CEYLON ELECTRICITY BOARD - 2011

1. Financial Statements

1.1. Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Ceylon Electricity Board as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In my opinion, except for the effects of the matters described in paragraphs 1.2 and 1.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Board and its subsidiaries as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Group Financial Statements

1.2.1 Lanka Electricity Company (Pvt) Ltd. (LECO)

The auditors of the Lanka Electricity Company, a 55 per cent owned subsidiary of the Ceylon Electricity Board, had issued a qualified audit opinion on the Group financial statements of the Company as follows.

The Auditors were unable to ascertain the accuracy and completeness of the infrastructure – work-in-progress balance of Rs. 590 million (approximately) at the year end included under the Property, Plant and Equipment due to unavailability of adequate information.

(a) "Supply infrastructure" shown under the Property, Plant and Equipment amounting to Rs. 16 million is revealed using a standard formula prescribed by the lenders of the Company. This method of revaluation does not reflect the fair value of the said assets. Any resulting impact of such on the Property, Plant and Equipment, the revaluation surplus and the related depreciation charge cannot be ascertained.

(b) The ledger balances of the Kelaniya and Galle Branches had exceeded the billing system balances by Rs. 18 million and Rs. 5 million respectively while the billing system balance of the Kalutara Branch had exceeded the ledger balance by Rs. 8 million which could not be verified due to unavailability of adequate information.

(c) The payable balance according to confirmation received from CEB does not agree with the balance in the ledger by Rs. 14 million for which no satisfactory explanation was received. Further, a confirmation had not been received from CEB regarding the receivable balance amounting to Rs. 9 million.

1.2.2 LTL Holdings (Pvt.) Ltd.

The following observations are made.

(a) Individual financial statements of the Company and its Subsidiary Companies had not been furnished for audit as agreed.

(b) Concurrence given by the Board of Directors of the CEB to form a new subsidiary company namely Pawan Danavi (Pvt) Ltd. which has been incorporated during the year was not made available to audit.

1.2.3 Deficiencies in Consolidation

A difference of Rs. 122 million was observed between the movement of the trade and other receivables shown in the cash flow statement and the computation made on the basis of information presented for audit.

1.3 Comments on Financial Statements of the Ceylon Electricity Board

1.3.1 Sri Lanka Accounting Standards (SLAS) and Accounting Policies

The following observations are made.

(a) **SLAS 5 – Inventories:** According to the Standard, the inventories shall be measured at lower of cost and net realizable value and cost of inventories shall be assigned by using the first in first out (FIFO) or weighted average cost formula respectively. Contrary to the Standard, the Board uses standard prices for valuing its inventories at Distribution Regions.

In accordance with directions issued by the Institute of Chartered Accountants of Sri Lanka, standard costs would be allowed for inventory valuation where prices are subject to fluctuation; otherwise the value of inventories shall be computed at the lower of cost and net realizable value. According to the prevailing situation prices have only increased but not fluctuated. It was clear that the Board in most instances had overestimated their standard prices than actuals. For instance the net income recognized by overestimation of the material prices and labour rates in 2011 was Rs. 2,920 million (2010 – Rs. 1,785 million) and Rs. 803 million (2010 – Rs. 548 million) respectively. In addition to that a sum of Rs. 1,255 million (2010 – Rs. 962 million) had been charged to the cost of the jobs as overheads (computed applying standard rate for actual labour hours used) which had been recognised as an income in the income statement.

As a result, the fair valuation of the stock, working progress, maintenance and completed jobs as at 31 December 2011 is open to question.

(b) Required information relating to the Ceylon Electricity Board Pension Fund had not been disclosed in the financial statements as specified in paragraph 120 of the **SLAS 16 – Employee Benefits**.

(c) The Board revalues its Property, Plant and equipment (PPE) annually by multiplying their carrying values at a rate computed based on the arithmetical simple average of the changes in the Wholesale Price Index, Import Value Index and Gross National Product ratio published by the Central Bank of Sri Lanka for the year in contrary to the revised **SLAS 18 – Property Plant and Equipment (PPE).**

Further, according to the method followed, the PPE are being revalued only up to their estimated economic life time. Thereafter, those assets are being used for a longer period until their disposal by maintaining the asset value at a nominal value of Rs. 1.

In addition, the following information had also been not disclosed.

- Assets classified as hold for sold or include in a disposal
- Carrying amount of temporarily idle PPE

(d) **SLAS 21** – **The Effect of Changing Foreign Exchange Rates:** The accounting policy for exchange differences arisen during the period of construction of capital assets financed by the foreign funded Projects had not been covered by the policy disclosed in paragraph 2.3.1 of the Accounting Policies in the financial statements.

(e) **SLAS 24 – Accounting for Government Grant and Government Assistance:** The foreign aid and the capital grant received by the Board for generation, transmission and distribution programmes including rural electrification programmes had been treated as contributed capital for a longer period even though certain such grants had not been considered by the General Treasury as the capital contribution. According to the financial statements of the Government of Democratic Socialist and Republic of Sri Lanka of the year 2011, the total capital contributed to the Board amounted to Rs. 51 billion and according to the financial statements of the Board that had been shown as Rs. 96 billion. Accordingly, the accounting treatment made in the financial statements for Rs. 45 billion of Government grant difference between the financial statements of the Government of Democratic Socialist and Republic of Sri Lanka and the financial statements of the Board as at 31 December 2011 had not been complied with the Standard.

