

Public Utilities Commission of Sri Lanka – 2017

The audit of financial statements of the Public Utilities Commission of Sri Lanka for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Commission on 31 July 2018.

1.2 Management's Responsibility for the Financial Statements

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 Audit Scope

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 Auditing 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. Subsections (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.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2017 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Non Compliance with Sri Lanka Accounting Standards

Following observations are made.

(a) Sri Lanka Accounting Standards 16

- (i) According to the paragraph 34 of the standard, when the fair value of the asset has material deviation from its carrying value should be revalue annually and assets with immaterial deviation from its fair value should be revalue every three years or five years, however 4 classes of assets had not been revalued and 2 classes of assets only been revalued for the last time in the year 2011.
- (ii) According to the paragraph 51, though property, plant and equipment of Rs. 49,965,467 had been completely depreciated due to non-reviewing of effective life time of non-current assets annually, those were still being utilized. Accordingly actions had not been taken to revise accounting estimation errors and to disclose correct carrying value in financial statements in terms of Sri Lanka Accounting Standard 8.

(b) Sri Lanka Accounting Standards 19

According to the paragraph 57 of the standard, though a reliable estimate should be done by using the projected unit credit method for determining employee define benefits, contrary to that, a policy had been identified and implemented based on the salary taken on the last month.

2.2.2 Accounting Deficiencies

According to the fixed assets disposal register of year 2016, property, plant and equipment at a cost of Rs. 1,664,243 which were completely depreciated, had been disposed during the year 2017 and the cost and cumulative depreciation of those assets had not been transferred from accounts.

2.3 Receivable and Payable Accounts

Following observations are made.

- (a) According to Section 46 of Electricity Act No.20 of 2009 and Condition No.11 of the Electricity Generation License issued to the license holders, a sum of Rs.81,852,700 with relating to the years 2014 and 2015 were receivable from Electricity Board and a sum of Rs. 212,962 were receivable from Other Institutions to the Commission as at 31 December 2017 as annual regulatory tax with relating to the year 2017.
- (b) Even though variable registration fees from lubricant sellers should be paid half yearly to the Commission within 30 days after the end of relevant period, a sum of Rs. 1,134,698 as a total of a sum of Rs. 460,780 and Rs. 673,918 from Private Company for the years 2013 and 2014 respectively and a sum of Rs. 5,000,000 with relating to second biennium of 2017 from Ceylon Petroleum Corporation had not been received even as at 30 June 2018.

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

The following non-compliances were observed.

| Reference to Laws, Rules and Regulations etc. | Non-compliance |
|--|---|
| ----- | ----- |
| Sri Lanka Public Utility Commission Act No. 35 of 2002 Section 3(1) and 3(2) | Though it should be required to fill those vacancies within 03 months from the time of arising any vacancy in the membership of the Commission, one member position has been vacant from 30 September 2014, and as a result of this, member of this Commission had been consisted with 05 since then. |

3. Financial Review

3.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 111,090,475 and the deficit of previous year was Rs. 3,082,655. Accordingly an improvement of Rs.114,173,130 were observed in financial result. The increase of variable registration fees income by Rs. 83,069,537 and decrease in consultancy service expenditure by Rs. 29,068,000 in the year under review as compared with the year 2016, had been the main reasons for this.

In analyzing the financial results of the year under review and 04 preceding years, though the operating result had increased by 68 per cent in the year 2014 as compared with the year 2013, it was decline by 84 per cent in year 2015 as compared with the year 2014 and by 176 per cent in the year 2016 as compared with the year 2015; However it had been increased by 3704 per cent in the year 2017. When readjusting of depreciations for non-current assets and employees remuneration to the operational result, the contribution of Rs. 98,274,006 in the year 2016 had increased up to Rs. 217,476,959 or 121 per cent in the year 2017.

3.2 Analytical Financial Results

The following observations are made.

- (a) Total income of Rs. 331,248,532 for the year under review had included annual variable fees of Rs. 132,791,385 charged from Ceylon Electricity Board, Electricity Private Company and electricity generating people for electricity regulatory activities and it was 40 per cent of total income. That income was Rs. 49,721,848 in the year 2016 hence the increase was 167 per cent.
- (b) Operational expenditure included in the total expenditure of Rs. 220,158,057 for the year under review was Rs. 114,199,535. Operational expenditure in the preceding year was Rs. 103,057,057, thus indicating an improvement of 11 per cent in operational expenditure of the year under review as compared with that year, and consultancy service expenditure of Rs. 40,028,733 in the year 2016 was Rs. 10,960,733 in 2017 thus the decrease was 73 per cent.

