund had increased the minimum all-inclusive monthly pension amount from Rs.10,000 to Rs.15,000 per month and increased the pension by 10 per cent for pensioners retired on or before 31</p>	<p>Pursuant to the Board Decision dated 28th January 2022 vide decision No. 22.04.46, The 10% increase of pension payment had been approved By the Board.</p> <p>Pursuant to the Board Decision dated 28th</p>	<p>Should obtain proper approval for amendments and legalize the amendments by publishing gazette notification.</p>

December 2020 with effect from 01 January 2021 in the year 2022 and the year under review respectively without obtaining the approval of the Labor Commissioner and Commissioner General of Inland Revenue and the amendments had not been published through a gazette notification up to 04 November 2022.

September 2021 vide decision No. 21.16.301, the increase of minimum all inclusive monthly pension had been approved by the Board.

(b) Rule 23.2

Even though allowance should not be paid from the Fund, a sum of Rs.123.5 million, Rs.132.7 million Rs.142 million and Rs. 150.7 million had been paid as medical allowances with the approval of Labor Commissioner and Commissioner General of Inland Revenue through the decision taken by Board of Directors of Ceylon Electricity Board for the year 2018, 2019, 2020 and 2021 respectively.

Medical allowance has been made to retired pensioners by Ceylon Electricity Board Pension Fund in the years 2018, 2019,2020 & 2021 in terms of amended rules 23.2, 23.3 & 23.4 of CEB Pension Fund approved by the Board of CEB as the trustee of the Pension Fund at its meeting held on 23-10-2013, subject to replacement of Rules 23.1 & 23.2 in the Extraordinary Gazette No. 1321/18 dated 31st December 2003. The amendments are pending at MOPE for publishing in the Gazette.

Should be complied with the Pension Fund Regulations and legalize the amendments by publishing gazette notification.

2. Financial Review

2.1 Financial Result

Net increase in the Fund after tax of the year under review amounted to Rs. 1,079 million and corresponding net increase in the Fund after tax amounted to Rs. 1,246 million. Therefore, deterioration amounting to 167 million of the financial result was observed. The reasons for deterioration are increase of pension payment and decrease of interest income during the year under review.

It is observed that there has been a deficit of Rs.14,226 million by showing an increase of 11.08 per cent as compared to the previous year deficit, in relation to the settlement of future liability of Rs.39,248 million, as at 31 December 2021. Further, it was observed that increments of pension benefits in contrary to provisions in pension rules such as increasing the salary level during the year 2021 and introduction of medical allowance had been caused to this deficit. However, Pension Fund had raised its net assets available by accounting above deficit as receivable from CEB.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are as follows.

Income/ Expenditure	2021	2020	Increase / (Decrease)	Percentage %
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	Rs.	Rs.	Rs.	
Investment income	1,688,122,252	2,212,307,093	(524,184,841)	(23.69)
Benefits paid to pensioners	3,001,802,123	2,670,843,390	330,958,733	12.39