(f) **SLAS 41 – Impairment of Fixed Assets:** Impairment assessment according to the Standard had not been carried out.

1.3.2. **Accounting Deficiencies**

The following accounting deficiencies were observed.

(a) Entire positive material price variance, labour rate variance and overhead variance aggregating Rs. 4,979 million (2010 – Rs. 3,295 million) had been set off against the cost of sales without distributing between the maintenance and capital jobs because those variances had arisen as a result of valuing the materials, labour and overhead used for those jobs at standard cost. Hence, the loss of the year and the value of the capital works shown in the financial statements had not been reflected an actual status.

(b) The brought forward tax loss of Rs. 67,245 million of the Board as at 31 December 2010 had not been disclosed in the financial statements.

(c) Some of the foreign aid loans obtained by the Government for power sector developments of the country had been sub-lent to the Board. Fifty per cent of the sub- loans aggregating Rs. 61,996 million that prevailed as at 31 December 2005 had been transferred to equity and the balance Rs. 30,998 million had been treated as a single loan according to the decision taken by the Cabinet of Ministers on 01 March 2006. However, as the Government had not communicated the interest rate and the repayment method that loan had remained as unsettled and without any interest charge in the financial statements. However, that position had not been disclosed in the financial statements.

(d) Capital Reserves had comprised with Loan Redemption balance of Rs. 17,447 million and Other Reserve balance of Rs. 165 million (misnamed as Foreign Exchange Reserve) as at 31 December 2011. However, the details such as nature, purpose, etc. had not been disclosed in the financial statements.

(e) Interest income derived from investment of Insurance Escrow Fund has been treated as income of the Board since the inception of the Fund without being treated as an income of that Escrow Fund. For instance the interest income of Rs. 317 million had been treated as the income of the Board for the year under review (in 2010 it was Rs. 404 million) and as a result, both loss of the Board for the year and the Insurance Escrow Fund balance as at 31 December 2011 had been understated by a similar amount.

(e) A programme loan amounting to Rs. 3,047 million had been accounted as receivable from the General Treasury since 2003 without evidence as receivable.

(g) The Gratuity account had not been adjusted according to the valuation done by an Actuarial valuer on 29 February 2012 which had resulted in the understatement of the loss for the year and the gratuity liability as at 31 December 2011 by Rs. 480 million.

(h) A sum of Rs. 57 million payable for renewable energy purchased in 2011 had not been accounted for and as a result, both loss of the year and the accrued expenditure balance shown in the financial statements as at 31 December 2011 had been understated by a similar amount.

(i) Tariff adjustment payable to a Wind Power Company amounting to Rs. 35 million had not been accounted for. As a result, the loss and the payable balance shown in the financial statements had been understated by that amount.

(j) Fuel cost amounting to Rs. 1,369 million had been reimbursed to a Power Generating Company computed at a rate exceeding the agreed price of Rs. 76 per Liter for the period of July – September 2011 due to the decision taken by the Ceylon Petroleum Corporation (CPC). That over payment had inappropriately been removed from the cost of sales and accounted as receivable from CPC without a formal agreement between respective parties. As a result, the loss of the year under review and other debtor balance shown in the financial statements had been understated and overstated by a similar amount respectively.

(k) It was observed that the monthly bills are paid by consumers before the bills are posted the individual accounts and as a result, the erroneous overpayments in the individual consumer accounts have been reflected. Due to that lapse the trade debtors shown in the financial statements as at 31 December 2011 had been understated by Rs. 764 million, reflecting the posting error of Rs. 748 million out of that credit balance which was less than three months.

(l) Normally, the excess materials issued for the jobs commenced in previous years are returned to the stores in subsequent years. However, according to the current practice, those returned stock items are taken into the stocks at current standard rates and adjusted the WIP as well accordingly without being valued at the rate that prevailed at the time of issue. Hence, both stock and WIP balances may be understated. For instance, the value of inventory items returned to the stores of the North Western Provincial Office which had been valued at the rates in 2011 was Rs. 105 million.

(m) Provision which should have been made according to the policy of the Board for the balance outstanding from trade debtors had not been made and as a result, the trade debtors and loss shown in the financial statements had been overstated and understated by Rs. 289 million. Details are given below.

	Amount Rs. Million
Total provision according to calculation done by the Audit	2,207
Total provision according to financial statements	1,918
Under provision	**289**

(n) Unusual debit and credit balances aggregating Rs. 327 million and Rs. 664 million respectively had been included under trade and other creditors and trade and other debtors respectively and as a result, both of those debtors and creditors shown in the financial statements had been understated by the same amounts.

(o) The Work-in-progress (WIP) account of the North Western Province (NWP) Office of the Board had included jobs having both credit and debit balances as at 31 December 2011. Aggregation of those debit and credit balances together to ascertain the year end balance resulted in the understatement of the WIP by Rs. 40 million. It was further observed that those credit balances remained uncorrected over three months as 31 December 2011.

(p) Value of the lands shown in the financial statements of the **Distribution Region – 3** as at 31 December 2011 had not been revalued and as a result, the land value had been understated by Rs.17 million.