4. Operating Review

4.1 Performance

4.1.1 Functioning and Review

Following observations are made.

- (a) It had been planned to implement 86 activities with the provision of Rs.249,784,240 during the year 2017 through 10 divisions with a aim of 12 long term targets based on electricity power sector, and it had been failed to achieve expected targets with relating to 11 activities at an estimated amount of Rs. 22,154,437 under 6 divisions. Following observations are made in this regard.
 - (i) According to the plans prepared for reviewing the environmental impact and continuous supervision on environmental activities with relating to Power Plants at Kelanitissa and Sapugaskanda, though a sum of Rs. 1,182,000 had been allocated to complete the study of draft environmental performance report during the month of May 2017 and to plan the initiation of environment performance reporting frame work; this activity had not been completed during the year 2017.

- (ii) Estimating of Releasing cost with relating to transforming energy in to electricity from basic energy resources had not been conducted during the year 2017 as planned.
- (iii) Though it had been planned during the year 2017 to prepare criteria to decide petroleum prices, the report with relating to the procedure used to decide the oil price at present and the final report on deciding oil price as at 31 August 2017 had not been prepared. According to the performance report, that draft report had only been prepared on 09 October 2017.
- (iv) It had been planned to generate low cost electricity efficiency under the activity named dispatch Audit. It was planned to prepare the final dispatch audit report as at 31 October 2017 and the said activity had not been completed even as at 31 December 2017. However the Commission has mentioned that, this activity could not be achieved as expected due to the delay in presenting self-assessment report and the report on operational process which should be presented by Ceylon Electricity Board.
- (v) Though it was planned to submit the final reports of activities such as Study on short term debt of Ceylon Electricity Board and study on indexation of material used for allowed charges which was planned in the year 2017, as at 30 October 2017 and 30 November 2017 respectively; those reports were in draft level even as at 31 December 2017. The Commission has mentioned that the delay has been occurred due to non-providing relevant data from Ceylon Electricity Board.
- (vi) Though it was planned to give final decision on the activity of review of allowed charges field for 2018, as at 31 December 2017; the relevant activity could not be achieved as planned.
- (vii) According to the action plan, it was planned to introduce 06 systems to simplify activities of the staff, however out of those activities only 4 activities had not been completed during the year 2017.
- (viii) Though it was planned to complete activities such as improving Human Resources and Finance Division by using computers and developing web page by July and September 2017 respectively; those activities had not been completed as expected.
- (ix) Least cost long term generation expansion plan should be presented for the approval of Public Utilities Commission in terms of paragraph 43 of Sri Lanka Electricity Act No. 20 of 2009 and paragraph 13 of Sri Lanka Electricity (amendment) Act No 31 of 2013; Ceylon Electricity board as the transmission license holder had presented the draft of least cost long term generation expansion plan for the period of 2018 to 2037 on 05 May 2017. However this had been shown as reviewing of long term generation plan in the action plan in the year 2017 and the Commission had approved that plan on 19 July 2017 with amendments. However both parties had not come to an agreement to implement the plan as amendment.

It was explained by the Commission in this regard that, Commission had given written answers for written inquiries presented to the Commission by the Electricity Board, representative of the Commission had participated in meetings calling in time to time by the Parliament Subcommittee for electricity power and energy sector as well as Cabinet Subcommittee meetings for economics management and written and verbal explanation were given for the inquiries raised by the relevant parties, therefore it is not fair that giving the sole responsibility of inability to implement the plan generated with the concurrence between two parties.

- (x) The activity named “Analyze technical feasibility of integrating battery storage system in to distribution network for peak saving” and planned in the year 2017 had not been commenced even as at 31 December 2017.
 - (xi) Though deciding of the minimum details with relating to charges and expenditure which should be included in the electricity bill under the activity of new format for electricity bill, had been planned as at 14 September 2017, that activity had not yet been fulfilled.
 - (xii) Though it was expected to complete on 31 December 2017 by appointing a Consultant for preparation of relevant plan by March 2017 under the activity of preparation and implementation of safety and technical management plan, neither appointing of Consultant nor completing the relevant activity had been done.
- (b) According to the paragraph 1 (2) of Public Utilities Commission of Sri Lanka Act no. 35 of 2002, the industries such as electricity, water services and petroleum had been vested to public utility commission as utilities industries, and actions are taken to get the service of this Commission to electricity industry by Sri Lanka Electricity Act No. 20 of 2009. However due to non-availability of legal background to acquire service of the Commission for petroleum industry and water services industry even as at the month of May 2018, the regulatory activities of the Commission had only been limited for electricity industry, and Commission had only been performed as shadow regulator with relating to lubricant and grease in petroleum industry in terms of Cabinet Decision dated on 08 June 2006.

