Ceylon Electricity Board and its Subsidiaries - 2021

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Electricity Board ("Board") and its Subsidiaries ("Group") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the 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. The financial statements of the Subsidiaries of LTL Company (Pvt.) Ltd and Trincomalee Power Company Ltd were audited by the firms of Chartered Accountants in public practice appointed by the Board of Directors of the respective Subsidiaries.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Board and the Group give a true and fair view of the financial position of the Board and the Group 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board and the Group are 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 Board and the Group.

1.4 Audit Scope (Auditor's responsibilities 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 skepticism 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 internal control of the Board and the Group.

- 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 Group'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 Group 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 Board and the Group and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Audit observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) **Conceptual Framework for Financial Reporting**		
(i) Expenses of the Employee Provident Fund (EPF), which was operated under the Board as a separate entity, amounting to Rs. 53.63 million had been recognized as expenses of the Board in the Statement of comprehensive income for the year under review in contrary to the paragraph 4.1(b) of the framework.	A board paper was submitted to the CEB Board and having considered the matter in detail, the Board granted approved to continue the present policy of incurring Management and Administrative Expenses of the Fund by the Board.	Should be complied with the requirements of provisions of accounting standards.
(ii) Assets owned by the Board amounting to Rs. 8 million had been utilized for EPF activities in contrary to the paragraph 4.3 of the framework.	The Comment had not been given by the management.	The proper approval should be taken to use the asset for the activities of the EPF.

(b) LKAS 2- Inventories and LKAS 16 –Property, Plant and Equipment		
The Board had applied the standard cost method for valuing materials and overhead costs of its capital and maintenance jobs, instead of being applied the actual costs in line with the requirements of the above Standards. As a result, there were favorable overhead rate and material price variances aggregating to Rs.4.04 billion. Further, there was an unfavorable stores price variance aggregating Rs. 1.78 billion. However, the impact on operating results, assets and equity in the financial statements could not be properly ascertained due to lack of required information relating to those capital jobs.	The Pricing Committee was instructed to review the standard prices bi – annually in order to minimize the gap between actual prices and standard prices. In addition to above, CEB is the process of implementing ERP system with the Weighted Average inventory valuation method. When the ERP system is introduced in CEB these issues will be eliminated. Further there should be an allocation method to absorb the overhead cost to capital and maintenance jobs. Overhead rate is calculated using directly attributable overhead related to respective capital or maintenance jobs and absorbed to those jobs.	Should be applied actual cost or approximate cost base when valuing materials and overhead costs.
(c) LKAS 8 – Accounting Policies, Changes in Accounting Estimates and errors		
The fully depreciated non-current assets, amounting to Rs.197.21 billion, which had been continuously utilized by the Board, had not been reviewed annually to revise the estimated useful lifetime as per the accounting policy Nos. 2.4.6(e). Further, the Board had revised the estimated useful lifetime of its vehicle fleet in the year under review, and accordingly, a sum of Rs.3.l7 billion had been adjusted in the financial statements retrospectively.	Actions will be taken to identify a mechanism to resolve the audit observation. Necessary disclosures related to change in useful life of motor vehicles has been made in the accounting policy and note-33 Prior year adjustment -12 if additional disclosures are required it will be made in the Group financial statements.	Should be complied with the accounting policy of the Board.