(q) Properties such as lands, office buildings, transmission lines and substations, jetty for Port facilities, barges and tugboats, employees' housing compound, etc. of the Coal Power Project valued at Rs. 52,736 million had been taken over by the Board and the Phase I of the Project had already been commissioned as at 31 December 2011. However, those items had continued to remain under work-in-progress without being capitalized at least on piecemeal basis.

(r) A sum of Rs. 2,000 million receivable from General Treasury had inappropriately been shown in the cash flow statement of the Board as Income Tax paid without being treated as a working capital movement under trade and other receivables.

(s) The accrued expenditure shown in the financial statements had been understated by Rs. 25 million due to not providing PAYE Tax for bonus paid in December 2011.

(t) Capital grant of Rs. 37 million received from the General Treasury for electricity rehabilitation in Jaffna Region under Jaffna Region Electricity Supply Rehabilitation Project had erroneously been accounted as Loans from Treasury and as a result the contributed capital and the loans from Treasury shown in the financial statements as at 31 December 2011 had been understated and overstated by that amount respectively.

1.3.3 Unreconciled Difference

The following unreconcilled differences were observed.

	Item in the Financial Statement	Subsidiary Record	Balance according to Financial Statements Rs. Millions	Balance according to Subsidiary Record Rs. Millions	Difference Rs. Millions
(a)	Amount due from LECO	financial statements of LECO	1,628	1,736	(108)
(b)	Amount due to LECO	financial statements of LECO	-	9	(9)
(c)	Contributed Capital for the Coal Power Project (Phase – I)	the financial statements of the Project	3,586	3,570	16
(d)	Property, Plant and Equipment – Region – 3	Register of Fixed assets	2,454	2,462	(8)
(e)	Property, Plant and Equipment – Region – 3	General Ledger	2,454	2,487	(33)
(f)	Accumulated Depreciation for Motor Vehicles and Office Equipment	Register of Fixed assets	1,205	1,186	19
(g)	Accumulated Depreciation for Motor Vehicles and Office Equipment	General Ledger	1,205	1,219	(14)
(h)	Receivable from Lanka Coal Company (LCC)	Financial Statements of LCC – Note 13	-	11	(11)
(i)	Advance for Expenditure – LCC	Financial Statements of LCC – Note 13 (CEB Expenditure Advances)	-	1,606	(1,606)
(j)	Trade Debtors – Region 2	Billing Summary and Age Analysis (Schedule Balance)	1,906	1,956	(50)
(k)	WIP (Non-capital) –Region 3	Age Analysis of Other Debtors	110	86	24
(l)	Other Debtors included in Other Debtors – Region 3	Age Analysis	2,049	2,045	4
	Total				**(1,776)**

1.3.4 Accounts Receivable and Payable

The following observations are made.

(a) Three receivable balances aggregating Rs.33 million and three payable balances aggregating Rs. 27 million in respect of the LECO in the financial statements of the Deputy General Manager's Office at Western Province South - II had remained for a long period as at 31 December 2011 without being settled.

(b) An excess GST payment of Rs. 38 million had been carried forwarded in the financial statements as recoverable since January 2002 without setting off against any tax liability of the Board arisen in subsequent years as instructed by the Commissioner General of Inland Revenue by his letter dated 24 January 2008.

(c) A full provision made for Rs. 447 million due from electricity debtors in Region 1 remaining outstanding for more than ten years had been carried forward year by year without taking action for recovery.

(d) Receipt of electricity rebate recorded as receivable in the financial statements amounting to Rs. 1,622 million and street lighting amounting to Rs. 3,451 million is doubtful because the Government has given several grants and assistances as well as concessions for operations of the Board.

However, the view of the Chairman and the General Manager in this regard is as follows.

The above balances which are receivable from the Treasury are kept in the accounts for the purpose of recovery or settlement against any other payments to the Treasury. Therefore the Treasury dues could not be treated as doubtful unless the Treasury informs the appropriate decision.

(e) According to Paragraph 14 of the Gazette Notification No 1572/25 of 24 October 2008, the Ceylon Electricity Board may obtain from all its consumers a deposit equal to the assessed cost of electricity consumption for two months against electricity consumed.

However, it was revealed that the deposits maintained by selected two Provincial Offices in Distribution Region – 1 in respect of the bulk consumers had been inadequate as against the actual amount to be deposited based on the current bill value. The shortfall of Rs. 470 million was observed from 149 consumers. In addition, another 29 bulk consumers are being dealt without any security deposit and their outstanding balance as at 31 December 2011 was Rs.10 million. Accordingly, it was revealed that the Board is being dealing with those consumers at a high credit risk.

(f) The ordinary supplies debtor balance of Rs. 225 million in Colombo City Office remained outstanding for more than six months as at 31 December 2011 and 79 per cent of that balance had been in arrears for over three years due to the failure to take proper recovery action.

(g) It was not possible for a balance of Rs. 78 million older than 05 years as at 31 December 2011 in the work-in-progress account of the Colombo City Office of the Board as there was only Rs. 13 million balance older than four year as at 01 January 2011. Therefore, the accuracy of the age analysis of WIP was observed in audit as doubtful.