4.2 Management Activities

The following observations are made.

(a) Study of Electricity Generating Cost

An agreement had been signed by Commission with Indian Company for American Dollars 36,416 (Rs. 5,600,000 approximately) on 25 July 2017 to obtain recommendations by doing a study to evaluate opportunity in reducing operational and maintenance cost which were a considerable part of power generating cost and

established standard in this regard with a mean of providing opportunities for consume electricity under a charge which could be bearable for electricity consumers.

Though the final report with relating to that activity should be presented as at 25 December 2017; initial report had only been presented by the said Consultancy Company as at 31 December 2017. The supplementary report which should be presented as at 25 September 2017 had been given on 15 January 2018 and final draft report which should be presented as at 25 November 2017 had been given on 29 April 2018, and final report had not yet been presented.

(b) Study on Electricity Consumption and Charges in Sri Lanka

According to the paragraph 3(1) (a) of Sri Lanka Electricity Act No. 20 of 2009 and General Policy Guideline issued to Commission by Minister of Power and Energy on 03 June 2009 with relating to electricity industry, the activity of conducting a study with relating to electricity consumption and charges in Sri Lanka which were in responsibilities vested to the Commission had been shown in the annual action plan of the Commission from the year 2015 to the year 2017. Commission had engaged to an agreement on 01 July 2016 amounting to Rs. 9,547,300 with a Consultant Institute for conducting a study in this regard. Though this activity which was planned to complete within an agreement period of 48 weeks, should be completed as at 30 June 2017; the said Consultancy Company had failed to complete that activity even as at 31 December 2017. Though Commission had given reasons as inability of further continuation in this study due to non-giving of data with relating to electricity consumption data from the year 2011 to year 2015 by Ceylon Electricity Board, legal actions had not been taken in terms of paragraph 15(1) (a) and 15(2), 15(3) of Commission Act.

Initiation of regulation on disadvantaged group of consumers and provision of life-line tariffs by using information generating from the above study had been included in the action plan 2017 by the Commission, however this activity could not be performed due to the delay in primary activity.

(c) Variable Registration Fees

(i) Registers for confirming sales revenue had not been presented by 12 Institutions in the first biennium and 10 Institutions in the second biennium of the year 2017 who were selling lubricant, and variable registration fees paid to Commission by lubricant sellers could not be verified due to non-remission of forms and sales report with relating to payment of fees for the first biennium by 02 Institutions and for the second biennium by an Institution. This had been resulted because of the Commission had not followed a proper procedure on receiving registers for the confirmation of sales revenue.

- (ii) According to the cabinet decision dated on 08 June 2006, though Public Utility Commission Act as shadow regulator for lubricant and grease in petroleum industry; according to the variable registration fees payment system currently operated, regulatory activities should have to be done without charging a fees from some lubricant sellers due to non-receiving any income to the Commission in instances not exceeding a sum of Rs. 2.5 million which the amount of 0.75 per cent from biennium sales revenue of lubricant sellers.

4.3 Operating Activities

Following observations are made.

- (a) According to the Condition No.11 of the License issued for the license holders with regarding electricity generation, transmission and distribution; though license fees for the particular year should be paid to Commission on or before 30 June in that year, 70 per cent of license holders had not paid license fees for the year under review even as at 31 December 2017.
- (b) A new accounting package in the name of "SAP" had been installed by the Commission on 06 December 2016 at a cost of Rs. 1,754,910 and the Commission had prepared accounts for the years 2016 and 2017 by using that accounting package, and deficiencies in that package were as follows.
 - (i) A correct trial balance for a particular date could not be generated from the accounting package and the trail balance had been prepared manually by using the information given by the system.
 - (ii) Access authority for this system had been given for the officers in Finance Division and the proper procedure could not be found in the system to check the correctness of the data input to the system and approving those data by high level management.
 - (iii) Though facilities had been provided for the calculation of depreciation of the fixed assets register which was given by the accounting package, depreciation amount is shown up to the date of accessing the package and possibility of calculating depreciation for particular period could not be possible.
- (c) Following deficiencies were observed as per the report of the board of survey conducted as at 31 December 2017.
 - (i) Two mobile phones issued to staff had been lost during the year and actions with relating to cash recovery had not yet been done.
 - (ii) Three mobile phones given on the basis of returning after its effective life time had not been produced to board of survey verification.

- (iii) According to board of survey report, it was mentioned that 12 laptops and 8 personal computers could not be used, and further actions had not been made in this regard.

4.4 Staff Administration

The following observations are made.