(d) LKAS 16 – Property, Plant and Equipment		
The value of fixed assets in the Transmission Division as at the end of the year under review was amounting to Rs. 202.9 billion, and out of which, the fixed assets amounting to Rs. 201.01 billion had not been physically verified as at the end of the year under review.	The physical verification pertaining to all moveable fixed assets have been successfully carried out and records furnished for the attention of Audit. Hence, the actions will be taken to physically verify these assets pertaining to Transmission Division.	A physical verification of fixed assets in each year Should be conducted as per the LKAS 16.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
	As per the Cabinet Decision No. 10/2434/423/034 dated 13 October 2010, the loan amounting to Rs.159.18 billion taken by the Treasury for the construction of the Lakvijaya Power Plant was transferred to Lanka Coal Company (Pvt) Ltd (LCC). According to the instructions of the Treasury Secretary, this loan should be a direct loan from the Board. Accordingly, the Board shall ensure that an accounting arrangement is in place to separately identify the long-term and short-term portions of that credit balance in the Board's financial statements. it was observed that there were no any arrangements made by the Board. For above accounting treatments. Following observations are made in this regard.	It was emphasized that servicing of the said loans needs to be channelled to the CEB as the asset and the obligation both are in the balance sheet of the CEB. Thereafter, directions were given by Public Enterprise Department to convert the loan payments from 2019 onwards into equity of CEB.	
(i)	The loan repayments amounting to Rs. 61 billion made by the General Treasury prior to 31 December 2018 had not been recognized as equity in the financial statement of the Board.	As Treasury has decided to treat these loans as a direct loan obtained by CEB and such sub loan agreements with government have not been entered into. Since the debt servicing is done by Treasury due to Liquidity Constraints of CEB the actual payment made to the lending agency by treasury has been transferred to CEB as a conversion of	Action should be taken to adjust the books of CEB once the written direction received from Department of Treasury Operations.

	debt to equity including the exchange rate losses.	
(ii) As per the Section 42(6) of Electricity Board Act No. 17 of 1969 any loss or profit in relation to the revaluation of Sri Lanka Rupee with regarding to a loan provided to the Board should be charged to the consolidated fund and the Government shall bear that loss or profit arising thereon. However, exchange losses amounting to Rs. 6,700 million and Rs. 676.37 million in the years of 2020 and 2021 respectively had been included in the statement of comprehensive income of the Board. As a result, losses for the years of 2020 and 2021 had overstated by Rs. 6,700 million and Rs. 676.37 million respectively.	As per the Sri Lanka Accounting Standards exchange rate losses related to the capital repayment of the loan converted as equity are accounted in the statement of comprehensive income.	CEB should comply with the requirements of the Act.
(b) A debit balance of Rs. 123.86 million relating to stock shortage and a credit balance of Rs. 32.65 million relating to stock excess had remained unsettled in the Stock Adjustment Account for over one year.	Stock shortage amounting to Rs 93,823.50 has been cleared during the period from June 2022 to 31st August 2022. Follow up actions are being taken to clear the remaining balance. Some of the Stock shortages, stock surplus and Stock adjustments are cleared. In the case of WPSII, a committee will be appointed to examine and make recommendations to clear the outstanding balance.	Necessary actions should be taken to clear the stock excess and shortage immediately.
(c) An amount of 25.23 billion received to the Board as disbursement from foreign loans for Projects after 31 December 2014 had been recorded as sub loans received from the General Treasury. However, those loans had not been recognized as sub loans in the Island Account. Further, the responsibility for the repayment of those loans had been assigned to the Board by the Cabinet decision No. 15/0228/613/012 dated 18 March 2015. However, the Board had not paid or made any provision for repayment of capital and interest	At the meeting held on 2018-01-11 by the Department of Public Enterprise it was decided to convert the on-lending loans made to CEB through the General Treasury after 2014-12-31 in to GOSL equity with approval of the cabinet of Ministers. Further advice in this regard has been sought from the Director General, Department of Public Enterprises by the letter no (FM/AFM (HQ)/Treasury Loans) dated 2021.07.14. Therefore, until the direction is received by treasury to transfer this balance in to equity, CEB	The matter should be cleared as the instruction of the General Treasury .