(h) Amount due from LTL Transformers Ltd. (a subsidiary company of the Board) as at 31 December 2011 amounted to Rs. 11 million and that balance remained outstanding for more than three years without being recovered.

(i) Amount receivable from religious premises amounting to Rs. 2,418 million remained outstanding for more than one year as at 31 December 2011.

(j) Normal credit period for bulk consumers is one month. However Rs. 307 million out of the total outstanding balance of Rs. 523 million from bulk consumers in Eastern Provincial Office of the Board was outstanding for more than three months as at 31 December 2011**.** Hence, it was observed that the monitoring of credit control system was very poor.

(k) The Creditor Control Account (Electricity) balance of Rs. 359 million in Eastern Provincial Office of the Board had remained for more than three months as at 31 December 2011 without being cleared.

(l) A sum of Rs. 34 million out of the WIP non-capital amounting to Rs. 168 million in Region 4 had not been completed for more than one year as at 31 December 2011.

(m) There is no common method of accounting for the advances and prepayments and different accounts for same purpose had been maintained. Further, long outstanding advance and prepayment balances were observed in the financial statements without being settled as at 31 December 2011. A sum of Rs. 281.888 million out of the total receivable balances of Rs. 343.104 million in those various accounts as at 31 December 2011 had not been recovered for more than one year.

1.3.5 <u>Lack of Evidence for Audit</u>

The following observations are made.

(a) A sum of Rs. 8,732 million relating to the following items in the financial statements could not be satisfactorily vouched in audit due to unavailability of supporting evidence indicated against each item.

Item	**Amount Rs. Millions**	**Evidence not made available**
Treasury Loan	1,200	Connected file
Provision for Bad and Doubtful Debts	Not made available	Detailed list of specific provision made
Removed Transformer Account - Colombo City Office	160	Reasons for long delay and action taken for recovery
Other Debtors -WIP Non-capital		
- Region 2	390	
- Headquarters	14	

Advances and Prepayments, Deposits, Loans to CEB Employees, Other Debtors, etc. (Western Province North - WPN)	2,409	Detailed schedule and age analysis
Other Debtors included in Other Debtors – Region 2	3,584	
Stores discrepancies written off (WPN)	22	Detailed schedule, requisite approval and investigation reports etc.
WIP – Region - 2	138	Detailed schedule and reasons for delay of completion
Incomplete Capital Works transferred to other Divisions (Upper Kotmale Project)	815	Detailed schedule of items transferred and the name of Divisions
Total	**8,732**	

(b) Even though there were foreign/government/CEB financing several transmission, distribution, generation and other projects separate accounts other than Clean Energy Access Improvement Project had not been maintained enabling to monitor the financial progress of the Projects.

(c) A difference of Rs. 108,769 million was observed between the financial statements of the Board and the Government of Democratic Socialist Republic of Sri Lanka with regard to the total loans granted by the General Treasury as at 31 December 2011. Further, there were no sub-loan agreements in respect of three loans granted by the Treasury valued at Rs. 6,146 million and therefore the repayment schedule and the interest for those loans were not made available to audit.

(d) The normal period for a service connection job is 6-9 months. However according to the information furnished by the Colombo City Office revealed that their jobs valued at Rs. 450 million were older than one year as at 31 December 2011. Therefore, there was a possibility of non-transferring the Service Main Deposits to Consumer Contribution Account even in the instances where the respective jobs have been completed. Therefore, a detailed analytical report in respect of those long outstanding jobs to identify reasons for the long delay in completion and to ascertain the accuracy of the Consumer Contribution as at 31 December 2011 was not made available to audit.

(e) WIP amounting to Rs. 186 million and Rs. 196 million in North Western Provincial Office of the Board had continuously been shown in the financial statements for periods ranging from 2 to 5 years and over 5 years respectively without being cleared mainly due to unavailability of completion reports. A detailed analytical report to identify the reasons for the delay was not made available to audit.

1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

(a) Ceylon Electricity Board Act, No. 17 of 1969

(i) **Section 47 (1)(a)** – According to the Section, the Board may establish and maintain with the General Treasury an Insurance Reserve to cover the insurance of movable and immovable property of the Board and to meet third party risks and liabilities arising under the Workmen's Compensation Ordinance that had not been complied with. However, a Self Insurance Reserve had been formed and maintained to meet the cost of the damaged property of the Board and the balance in that account as at 31 December 2011 amounted to Rs. 6,572 million.

(ii) **Section 47 (1)(b**) – According to the Section, the Board may establish and maintain with the General Treasury a Sinking Fund in respect of the repayment of loans taken by the Board. A Loan Redemption Reserve is available but it had not been updated since the year 2000. The balance in that Reserve Account ***(erroneously named as balance as at the beginning of the year – refer Note No. 17.1)*** amounted to Rs. 17,447 million.

(iii) **Section 47(2)(a) -** According to the Section, the Board may establish and maintain with the General Treasury a Depreciation Reserve to cover the depreciation of the movable and immovable property of the Board. However, in contrary to that requirement the Board had formed a Depreciation Reserve in its financial statements by transferring Rs. 1 million per annum up to 31 December 2000 and thereafter no movement had taken place. A balance of Rs. 23 million accumulated on that dated has been carried forwarded in the annual financial statements.