- (a) According to the paragraphs 9.2 (d) and (e) of Public Enterprises Circular No.12 dated on 02 June 2003, approval had not been taken by amending the organization chart and submitting it to Department of Public Enterprises.
- (b) According to the paragraph 9.3 of above circular, though proper procedure should be available in recruitment and promotions as well as the approval of the Board of Directors and the approval should be taken by directing to the relevant Ministry with the concurrence of the Department of Public Enterprises; the concurrence of the Department of Public Enterprise and the approval of relevant Ministry had not been obtained for the recruitment and promotion procedures of the Commission.
- (c) The approved cadre was 51 as at 31 December 2017 and actual cadre as at that date was 43, hence the number of vacancies was 8. Further 7 officers had been employed under contract basis as in two officers of senior level, 3 officers of tertiary level and two officers of primary level which were not included in the approved cadre of the Commission.

5. Sustainable Development

5.1 Achieving of Sustainable Development Goals

Actions should be taken by every Government Institution to comply with sustainable development “the agenda” for the year 2030 of the United Nations and it was aware the manner in which should be implemented with regarding the activities coming under the scope of Public Utilities Commission.

- (a) As awareness of the above year 2030 agenda, though “certifying reliable, sustainable and modern power supply with affordable to everyone” such sustainable development objective had been identified as achievable objective in accordance with its scope by the commission; 12 basic objectives of the Commission had been conceded as complementary for sustainable development objectives. Accordingly actions had not been taken to identify indexes for measure targets relating to sustainable objective, based data, miles stones of achieving targets as well as the progress.
- (b) Relevant activities to achieve targets in sustainable development objectives had not been included to annual plan by considering that the objectives of Institute is consisting with sustainable development objectives and there by financial allocation for the implementation of those activities could not be separately identified in the budget.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

According to section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements and draft annual report should be presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented by the Commission only on 05 April 2018.

6.2 Procurement and Contract Process

6.2.1 Procurement

Instances of actions non-complying with the recommendations in Procurement Guideline Manual No.8 dated on 25 January 2006 of National Procurement Agency amended by the Circular No. 6 dated on 05 October 2006 with relating to procurement performed during the year under review by Commission, were as follows.

- (i) According to the Guideline 2.12, though every member in Procurement Committees and Technical Evaluation Committees should give sign declaration with their signatures at the first meeting of those Committees, actions had not been taken accordingly.
- (ii) According to the Guideline 5.3.10, the validity period of bids with relating to contract less than Rs. 2 million was 49 days and it was mentioned in bid calling registers that the validity period of bids with relating to the contract for furniture and fittings in 17 floor at a cost of Rs. 1,240,800 would be more than 120 days.
- (iii) According to the Guideline 5.3.11, a bid security had not been taken with relating to procurement for development of 100 face book images and 10 animations at a cost of Rs. 900,000.
- (iv) According to the Guideline 6.3.3, though the Bid Opening Committee should be consisted with a minimum of 02 members approved by Procurement Committee, only one person had been participated for the bid opening activity of procurement process of designing and printing of backdrop for public consultation EV charging station.

6.2.2 Deficiencies in Contract Administration

According to the agreement entered with the supplier, though the contract awarded on 28 November 2014 for developing soft wares by mean of installing document management system would be started on 14 January 2015 and completed on 13 June 2016, it was informed by a letter dated on 24 May 2017 by the supplier that the relevant activity could not be performed and the said agreement would be canceled. Though the period of almost one year had been lapsed by ending the agreement period at the time of cancelling the agreement, actions with relating to breach of agreement could not be taken due to non-inclusion of

conditions in the agreement with relating to recovery of losses occurred on breaching of agreement.

6.2.3 Delayed Projects

The contract of supplying furniture and fittings for 17 floor of Commission building had been awarded to a Private Company for total cost of Rs. 1,240,800 (excluding Tax) by following procurement process. The accepting letter had been sent to the supplier on 16 November 2017; and according to the bid calling register, though it was mentioned that the work should be completed within 30 working days, the work had not been completed even as at 31 December 2017.

6.3 Budgetary Control

Variances ranging from 44 per cent to 100 per cent were observed between the budgeted expenditure and the actual expenditure during the year under review and as such the budget had not been made use of as an effective instrument of management control.

7. Systems and Controls

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

| Areas of Systems and Controls | Observations |
|--------------------------------------|--|
| ----- | ----- |
| (a) Staff Administration | Non taking relevant approval for organization structure and improper staff recruitment and promotion activities. |
| (b) License Fees and Regulatory Fees | Improper attention on efficient revenue collection. |
| (c) Action Plan | Non achieving targets in action plan. |