

## **Ceylon Electricity Board Provident Fund - 2021**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of financial statements of the Ceylon Electricity Board Provident Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 statements, including a summary of significant accounting policies, 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 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

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

#### **1.2 Basis for Opinion**

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

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

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

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

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

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standard**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>According to the SriLanka Accounting Standards bound volume 2020 - Conceptual framework for financial reporting issued by Accounting standards committee, all the expenses and assets attributed to the reporting entity should be recognized and presented in the financial statement of the reporting entity. However, operating expenses amounting to Rs. 53,639,207 which was directly attributable to the Provident Fund for the year under review, had not been recognized or disclosed in the financial statements.</p>	<p>Pursuant to the Clause No. 20(i) of the Provident Fund Rule gazetted on 31<sup>st</sup> December 2003, all the Administrative expenses of the Fund, except for expenses related to inspection of Housing Loans, are being borne by CEB and this policy was in place from the inception of the fund (from 1 st November 1969) therefore the operating expenses incurred by CEB on behalf of Provident Fund are not recorded in the Financial Statements of the Fund. Further, having presented this matter to the Management Committee of the CEB Provident Fund, the committee decided, at the meeting held on 11<sup>th</sup> February 2021 and 26th May 2022 to continue the present practice of incurring Management and Administrative expenses of the Fund by the Board and the CEB Board having considered the matter in detail, approved to continue the present policy of incurring Management and Administrative expenses of the Fund by the Board.</p>	<p>Should be complied with the provisions in the Accounting standards.</p>

## 1.5.2 Accounting Policies

### Audit Observation

The estimated useful lives of vehicles of the Fund and the CEB had been changed from 7 years to 14 years during the year under review. The impact on depreciation amounted to Rs.3.6 million had been adjusted retrospectively as a prior year adjustment in the financial statement of Fund for their vehicles. However, changes in lifetime of motor vehicles and its depreciation policy had not been disclosed properly in note no 3.3.3 of financial statement of the Fund.

### Management Comment

As per Note N0.3.3.3, It is stated that “the useful lives, residual values, and method of depreciation are reviewed at each financial year end and adjusted if appropriate”. If required, additional information can be disclosed in forthcoming financial statements.

### Recommendation

Required information should be disclosed in financial statements for the understanding of the users.

## 1.6 Accounts Payable

### Audit Observation

A sum of Rs. 72,039,691 belonging to the vacated and removed members had been remained outstanding for more than one year, and out of that amount, a sum of Rs. 63,032,304 had been remained outstanding for more than six years.

### Management Comment

Rule of the Fund does not prescribe a minimum time period within which the member is supposed to submit documents for the final payment. Therefore, the Fund is still liable to release these funds when the required documents are submitted and cannot be written off from the financial statements.

### Recommendation

A Mechanism should be established for final settlement of vacated and removed members.

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

### Reference to Laws, Rules Regulations etc.

### Management Comment

### Recommendation

(a) Ceylon Electricity Board Provident Fund Regulations

(i) Rule 4 – Earnings In contrary to this provision, in computation of contribution to the Fund, CEB had recognized the

When calculating Provident contribution, allowance (among Exodus

Should be complied with the Provident Fund Regulations.

highest allowance out of the allowances of Exodus Allowance, postgraduate degree allowance and professional allowance/ Semi-professional allowance, as earnings.

Allowance, Postgraduate Allowance, Professional Allowance and Semi Professional 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.

- (ii) Rule 22 – Dividends to members
- In contrary to this provision, dividends had been paid based on the members’ credit balances standing as at the end year under review, instead of the members’ credit balances standing as at the end of the previous year.
  - Dividend is not accumulated for the last year’s contribution in which the member is retired therefore the direction given by Rule N. 22 is complied with.
- Should be complied with the Provident Fund Regulations.

- In contrary to this provision, dividends had been calculated based on income before deducting some expenditure and making provision for reserves.