(iv) **Section 47(2)(b) -** According to the Section, the Board may establish and maintain with the General Treasury a General Reserve for the purpose of financing capital works from revenue moneys, ensuring the financial stability of the Board, and for such other purposes as the Board may from time to time determine. However, contrary to that requirement the Board had formed an Other Capital Reserve in its financial statements but it had not been updated since the year 2000. The balance of that Reserve Account amounted to Rs. 165.45 million.

(b) **C**ontrary to the provisions in Section 46 of the Ceylon Electricity Board Act, No. 17 of 1969 and Section 11(a) and (b) of Part II of the Finance Act, No. 38 of 1971, the Board had invested funds amounting to Rs. 3,710 million as at 31 December 2011 in the Insurance Escrow Fund based on a contribution of 0.1 percent of the total value of its gross fixed assets at the end of each year since 1989.

(c) **Public Administration Circular No.15/90 of 09 March 1990 and Public Enterprises Circular No. PED/12 of 02 June 2003.**

(i) The CEB had recruited non-skilled and semi-skilled staff annually as clerks, cashiers, storekeepers, typists, drivers, office aids etc. without calling for Island-wide applications from qualified candidates through newspaper advertisements, Gazette notifications etc. as specified in circular instructions.

(ii) According to paragraph 7.2 of the Public Enterprises Circular No. PED/12, of 02 June 2003 all public enterprises should have their own Systems/Manuals covering all major operations, regularly revised and updated. However, the Board had not updated its procedure manuals prepared over 24 years ago.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Cost Structure

The following table shows an analysis of the cost of sales of the Board for the year under review as compared with the previous year.

Description	Expenditure for the year 2011 Rs. Millions	2010 Rs. Millions	Difference Rs. Millions	%
Power Station Fuel Account	24,982.470	16,350.498	8,631.771	53
Power Purchase from IPPs	75,276.325	57,647.289	17,629.036	31
Renewable Energy Purchase	8,867.771	8,019.195	848.576	11
Personnel Expenditure	11,745.872	11,635.701	110.171	1
Materials Costs	12,989.753	5,124.311	7,865.441	153
Accommodation Expenditure	774.031	656.127	117.904	18
Transport and Communications	2,203.607	1,970.139	233.468	12
Material Price Variance	(2,919.687)	(1,785.179)	(1,134.508)	64
Overhead Recoveries	(1,255.475)	(961.658)	(293.817)	31
Labour Rate Variance	(803.281)	(548.037)	(255.244)	47
Depreciation	18,297.458	15,990.333	2,307.126	14
Other Expenditure	2,268.827	2,069.761	199.066	10
Cost of Sales	**152,427.470**	**116,168.481**	**36,258.989**	**31**

According to the above information, it was revealed that around 70 per cent of the total expenditure of the Board is directly related to power purchase and generation. As compared with the previous year the material cost which had been valued at standard prices had abnormally increased by 153 per cent.

2.1.2 **Financial Results**

According to the financial statements presented, the operations of the CEB during the year under review before taxation had resulted in a loss of Rs. 19,266 million as against the corresponding net profit of Rs. 4,832 million before taxation for the preceding year thus showing deterioration in operating result by Rs. 24,098 million. The main reasons for such deterioration are analysed as follows.

	2011	**2010**	**Increase/(Decrease)**		
Item	**Rs. Millions**	**Rs. Millions**	**Rs. Millions**	**%**	**% Contribution to the Loss**
Sales	**132,460**	**121,226**	**11,234**	46.6	47
Fuel	(31,992)	(16,551)	15,441	93.3	-64
Power Purchase	(84,144)	(65,466)	18,678	28.5	-78
Operation and Maintenance	(22,972)	(21,456)	1,516	7.1	-06
Price Variance	4,978	3,295	1,683	51.1	07
Depreciation	(18,297)	(15,990)	2,307	14.4	-10
Cost of Sales	**(152,427)**	**(116,168)**	**36,259**	**31.2**	
Gross Profit/(Loss)	**(19,967)**	**5,058**	**25,025**	**494.8**	
Other Income	4,544	4,230	314	7.4	01
Operating Expenditure	(3,842)	(4,456)	(614)	(13.8)	03
Operating Profit/(Loss)	**(19,265)**	**4,832**	**(24,097)**	**(498.7)**	**100**

(a) Decrease in hydro power generation caused to increase in thermal power generation and finally, the Board had to incur heavy expenditure on fuel and power purchase from Independent Power Suppliers. The cost increase from those two factors in 2011 as against the previous year amounted to Rs. 15,441 million and Rs. 18,678 million which contributed to increase the total loss by 64 per cent and 78 per cent respectively.

(b) Due to the change of the depreciation policy in 2011 the Board had to charge an additional cost around Rs. 2 billion to the income statement which resulted in the increase of the loss by 10 per cent.

(c) Even though an additional income of Rs. 11,234 million had been earned as a result of the slight increase in the demand and the tariff revision in 2011 in addition to the positive price variances derived from issuing of stock items at standard costs the above reasons had resulted in the Board incurring a loss position in 2011.

2.1.3 **Liquidity Position**

The following ratios indicate the liquidity position of the CEB for the year under review and the preceding year.

