

## **Public Utilities Commission of Sri Lanka - 2014**

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The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 34 of the Public Utilities Commission of Sri Lanka Act, No.35 of 2002. My comments and observations which I consider should be published with the Annual Report of the Commission in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements 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 Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Public Utilities Commission of Sri Lanka as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standard No.08**

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Prior year adjustments amounting to Rs.1,803,936 had been made to the Accumulated Fund instead of being adjusted retrospectively.

#### **2.2.2 Accounting Deficiencies**

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Action had not been taken to conduct the Training Course relating to the Agreement on the Purchase of Electricity during the year under review and the expenditure on the course conducted in the year 2015 amounting to Rs.4,995,754 had been brought to account as an expenditure of the year under review.

#### **2.2.3 Unexplained Differences**

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Differences in costs of Rs.865,462 and Rs.59,189 existed between the Ledger Accounts and the Schedules of Fixed Assets relating to computers and office equipments and the Schedules of Fixed Assets respectively and differences amounting to Rs.340,376 and Rs.61,783 relating to the provision made for depreciation were observed.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) According to the agreements entered into with the Commission in connection with regulating lubricants, variable registration fees should be paid half yearly before the expiry of 30 days of the following month. Nevertheless, a sum of Rs.9,004,777 comprising a sum of Rs.793,512 from one institution in respect of the years 2012 and 2013 and a sum of Rs.8,211,265 from 03 institutions in respect of the year under review had not been received by the Commission even by 31 December 2014.
- (b) According to condition No.11 of the Generation Licence issued to the electricity generation licence holders, the annual regulatory fee should be paid to the Commission on or before 30 June of the relevant year or within 30 days from the commencement of the supply of electricity to the National Grid. Nevertheless, sums totaling Rs.39,248,900 comprising Rs.12,000 , Rs.104,000 and Rs.39,132,900 in respect of the years 2012, 2013 and 2014 respectively had not been received even by 31 December 2014

## 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
(a) Paragraph 3(i) of the Inland Revenue Circular No. Sec/2013/07 of 01 September 2013	According to this circular, the income subject to tax means, payment made as salary, allowances, overtime, etc. Nevertheless, the Commission had computed the Pay As You Earn Tax based on the basic salary without taking into account the allowances.
(b) Paragraph 24 of the Public Finance Circular No. PF/PE/6 of 31 January 2000	The Pay As You Earn Tax amounting to Rs.1,307,275 of the employees in respect of the year under review had been paid from the funds of the Commission as in the preceding years.
(c) Paragraph 05 of the Public Administration Circular No. 24/2011 of 16 November 2011	The concurrence of the General Treasury had not been obtained in terms of the provisions in the Circular in the deployment of officers over the age of 60 years in service.
(d) Public Enterprises Circular No. PED/45 of 02 October 2007	Even though a Statement of Responsibilities of the Board of Directors should be included in the financial statements in the preparation and presentation of financial statements, it had not been so included.

## 3. Financial Review

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### Financial Results

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According to the financial statements presented, the operations of the Commission for the year under review had resulted in a surplus of Rs.24,670,710 as compared with the corresponding surplus of Rs.14,707,789 for the preceding year, thus indicating an increase of Rs.9,962,921 in the financial results as compared with the preceding year. The operating expenditure had increased by a sum of Rs.39,812,914 in the year under review and that had been due mainly to the increase of personal emoluments by a sum of Rs.8,607,439 , consultancy service fees by a sum of Rs.14,250,528 and the contractual services by a sum of Rs.13,626,074. The increase of the fees collected from those marketing lubricants by a sum of Rs.6,421,975 and the increase of regulatory fees recovered from the Ceylon Electricity Board and the Lanka Electricity (Pvt) Company and the institution generating electricity, for the purpose of regulating electricity, by a sum of Rs.48,432,150 as annual regulatory fees had been the main reasons for the above surplus.

**4. Operating Review**

**4.1 Performances**

The following observations are made.