- Dividend calculating is done properly after creating reserves and provisions and after deducting any expenses chargeable to the fund.

(b) Financial Regulations (FR) of the Democratic Socialist Republic of Sri Lanka

(i) FR 454(1)

Inventory records relating to 42 inventory items used by the Fund had not been maintained.

Each and every inventory item purchased by the fund is recorded in the inventory register of the Fund and mentioned 42 numbers of inventories have been procured by CEB therefore not recorded in the Fund inventory register but they are properly recoded in the CEB’s inventory register.

Fund should be maintained inventory records for each and every inventory items used by the Fund.

(ii) FR 396                      cheques aggregating to Rs. 5,605,806 written in January to June 2021, had not been realized up to 31 August 2022. However, no any action had been taken for these cheques of which the period of validity had expired.

First, un presented cheque total stated in your report is not tally with our records but cheques amounted to Rs. 4,378,257.94 were subsequently presented and action is being taken to cancel the remaining cheques which are expired.

Auditor's schedule is tallied with the bank reconciliation and all these cheques are not presented or cancelled up to August 2022.

Therefore, Actions should be taken as per the Financial Regulations.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 5,474,724,389 and the corresponding profit in the preceding year amounted to Rs 6,294,668,211. Therefore, deterioration amounting to Rs.819,943,822 of the financial result was observed. The reasons for the deterioration are increase of other operating expenses and decrease of interest and other income during the year 2021.

### 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.

<b>Income/ Expenditure</b>	<b>2021</b>	<b>2020</b>	<b>Increase / (Decrease)</b>	<b>Percentage %</b>
Interest income	5,475,285,041	6,290,686,206	(815,401,165)	(12.9)
Other income	5,392,150	7,880,288	(2,488,138,)	(31.57)
Other Operating Expenses	5,952,802	3,898,283	2,054,519	52.7

### 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.

<b>Ratio</b>	<b>2021 %</b>	<b>2020 %</b>
Net Profit Ratio	85.26	84.61
Rate of Return on average Investment	8.44	10.62
Rate of Return on Members balance	6.59	8.23

Net Profit Ratio of the fund had recorded 85.26 per cent in the year 2021 compared to the 84.61 per cent in the year 2020. However, Rate of Return on average Investment had been decreased from 10.62 per cent to 8.44 per cent as compared to the previous year due to decrease of interest rates on investments. Rate of Return on Members balance of fund was decreased from 8.23 per cent to 6.59 per cent as compared to the previous year due to decrease of the return on investments.

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Recoverability of receivable from investment amounting to Rs. 2,157,483,000 recorded under current assets in the statement of financial position was in doubt due to lack of evidence relating to those financial instruments, and no any confirmation had been received from the Primary Dealer (Entrust Securities PLC). Further, the management of the CEB had lodged a complaint at FCID against Entrust Securities PLC on 09 December 2015 relating to that case, and the FCID had filed a criminal case at the District Court for misappropriation of funds owned by the Provident Fund of CEB. However, that case had not been finalized up to end of the year under review.	As noted in the report the litigation is in progress and investment reserve has been created against any impairment loss on the said investment provisioning through the annual income statement of the Fund. The reserve stood at Rs. 2,157,483,000 as end of 31 <sup>st</sup> December 2021. Further, the Fund has initiated civil case against Entrust Securities PLC in the District Court of Colombo, under the Case No: DMR/1405/2018, to recover the Face Value and Defaulted Coupon Interest Payments therein for the said investment.	Actions should be taken to recover the outstanding balance of investment.
(b) Public Service Provident Fund Reserve which has existed since the inception of the Board amounting of Rs. 2,167,354 had been transferred to the contribution of CEB (15%) and contribution of Member (10%) without proper approval.	Under new system design, it was required to transfer Public Service Provident Fund (PSPF) balance in to CEB (15%) and member (10%) categories which did not have any changes to the liability hence if required, covering approval can be obtained from the Management Committee of the Fund.	Management committee approval should be obtained for transfer the reserve.