	Ratio	2011	2010
(a)	Current Ratio	0.9:1	1.2:1
(b)	Quick Assets Ratio	0.8:1	0.9:1
(c)	Cash and Bank Balance to Current Liabilities	0.01:1	0.02:1

Ratios (a) and (b) are expected to be within a given range of 2:1 and 1:1 respectively. According to the above analysis it was revealed that the liquidity position of the Board for the year under review had deteriorated to a certain level as against the previous year mainly due to the decrease of the hydro power generation.

2.2. Operating Review

2.2.1 Power Generation

The following table shows the analysis of power generation details of the year under review as compared with that of the previous year.

	2011		2010		Difference	
Source	**Giga Watt hours (GWh)**	**%**	**GWh**	**%**	**GWh**	**%**
Hydro	4,018	35	4,988	46	-970	-11
Thermal	5,748	50	4,994	47	754	3
Coal	1,038	9	0		1,038	9
Hydro Mini	604	5	646	6	-42	-1
Wind	3	0	3	0	0	0
Non-conventional Renewable Energy (NCRE)	118	1	83	1	35	0
Total	**11,529**	**100**	**10,714**	**100**	**815**	0

According to the above information following observations are made.

(a) Hydro power generation of the year under review as compared with the previous year had dropped to 4,018 GWh from 4,988 GWh reflecting 11 per cent decrease due to low rainfall. However, that decrease had been replaced by thermal and coal power which resulted in the increase of the total power generation of the year 2011 by 815 GWh as compared with the previous year enabling the CEB to continue its operation without power cuts.

(b) The Board could have been able to generate 53 per cent of entire electricity demand of the country from green energy sources in 2010 but had been reduced to 41 per cent in 2011 indicating a decrease of 12 per cent.

2.2.2 Electricity Sales

The following table shows the information relating to the sales income classified under various types of consumers both in values and quantities obtained from the Statistical Digest of the Board for the year 2011.

Consumer Type	Consumers		Sales				Selling Price per (Kilo Watt hours - KWh) Unit
	Number	**%**	**Qty in GWh**	**%**	**Rs. Millions**	**%**	**Rs.**
Domestic	4,165,738	88	3,379	34	33,131	25	9.80
Religious	28,320	1	51	0	359	0	7.03
General Purpose	475,380	10	1,927	19	41,674	32	21.63
Industrial and Hotel	48,008	1	3,290	33	42,328	32	12.87
LECO	1	0	1,267	13	14,968	11	11.81
Street Lighting	1	0	109	1	-	-	-
	4,717,448	**100**	**10,023**	**100**	**132,460**	**100**	**13.22**

According to the above analysis, the domestic consumers who use electricity for day to day domestic purposes had represented 88 per cent of the total consumer portfolio and consumed 34 per cent of the units sold in 2011 by contributing 25 per cent to total revenue of the Board but the average selling price for that purpose was very low. Therefore, awareness programmes for energy saving are of utmost important to maintain the consumption at a lower level.

The consumers such as Banks, Companies, and Government Offices etc. have been categorized as General Purpose users and they represented 10 per cent of the total consumer portfolio and consumed 19 per cent of the total units sold of the year 2011 by contributing 32 per cent to the revenue of the Board.

Industries and hotels had represented only one per cent of the consumer portfolio in 2011 and their consumption was 33 per cent of the total units sold but contributed 32 per cent to the revenue of the year.

The balance one per cent represented all other consumer categories who consumed 14 per cent of the total units sold by contributing 11 per cent to the revenue of the year 2011.

2.3 Matters of Contentious Nature

The following observations are made.

(a) It was observed in audit that the CEB had maintained the position in accordance with the Ceylon Electricity Board Act, No. 17 of 1969 as amended by the Act, No.31 of 1969, that the Treasury Circulars and Public Administration Circulars issued by the Government from time to time to maintain uniform procedures and practices in relation to Finance and Administration in all public sector organizations including Public Corporations and Boards are not applicable to them if the Board of Directors of the CEB had not adopted such circulars as the administrative rules of the CEB. A few such examples are given below.

(i) The following observations are made in respect of the payment of special interim allowance paid to the entire employees of the Board since 01 July 2008.

- The original decision was taken to pay the allowance as an advance and absorb that allowance with the proposed salary revision with effect from 01 January 2009. However, it was observed that the allowance is being still continued and Rs. 235 million accumulated in the ***Advance against Salary Increase*** Account as 31 December 2010 had been transferred to the salary account with the approval of the General Manager who has no authority to do so.

- The payment has been made contrary to the provisions in the Public Enterprises Circular No. 95 of 04 June 1994.

- Details about the allowance had not been produced to the Salaries and Cadres Commission to consider in two salary revisions made in 2009 and 2012.

(ii) Instead of granting vehicle loans at 10 per cent – 14 per cent in terms of the Public Enterprises Circular No 130 of 08 March 1998, the Board has granted loans at 4.2 per cent. Further, it was observed that the staff loans have been paid without any control even creating severe liquidity problems to the Board.

(iii) The Board is bearing the PAYE tax which should be borne by its employees by overriding the Cabinet Decision taken on 13 December 2007 vide Decision No CP/07/2116/332/050 to shift the PAYE tax liability to employees since the next salary revision. The PAYE tax paid by the Board overriding said Cabinet Decision as at 31 December 2010 amounted to Rs.712 million.