- (a) The Public Utilities Commission had been established under the Public Utilities Commission of Sri Lanka Act, No. 35 of 2002 for the regulating of the public utility services such as water, electricity and fuel. Regulation of electricity in terms of the Sri Lanka Electricity Act, No. 20 of 2009 and the regulation of lubricants in the petroleum industry under a Resolution of the Parliament dated 05 April 2006 only are handled by the Commission as at present. Even though the Commission had informed the relevant Sectors on the amendments to be to the Acts relating to water and the petroleum industry, the Commission had not been able to carry out regulatory functions relating to water and the petroleum industry as the Amendment Acts relating to those industries had not been approved up to date.
- (b) The Commission had received 311 applications from the year 2009 to the year 2014 for obtaining licences for the generation, transmission and distribution of electricity and out of that 220 licences had been issued. As such licences had not been issued for 91 applications up to date. Out of that, 78 applications had been submitted to the relevant Ministry for approval while the balance 13 applications remained as they did not comply with the regulations.
- (c) The number of public complaints received by the Commission during the year under review and the preceding year and the action taken by the Commission on those complaints as an intermediary are given below.

<b>Type of Complaints</b>	<b>Number Received</b>		<b>Number Provided with Facilities</b>	
	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>
Electricity Bills and Meters	342	365	342	365
Consumer Group	99	96	98	96
Transmission Link	750	545	750	545
New Connections	227	150	227	150
Disconnection and Reconnection	108	67	107	67
Others	221	530	221	530
Letters from District Secretaries	320	160	319	160
Brought from Preceding Year	-	03	-	03
<b>Total</b>	<b>2,067</b>	<b>1,916</b>	<b>2,064</b>	<b>1,916</b>

Even though it was stated that facilities had been provided for all public complaints received by the Commissions during the year 2014, it was observed during an audit

examination carried out in this connection that according to the files, the complaints had not been fully solved. As such it was not revealed in, audit that the objectives expected in terms of Section 39 of the Electricity Act and Section 17(1) of the Commission Act are not being achieved.

- (d) According to the Annual Report prepared by the Commission the licences issued for Renewal Energy Development Projects during the years 2013 and 2014 and their power generation capacities are given below.

<b>Technology</b> -----	<b>Year 2013</b> -----		<b>Year 2014</b> -----	
	<b>Number of Licences</b> -----	<b>Capacity (Megawatts)</b> -----	<b>Number of Licences</b> -----	<b>Capacity (Megawatts)</b> -----
Hydro Electricity	10	37.8	03	2.7
Wind Power	01	9.8	04	34.8
Biomass	01	10.0	01	5.0
Solar Power	-	-	02	20.0
Thermal (Coal)	-	-	01	500.0
Thermal (Petroleum)	-	-	04	374.1
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	12	57.6	15	936.6
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- (e) The Commission had commenced the issue of licences for power generation in the year 2009 and from that year up to the year under review 201 licences had been issued generation of electricity to small scale electricity generating institutions. Out of those licence holders 55 licence holders had not started power generation activities even by 31 December 2014.
- (f) It had been reported that 71 licence holders had not started generation activities by November 2013 and out of those 14 licence holders had informed the Commission in the year under review that they had started the generation activities by the end of the year 2013. Nevertheless, the distribution licence holders had not furnished a certificate in support of the starting of generation activities within 30 days after starting the generation activities in terms of condition No. 4 of part one of the licence for generation of electricity.

#### **4.2 Staff Administration** -----

The following observations are made.

- (a) The approved and the actual staff of the Commission as at 31 December 2014 had been 45 and 42 respectively and as such 03 vacancies existed.
- (b) A sum of Rs.16,386,528 had been paid during the year under review for obtaining consultancy services.

**5. Accountability and Good Governance**

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**5.1 Budgetary Variance**

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Significant variances ranging from 18 per cent to 90 per cent were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

**5.2 Unresolved Audit Paragraphs**

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Even though the Committee on Public Enterprises had directed at the meetings held on 17 October 2011 and 09 August 2012 that action should be taken in terms of the Management Services Circular No. 39 of 26 May 2009, it had not been implemented up to date.

**6. System and Controls**

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Deficiencies in system and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention should be paid for the recovery of licence fees and the regulatory fees.