	payment of those loans. Hence, the accuracy of those loans could not be ascertained in audit.	has recorded it as a liability to treasury.	
(d)	Six foreign funded loans valued at Rs. 66.83 billion had been recognized in the financial statements of the Board as loans received from the General Treasury. However, there were no any sub-loan agreements entered into with the General Treasury. Accordingly, it was observed that the obligation for repayment of those loans had not been properly recognized by the Board. Further, the Board had not made any arrangement to settle the loan or to make any provision for repayment of capital and interest of those loans. Hence, the completeness and accuracy of those loans could not be ascertained satisfactorily in audit.	The loan agreements are already signed between the Government of Sri Lanka and the respective lending agency. Therefore, the loans are being serviced by the General Treasury as well. Further advice in this regard has been sought from the Director General, Department of Public Enterprises.	The sub loan agreement should be signed with the General Treasury.
(e)	The jobs carried out by the Board to supply, maintain and repair power generators, lifts and air conditioners to Government institutions prior to 2013 had been valued at cost and accounted for, instead of being recognized them at invoice values. As a result, the receivable balance and retained earnings shown in the financial statements had understated each by Rs.36.8 million as at 31 December 2017.	The difference between the actual cost and the estimated value of the jobs carried out by the Government institution as at 31.12.2020 is Rs. 43,421,695.18 and the same difference as at 31.12.2021 is Rs. 36,811,013.41. Out of these outstanding balances, board approval has been granted in August 2021 to write off the total sum of Rs, 33,784,518.05 balance that needed to be received from religious institutions for providing mobile generators for religious festivals and other functions such as sports events, since these balances were long outstanding even after various efforts are being made to recover the outstanding balances.	Should value the said jobs at invoice values and record them accordingly. Actions should be taken to collect the receivable at the inception of the transactions.
(f)	The Board had paid a sum of Rs. 5,000 million to the General Treasury as levy in 2016, and out of which a sum of Rs. 2,000 million had been charged to the retained earnings and a sum of Rs. 500 million had been amortised and shown in the statement of comprehensive	Based on the Department of Public Enterprises letter no. PDE/I/CEB/2/11/(iii) dated 16.10.2019, in year 2019, this payment was considered as “Management Fee” paid to treasury and amortized over a period of 10 years from year 2017.	Should charge the amount of Rs. 5,000 million paid to the General Treasury as levy in the year 2016 to the retained earnings.

	income as management fees for the year under review. The balance amount of Rs. 2,500 million had been shown as other debtors in the financial statements for the year under review. Accordingly, it was observed that the Board had not clearly understood the nature of the transaction and taken into account.		
(g)	A 8,094 number of completed jobs valued at Rs. 6.34 billion had been remained in work in progress account without being transferred to assets account in 04 Distribution Divisions. Further, depreciations on those assets had not been recognized in the financial statements.	All the completed jobs are transferred to the assets when the completion reports are received. An amount of Rs.2,643.11 million valued Jobs has been transferred to the assets in the year 2022. Provincial level committees were appointed to monitor continuously and handover the long outstanding capital jobs. Therefore, a considerable reduction compared to the 2021 could be seen in the outstanding WIP of the divisions as of now.	Action should be taken to capitalize the completed jobs.
(h)	Rs. 124.30 million worth vehicles purchased for the Puttalam Coal Power Project by the Contractor had not been capitalized even after the completion of the Project in 2014, and instead, that amount had been remained in work in progress account. Further, depreciation of those vehicles had not been recognised in the financial statements since the Project completion date.	Ownership of 06 nos. vehicles purchased for the Puttalam Coal Power Project (Phase-02) to the value of Rs.124.30 million has not been transferred to the CEB even up to 31st Dec.2021. Capitalization will be realized once the ownership of vehicles is transferred to the CEB.	Action should be taken to capitalize the said vehicles.
(i)	An appropriate provision for unrecoverable accounts of the street lighting maintenance expenses relating to the Distribution Division 4 amounting to Rs. 32.32 million had not been made in the financial statements.	Provision have been already made for unrecoverable accounts amounting to Rs. 32.32 million for the street lighting maintenance expenses in the 2022 financial statements.	Should adjust the financial statements accordingly.
(j)	The balance of sundry debtors had understated by Rs. 41.48 million due to offsetting of abnormal credit balances.	The action will be taken to correct by the next year accounts.	Presentation of items in the financial statements should be done correctly.

