

Ceylon Electricity Board Provident Fund - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Ceylon Electricity Board Provident Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of profit or loss and other comprehensive income, the statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statement, including material accounting policy 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 23(iii) of the extraordinary Gazette No. 1321/18 read in conjunction with provisions of National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Fund give a true and fair view of the financial position as at 31 December 2023, 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 Qualified Opinion

I expressed qualified opinion 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards (SLAS/SLFRS)

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per the Conceptual Framework for Financial Reporting published in the Sri Lanka Accounting Standards Bound Volume-2020, all the expenses and assets attributed to the reporting entity should be recognized and presented in the financial statements of the reporting entity. However, operating expenses amounting to Rs.54.44 million which was directly attributable to the Provident Fund for the year under review and eighty-one items of fixed assets amounting to Rs.6.73 million utilized by the Fund, had not been recognized in the financial statements for the year under review.	The reporting of the matter within the conceptual framework of financial reporting will be implemented in the ensuing financial year onwards.	Should be complied with the Sri Lanka Accounting Standards.
(b) The recoverability of the investment made in Entrust Securities PLC of which total receivable as per the financial statements including default interest is Rs.2,772.76 million is in doubt due to securities relating to the investments were not available under the name of the Fund in the Central Depository System. Further, that matter had been disclosed under the note 11.2 to the Financial Statements. However, an impairment provision of Rs.615.28 million had only been made in the financial statements at the end of	As litigation is going on the subject matter and an investment reserve has been created against any impairment loss on the said investment through the annual income statement of the Fund. As end of the end of 31st December 2022, the reserve was at Rs. 2,157,483,000.	-Do-

the year under review instead of making full provision in terms of the Section 5.5 of the Sri Lanka Accounting Standard on Financial Instruments (SLFRS 09) after analyzing the expected credit loss of the investment.

(c) As per the default tax report received from the Inland Revenue Department as at 31 December 2023, a sum of Rs.913.07 million should have been settled by the Fund as default tax interest on Corporate Income for the year of assessment 2018/2019. However, the Fund was not agreed with that and this dispute was not settled even up to the end of the year under review. Nevertheless, it had not been recognized or disclosed in the financial statements for the year under review in terms of the Section 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12).

The assessment has been issued by an oversight due to non updation the RAMIS of IRD and IRD was properly conveyed. Hence, no contingent liability and no requirement to disclose the nature of the contingent liability as per section 86 of the Sri Lanka Accounting standard on provisions, contingent liabilities and contingent assets (LKAS 37).

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(d) As per the letter sent by the Inland Revenue Department on 01 February 2022, the Fund was informed to register for Value Added Tax on the Supply of Financial Services in accordance with the Section 25A of the VAT Act, on or before 15 February 2022 and failure to register would compel to proceed with forced registration as specified in the provision to Subsection 3 of the Section 25A of the VAT Act. However, the Fund had not been registered for VAT on the Supply of Financial Services even up to the end of the year under review and this dispute had not been disclosed in the financial statements of the Fund for the year under review in terms of the Section 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12).

This has been referred to the senior Deputy Commissioner by AFMTM letter dated 21.02.2022 FM/AFMTM/DFM(Tax)/ Provident Fund. In addition to that DFM(PF) has addressed this issue to the Secretary to the Treasury of the Ministry of Finance by his letter dated 26.04.2022. Hence, no contingent liability and no requirement to disclose the nature of the contingent liability as per section 86 of the Sri Lanka Accounting standard on provisions, contingent liabilities and contingent assets (LKAS 37).

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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Out of the Dividend declared for the year under review in terms of the Management Committee Decision taken on 13 February 2024, dividend amounting to Rs. 122 million related to the members who were retired during the period from 01 January 2024 to 13 February 2024 had not been accounted in the financial statements of the Fund for the year under review and that amount was represented in the balance of Retained Earnings as at 31 December 2023.	Since these members were retired when the Dividend for the 2023 was declared, said dividend amount is included in the Retained Earnings.	Dividends should be declared and provided for all eligible members out of the profit for the year under review.
(b) The interest income on matured call deposits amounting to Rs.1.88 million during the year under review, which had been received to the Fund on 03 March 2024, had been erroneously accounted and shown as investment at amortized cost instead of being shown as interest receivable at the end of the year under review. Hence the value of investment had been overstated and other receivables had been understated by similar amount in the financial statements.	This is the Interest Income of Rs.1.9 million relevant to the Fixed Deposit Ref No: 204-60-01-000350061-2 invested in Peoples Bank which was omitted by the bank. After several reminders the said amount was subsequently credited to Fund's bank account on 3rd March 2024.	Action should be taken to rectify the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
An amount of Rs.19.06 million remained receivable from the 128 inactive members for loans granted against member balances more than 3 years as at the end of the year under review due to unsettlement of member balances to the deleted and vacated members. Out of that amount, an amount of Rs.9.5 million belonging to the 34 inactive members and an amount of Rs.2.4 million belonging to the 86 inactive members remained receivable for more than 7 years and 31 years respectively.	Loans granted for the inactive members are also recorded in our books of accounts and it will be cleared at the time of settling the final settlements of the inactive members.	Appropriate action should be taken to settle the long outstanding loan balances of inactive members.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) An amount of Rs.107 million belonging to the 588 deleted members remained payable for more than 3 years as at the end of the year under review due to non- submission of required documents to release the balances of respective members. Out of that, a sum of Rs.56.8 million belonging to the 307 deleted members and an amount of Rs.1.9 million belonging to the 124 deleted members remained payable for more than 7 years and 31 years respectively	These balances are lying in the financial statements of the Fund due to non-submission of required documents to release the balances of respective members. Therefore these balances cannot be written off as the liability of the fund is still in existence.	Appropriate action should be taken to settle the long outstanding member balances.
(b) Amount totaling to Rs.5.1 million belonging to the 305 vacated members remained payable for more than 6 years as at the end of the year under review.	It will be cleared at the time of settling the final settlements.	Appropriate action should be taken to settle the long outstanding member balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Provident fund regulations			
(i) Rule 4	Every member and the employer shall contribute to the Fund 10 percent and 15 percent respectively from employee's salary or wages. Contrary to the definition of basic salary, while calculating the contribution to the Fund, the salary including the highest allowance of the CEB employees had been considered.	When calculating provident fund contribution, highest allowance was considered, apart from the Consolidated Salary, which is in accordance with the Personnel Circular Ref No: DGM(P)/Policy/GS(1)/181 dated October 23, 2007.	Should be complied with the provident fund regulations.