(iv) Without approval of the Cabinet of Ministers or Ministry of Public Administration or General Treasury as specified in the Public Enterprises Department Circular No 95 of 04 June 1994 thirty nine various staff allowances have been paid by the Board as approved by the Board of Directors from time to time. The audit test check carried out revealed that such allowances amounting to Rs.426 million had been paid in the year 2011.

(b) According to the information available, the Finance Manager of the Board had decided against fresh investment of the Insurance Fund externally from the year 1990 although the Board had not delegated him the powers for taking investment decisions.

(c) According to the Cabinet Decision dated 31 March 2008, ten per cent of the renewable energy cost of the Board should be refunded by Sustainable Energy Authority (SEA). However, such renewable energy cost which should be receivable to the Board according to the above mentioned arrangement since 2008 had not been refunded by the SEA. Total refundable amount as at 31 December 2011 amounted to Rs. 897 million. However, the SEA had not even recorded it as a liability in its financial statements and the CEB had not obtained confirmation of balance.

(d) The shortfall observed between the Insurance Reserve Fund balance and Investment of Insurance Reserve Fund as at 31 December 2011 amounting to Rs. 2,545 million had not been invested in terms of the self-insurance policy of the Board.

(e) Even though the Board has sold electricity to LECO over several years there is no sales agreement between those two parties. In addition, there is no formal arrangement for fuel purchase from Ceylon Petroleum Corporation, as well.

(f) A sum of Rs. 51,139 million out of Rs. 60,133 million due to the Ceylon Petroleum Corporation as at 31 December 2011was in arrears for more than one year. Approval of the Cabinet of Ministers had been granted for the General Treasury to issue Treasury Bonds with maturity periods of 5, 10, and 20 years to the value of Rs. 52 billion of the above mentioned long outstanding balance on 28 July 2011enabling the CEB to settle the bond value over a period of 15 years commencing from 2015 by an annual installment of Rs. 3 billion and to enter into an agreement between the General Treasury and the CEB for recovering the cost of the bonds back. Accordingly, the Department of Treasury Operations had issued Treasury Bonds to Bank of Ceylon on 09 January 2012 for the settlement of Rs. 50.5 billion due to the CPC from CEB and informed the Board by letter No PD/DS&A/PD/09/468 dated 11 January 2012 of that Department. However, the above position had not been disclosed in the financial statements.

2.4 Management Inefficiencies

The following observations are made.

(a) Finalized Debtors - Ordinary Supplies

Trade debtor balance as at 31 December 2011, according to the financial statements presented to audit, amounted to Rs. 11,193 million and Rs. 1,062 million of that was outstanding from the customers whose meters had been removed by the Board due to not paying their dues within the minimum of six months period from the last payment date. In this connection the following observations are made.

(i) The Board is not in position to take legal action against the consumers whose outstanding balance as at 31 December 2011 amounted to Rs. 47 million due to time bar period of six years has already elapsed.

Further, the recovery of another outstanding balances aggregating Rs. 450 million is also doubtful as the time bar period of 6 years will elapse shortly. However, adequate action for the recovery of those balances had not been taken even upto 31 December 2012.

(ii) In addition to the above mentioned Rs. 497 million, the recoverability of Rs. 126 million out of Rs. 655 million outstanding as at 31 December 2011 was also doubtful as the recovery process specified in the Circular No. 1999 – 12 issued by the Deputy General Manager (Consumer Services) on 24 December 1999 had not been complied with. However, disciplinary action against the officers responsible for the lapses had not been taken.

(iii) According to Sub-section 1(4) of the Schedule II of the Ceylon Electricity Act, No 20 of 1999, no new connection to other premises of a consumer shall be given until his or her arrears are fully settled. However, contrary to that requirement, new connections had been given ignoring their bill in arrears. However, no action had been taken against those misconducts, to date. A few such instances are given below.

Provincial Office	**Account Number**		**Amount Outstanding Rs.**
	Old Connection	**New Connection**	
Eastern	2402187506	2470100143	536,851
	3594268918	3594268810	361,309
	3504463309	3504463309	322,541
Uva	3503514900	3570101614	833,004

2304483003	2304291503, 2304291309, 2304291406, 2304251005, 2309048305, 2305402805	306,615

According to the above observations, it was revealed that not only the credit control over debtors but taking disciplinary action against the officers responsible for the failure to take timely action for the recovery of dues from consumers is very poor. Ultimate result of allowing to misappropriation of public funds without taking suitable and periodical action over a longer period is writing them off from the books of account giving reasons such as no information, accounting error, unable to find the consumer etc. A few such recent write offs are given below.

Year of Board Decision taken to write off	**Description of the balance**	**Amount written Off Rs. millions**
2001	57,389 balances of ordinary supplies less than Rs. 4,000 for each relating to the period 1989 - 1998	37.78
2007	9,675 balances of ordinary supplies greater than Rs. 4,000 for each relating to the period 1989 - 1998	206.03
2007	21,544 balances of ordinary supplies greater than Rs. 4,000 for each relating to the period 1999 - 2001	123.26
2007	314 bulk supplies balance relating to the period 1999 - 2001	80.90
Total		**447.97**

In addition to the above, another Board Paper to write off Rs. 401 million of trade debtors is in progress.