(k) The Economic Service Charges (ESC) which had expired the claimable period amounting to Rs. 2.7 billion had not been adjusted in the financial statements. As a result, the loss for the year under review had understated by Rs.1.13 billion and retained earnings had been overstated by Rs.1.622 billion.	Action has been taken to submit board memo to write off the Rs 2.7 billion explaining the situation.	Accounting treatment for un claimable items should be made in timely manner.
(l) Goods in transit amounting to Rs. 871.2 million were remained in goods in transits account ranging the period from 1 to 5 years without being taken proper actions to settle. Further, there was an abnormal credit balance of Rs. 5.1 million in the Goods in Transits account. Documentary evidences relating to goods in transit balances were not made available to audit.	The actions have been taken to adjust some balances and further actions will be taken to clear the Goods in Transits account.	Action should be taken to rectify the said matter.
(m) Cost of the Electricity Distribution Development Project - Dehiwala Mount Lavinia amounting to Rs. 39 million had remained work-in-progress account since the year 2010 without being capitalized.	WIP balance has already been transferred to the Project division by Distribution Division 4 for the Capitalization.	Necessary action should be taken to capitalize the work in progress amount.
(n) The disposed fixed assets amounting to Rs. 14 million had been shown as fixed assets under the Transmission division in the financial statements.	Actions have been taken to identify corrective measures to update the fixed assets register and pass the relevant accounting entries in financial statements as at the end of year 2022.	Necessary action should be taken to rectify the said matter.
(o) The financial statements of the Board had been continuously restated since 2013 due to failure of the Board to design, implement and maintain a proper internal control system to detect, correct and prevent material misstatements due to frauds or errors.	Action has been taken to minimize such restatements in future. Due to the complexity of the operations and transactions of CEB there are instances where financial statements are required to be restated in order to ensure financial statements are free from material misstatements and also to rectify, if there are any misstatements occurred in the previous years.	A proper internal control system should be implemented and maintained.
(p) A debit balance of Rs. 557.94 million and credit balance of Rs. 556.81 million had been remained unsettled in the financial statements since 2002 as a result of transferring the inter	The purpose of better presentation in Financial Statements it has been transferred to Trade debtors Account. Action will be taken to clear this balance.	Action should be taken to clear the balances.

divisions' current account balances to debtors control account instead of being settled.		
(q) The Board had established a Project Management Unit for the Lakwijaya Power Plant Extension Project as per Cabinet Decision No. 19/2622/113/074 dated 24 September 2019. Even after spending a sum of Rs. 167.31 million on that Project, the Board of Directors had taken a decision to close down the Project on 26 October 2021 based on the Government policy taken on 26 July 2021 by the Cabinet of Ministers. Nevertheless, any provision to write-off that amount had not been made in the financial statements as at 31 December 2021.	Board Paper has been submitted to obtain the approval of the board to write off the expenditure incurred and a provision in the Accounts can be included according to the board decision.	Action should be taken to write off the amount.
(r) The value of 28 vehicles and the accumulated depreciation thereon had not been recorded in the assets register of Lakvijaya Power Station. As a result, the value of those vehicles had not been included in the financial statements.	These vehicles were received under the project of LVPP phase I & II. Transfer vouchers for vehicle values have not been received to LVPP as at 31st December 2021.	Action should be taken to rectify the issue.
(s) The Government owned land on which the head office building of the Board is being located had been recognized as an asset of the Board in the financial statements of the Board. Hence, the assets of the Board had overstated by Rs.105.62 million.	Land Commissioner has informed the Divisional Secretary, Colombo to arrange long term leasing for the land without issuing the relevant ownership document. However, CEB is not willing to go for a lease but for the ownership of the property Further a meeting has been held on 2022-08-23 with Secretary, Ministry of Power & Energy and Secretary, Ministry of Tourism and Land. Decision taken at the meeting is to settle this matter early.	Action should be taken to obtain the ownership of the land.

1.5.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) There was a difference of Rs. 1,235 million between the balance	Dispute amount of Rs 753.61 Million has been discussed at the meeting with the	Action should be taken to reconcile the