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| (ii) Rule 22 | i. In contrary to this provision, dividends for the previous year had been paid based on the members' credit balances standing as at the end of the year under review, instead of the members' credit balances standing as at the end of the previous year. Further, it was observed that dividends for the year 2022 had been paid to the 285 members who were retired on 31 December 2022 based on the said members' credit balances standing as at 31 December 2022 in contrary to this provision. | Dividend is not accumulated for the Last Year's contribution in which the member is retired therefore the direction given by the Rule No 22 is complied with. | -Do- |
| | ii. Contrary to this provision, retained earnings as at 01 January 2023 and net profit only after inspection cost and tax for the year under review totaling to Rs.13.29 billion had been fully distributed amongst members. | Dividend calculation is done properly after creating reserves and provisions and after deducting any expenses chargeable to the fund. | -Do- |
| (iii) Rule 31 | Amendments to rules shall be lawful for the Ceylon Electricity Board by decision of the Board from time to time and at any time to alter, vary, modify, remake or rescind the rules or any of them, subject to the approval of the Commissioner of Labour, and the Commissioner of Inland Revenue. However, without the approval of the Board, the Commissioner of Labour and the Commissioner of Inland Revenue and not publishing the amendments to the Provident Fund Regulations, 2003 through a gazette notification, rules | A special committee was appointed at the Provident Fund Management Committee Meeting held on 14th February 2024 to review and recommend required changes to the existing Rules and regulations of the Fund. Once the committee report is submitted, the existing rules and regulations of the Fund will be amended. | -Do- |

relating to powers and duties of management committee, investment powers, loans to members etc. had been amended by the Fund and acted upon accordingly.

2. Financial Review

2.1 Financial Result

The operating result of the Provident Fund for the year under review amounted to a profit of Rs.15,580.82 million and the corresponding profit in the preceding year amounted to Rs.10,684.14 million. Therefore, an improvement amounting to Rs. 4,896.68 million of the financial result was observed. The main reason for the improvement is increase in interest income by Rs.4,890.85 million during the year under review.

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	2023	2022	Increase / (Decrease)	Percentage
Rs.	Rs. million	Rs. million	Rs. million	%
Interest income	15,566	10,675	4,891	46
Other income	28	18	10	55
Other Operating Expenses	13	9	4	44

2.3 Ratio Analysis

According to the information presented, some important ratios of the Fund for the year under review and for the previous year are mentioned below.

Ratio	2023	2022
	%	%
Net Profit Ratio (NAT)	85.26	91.11
Rate of Return on Average Investment	23.37	13.71
Rate of Return on Members Balance	14.38	11.65
Dividend Declaration Rate on the closing Member Balance	16.12	12.84

Rate of Return on Average Investment, Rate of Return on Members Balance and Dividend Declaration Rate on the closing Member Balance had increased significantly due to increase in interest rates on investments during the year. However due to income tax of Rs.2,285.97 million incurred during the year (Rs.941.9 million in 2022) net profit ratio for the year had been decreased by 5.85 per cent compared to previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>An amount of Rs.2.3 billion had been invested in three Treasury Bonds through Entrust Securities PLC (ESP) in the years 2008 and 2009 and it was revealed in the year 2015 that securities relating to the investments are not available under the name of the Fund in the Central Depository System. However, proper action had not been taken in timely manner against the responsible officers who were serving the Fund at that time, for their negligence and they were allowed to retire from Ceylon Electricity Board. Further, CEB had lodged a complaint to the Financial Crimes Investigation Division (FCID) against ESP on 09 December 2015 and the FCID had filed a case against ESP. Further, CEB had filed a civil case in 2018 against ESP to recover the face value and the defaulted coupon interests. The face value and the defaulted coupon interests of the investments matured in the years 2018 and 2019 was Rs.2.8 billion and both cases are being heard.</p>	<p>Ceylon Electricity Board Provident Fund has initiated a Civil Case against Entrust Securities PLC in the District Court of Colombo, to recover the Face Value and the Defaulted Coupon Interest Payments therein for the said investment. Apart from CEB Legal Division is in the process of making an application to the Colombo District Court to proceed with the two Civil Cases, Case Numbers DMR/1405/2018 and DMR/1029/2018, while making CEB Provident Fund and Pension Fund a party to the liquidation process of the Company.</p>	<p>(i) Should ensure that a proper internal control mechanism is in place to avoid such incidents in future. (ii) Should ensure that all reasonable action had been taken to recover the loss made. (iii) Action should be taken against the responsible officers for their negligence.</p>