(b) Stock shortages amounting to Rs. 22 million remained uncleared for more than one year without being investigated to identify and fix responsibility.

(c) The Board had spent a sum of Rs. 114 million for procurement of Port Tugs and Barges for the Coal handling in the Puttalam Port and the cost of those assets are still in the work-in-progress under the Coal Power Project in the financial statements of the Board. However, the Lanka Coal Company (a subsidiary of the Board) uses those assets for their Port handling and US $ 2.00 per coal metric ton handled is charged to the Board. The charged so made by the Company as at 31 December 2011 amounted to Rs. 102 million.

Further, there was no lightering equipment in the balance sheet of the Company as at 31 December 2011 for coal handling. However, the Company charges US $

1.70 per coal metric ton as depreciation of lightering equipment. The amount so charged as at 31 December 2011 amounted to Rs. 87 million.

The funds so collected by the Company through invoices raised to the Board have been used to establish Reserves for Replacement of Lightering Equipment and Maintenance of Lightering Equipment without self-financing as the Lanka Coal Company (a subsidiary of the Board) as a separate body. The Board has also paid such unnecessary expenses even it is facing severe financial problems.

(d) The Board had made advance payments amounting to Rs. 443 million to the Lanka Coal Company for purchase of 45,000 metric tons of deaf coal in the year 2010. But the entire consignment had not been supplied by the Company and a sum of Rs. 76 million and Rs. 159 million out of the advances granted had been holding by the Lanka Coal Company Ltd. and the Ceylon Shipping Company Ltd. respectively till the end of the year 2011. However, the Board had not taken action to recover the advances.

(e) Due to the improper fund management of the CEB, the Company had earned an investment income of Rs. 55 million by investing the funds collected from the Board through the methods as mentioned in paragraphs (c) and (d) above.

(f) The Board had not entered into commercial agreement or a Memorandum of Understanding with the Lanka Coal Company for coal purchase even though the Board continues to purchase coal from the Company from the year 2009.

(g) The Construction Branch in each Region maintains the records relating to the electrification jobs undertaken by them at the originally estimated values and quantities whereas the Financial Division maintains their records at actual values and quantities. Therefore, those two records cannot be reconciled.

2.5 Identified Losses

Bad debt written off during the year under review and the previous year which can be treated as identified losses amounted to Rs. 226 million and Rs. 1,513 million respectively. Details are given below.

	2011 Rs. Million	2010 Rs. Million
Trade Debtors		
Region – 1	41	-
Headquarters	160	1,510
Other Debtors		
Headquarters	25	3
Total	**226**	**1,513**

2.6 **Delay in Projects**

The following observations are made.

(a) Samanalawewa Mini Hydro Project –10 GWH per annum had commenced before 2006 and it had been suspended due to a water leak. The total cost estimated for rectification the Project amounted to Rs. 200 million and it had been under study level even at the end of the year under review.

(b) The Government had allocated a sum of Rs. 4,022 million under the Ministry of Power and Energy to the CEB for 9 electrification projects by the Budget Estimates for the year 2011. However, no utilisation whatsoever had been made from that provision in the year 2011.

2.7 **Human Recourse Management**

The following observations are made.

(a) The cadre revision had not been done after 2007.

(b) A data base for HRM had not been maintained.

(c) Vacancies in 173 key posts in technical grades existed as at 31 December 2011.

(d) There was no approved cadre for Contract, temporary and outsourced employees deployed by the Board.

(e) The employees deployed by the Board in lower grades such as labour, office aid, and allied posts are, as a practice, promoted subsequently, to higher posts such as clerical grades on the results of an internal examination. This practice had resulted to in employing persons without the skills in the relevant posts which had adversely affected the efficient management. As such the Board had been procuring competent man power from external sources in addition to payment of overtime, etc. to its permanent staff.

(f) Proper succession plan other than selecting personnel purely based on seniority for the key post was not observed. The officials have been promoted for very short periods, as favours for retiring personnel, without considering adverse impact on the entity.

(g) It was not observed a strong transfer policy for higher posts.

2.8 Corporate Plan

Corporate Plan of the Board had not been updated in terms of the Public Enterprises Circular No PED / 12 of 02 June 2003.

2.9 Audit Committee

The Audit Committee of the Board comprised four Board Members of whom three are non-executives representing Government institutions. The Committee is chaired by the Treasury representative and six meetings were held in the year under review. The following observations are made in this connection.

(a) Internal Audit reports and the Auditor General's reports had not been fully reviewed.

(b) Interim financial statements, investigation reports, monthly financial and physical progresses, budgetary controls, follow-up action on the implementation of Board decisions, Action Plan, Procurement Plan, etc. had not been reviewed.

2.10 Budgetary Control

Significant variances were observed between the budget and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Board from time to time. Special attention is needed in respect of the following areas of control.

(a) Assets Management
(b) Receivables and Payables
(c) Inventory Control and Stock Management
(d) Human Recourses Managements
(e) Accounting and Financial Management
(f) Investments and Control over Subsidiaries
(g) Work-in-progress
(h) Project Management and Control
(i) Budget
(j) Staff Loans
(k) Sales