	shown as payable to the Ceylon Petroleum Corporation (CPC) in the financial statements of the Board as at 31 December 2021, and the corresponding balance shown as receivable in the financial statements of the CPC as at that date. Further, in the above mentioned amounts, there was a disputed amount of Rs. 753.61 million as at 31 December 2021, and it had been reiterated in audit reports since 2013 continuously. Further, there was an un-reconciled balance of Rs. 469.11 million as at 31 December 2021.	participation of CEB, CPC, Ministry of Power and Energy and Treasury and resolving process is in progress. Rs 469.11 million of difference appeared in 2021 December and to date is due to a change in practices made by CPC unilaterally by set offing delayed interest on priority when settling invoices by CEB.	differences.
(b)	An unidentified debtor balance of Rs. 423.76 million had been remained unrecovered since 2012 in Distribution division 1. However, out of which a sum of Rs. 181.42 million had been transferred to Distribution Division 3 without getting clarifications.	Out of Rs. 423.76 Million debtor balances, Rs. 241.22 Million remain in the books. The continuous actions are been taken to clear the balance. As per the available information, balance of Rs.423 Million remained under books of AFM Cost Center since the year 2015, as the amount had not been transferred during the process of Decentralization. All Divisional AFMMS have been informed to check whether any balance belongs to them and after the responses received from divisional AFMMs necessary action will be taken.	Action should be taken to reconcile the ledger balances with the system balances in each division in every month.
(c)	There was difference between the system generated balances and the ledger account balances relating to ordinary debtors in DD1. Accordingly, it was observed a difference of Rs.6.77 million in Ordinary Debtors in the year under review as a result of non-reconciliation of system generated balances and the ledger account balances on time.	The purpose of reconciling the difference, Reconciliation between billing system balance and Ledger balance is done and reconciliation statement is provided with Financial Statements by each distribution divisions.	-Do-
(d)	Collection Control Account had a debit balance of Rs. 297.33 million and a credit balance of Rs. 1,409.57 million as at 31	The related reconciliation will be forwarded in due course.	Action should be taken to reconcile the ledger balances with the system balances in each

	December 2021. However, reconciliation of unsettled balances was not made available to audit. Hence, the accuracy of the Collection Control Account balances could not be satisfactorily vouched in audit. It was further observed that an unidentified opening balance of Rs. 166.45 million had been included in the Collection Control Account.		division in every month.
(e)	A sum of Rs. 68.99 million collected during the period from 1998 to 2021 had been included in the suspense account without being taken proper actions to settle it.	Suspense account balance can be cleared after receiving customer complaint. When the customer informs correct customer account number the relevant amount can be transferred to customer account. Further to that follow up action is implemented to clear the suspense collections by obtaining details from collection agents.	Action should be taken to develop a mechanism for long unidentified receipts.
(f)	A receivable amount of Rs. 38.76 million had been remained outstanding since 2019 due to application of a wrong tariff methodology for customers by the Board.	This has been addressed in the Audit committee meeting and as per the confirmed minute of the Audit committee meeting held on 28 December 2021, Audit Committee directed to finalize the Committee report of the Committee formulated to review and submit recommendation with regard to the power purchase agreement and bulk agreement pertaining to the AES Kelanitissa (Pvt) Ltd. Committee report has not been submitted yet.	Action should be taken to regularize the matter and submit a report immediately.

1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) Various staff allowances had been paid by the Board from time to time to its staff on the approval of the Board, but, in contrary to the decision taken by the Cabinet of Ministers on 14 November 2007 and the provisions in the Management Services Circular No. 39 of 26	The board has taken a decision to limit the staff allowance to 65% of the salary with effect from July 27, 2022. A circular has been issued on this regard.	Should comply with the requirements of the Circular and Cabinet decision in payment of allowances to the staff.

May 2009. In audit tests it was revealed that such allowances totaling to Rs. 2,134.9 million and Rs. 1,544.4 million had been paid in the years of 2021 and 2020 respectively. Further, in contrary to the provisions of the above Cabinet decision and the Board decision No. BM/2021/22/01, the payment of allowances made to 323 employees had been exceeded 65 per cent of their salaries.		
(b) As per the Public Enterprises Circular No. 130 dated 08 March 1998, vehicle loans should be granted at the interest rate ranging from 10 per cent to 14 per cent. However, the Board had granted vehicle loans to its employees at the interest rate of 4.2 per cent without being considered the liquidity difficulties of the Board.	The mentioned findings are related to the benefits given by the Board to its employees to motivate them towards working for the betterment of the organization. Further, the act itself provides the authority for the Board to make rules in respect of administration of the Board affairs.	When executing of the Powers of the Act, the Board should comply with the provisions in the Circular.
(c) The Board had not paid interest on consumer deposits as specified in the Section 28(3) of Sri Lanka Electricity Act, No. 20 of 2009. According to the computation made in audit based on the rate reported by the Public Utilities Commission of Sri Lanka for the year 2021, the interest to be paid thereon was Rs. 1,357.60 million, and accordingly, the unpaid accumulated interest as at 31 December 2021 had been Rs. 8,089.50 million.	Awaiting for the response from Ministry of Power for the request sent to Secretary of MOP . Further to the above draft board paper has been prepared requesting approval from the board for starting payments of interest on consumer security deposits, once the financial position of CEB is improved.	Should comply with the provisions in the Act.
(d) The Board had increased the salary of employees by 25 per cent in the year 2021 based on draft collective agreement, which was not a legal document as it had not been signed by the	The Board advised the GM, CEB to issue relevant circular instructions in this regard. Based on the decision of the Board, GM, CEB issued the relevant circular. Further the Board has taken a decision to inform all trade unions to sign the collective	Action should be taken to legalize the collective agreement.

related parties, employer and employee unions. Accordingly, the negative impact to the Board due to that unauthorized payment was approximately Rs. 9.6 billion.	agreement as soon as possible

1.5.5 Preparation of Consolidated Financial Statements

The Qualified Opinion on the financial statements of the following companies for the year ended 31 December 2021 had been expressed by me based on the following observations.

(a) Lanka Coal Company (Pvt.) Ltd

Audit Issue	Management Comment	Recommendation
i. As per the paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), with regard to the value added tax assessments, a sum of Rs. 287.1 million relating to additional tax payable, and a sum of Rs. 220.6 million relating to penalty payable thereon for the years of assessment 2017/2018 and 2018/2019 had not been disclosed in the financial statements.	LCC has submitted the 04 amended VAT returns to IRD along with the appeal for value added tax assessment received and negotiation is going on for same. First meeting was successfully done dated 06/06/2022 with assistance of the Tax consultant. If necessary as per the Sri Lanka Accounting Standards, disclosure will be made in next financial year	Should be complied with the provisions of the accounting standard.
ii. The Company was unable to settle a sum of Rs.33.3 million relating to suspense accounts of 154 shipments, and a sum of Rs.1.8 million relating to advances receivable from the CEB Proc-coal closing balance in the year under review.	<u>The contained of beginning balance of the Suspense account:</u> Receivable from CEB Rs.4,323,787.00 : Amount left after settlement of the account with CEB in 2017. Being further investigated to ascertain source/origin. <u>The contained of the amount transferred with in the year 2021: Rs.30,757,506</u> The amount to be paid to Mercator was a result of accounting. The relevant amount had already been received from the CEB, but because it had not been reflected in the accounts, it was kept by debiting it to the suspicious account. Being further investigated to ascertain source/origin to clear the suspense account in 2022 financial year.	Company should ascertain the origin of the balances and clear the suspense account.

iii.	When importation of coal, a mark-up of 10 per cent, which had not been actually incurred, had been added to the value at the point of the Customs as a notional adjustment in ascertaining the value for the Custom purpose. However, the Company had added a 10 per cent mark-up amounting to Rs.5,324.4 million to the revenue, and later, that amount had been recognized as discounts to the debtors and adjusted to the cost of sales. As a result, the cost of sales and revenue had overstated by similar amount.	LCC was given a directive by Inland Revenue Department (IRD) to add the customs margin to cost in the issuance of VAT invoices to CEB. This pricing mechanism was adopted following a meeting held in the ministry on 28th June, 2018 with the attendance of an official from Inland Revenue Department (IRD). IRD official is on record and minuted having told that LCC's base value for VAT on invoices to CEB cannot be less than the value for customs purposes. The 10% is, therefore, added solely on the directive of IR official. CEB has challenged the directive and written to IR by their letter dated 2018.09.07 to which the response is yet to be received.	The Company should take immediate action to receive the IRD directions on the matter.
iv.	According to the financial statements, VAT and other receivables amounting to Rs. 197.6 million receivable from the CEB as at the end of the year under review had not been confirmed by the CEB. Further, CEB had not recognized this liability in its financial statements. Accordingly, the accuracy and completeness of that amounts could not be ascertained satisfactorily in audit.	Action has been taken to inform the relevant officials to send the balance confirmation to LCC in due course after finalizing the payables.	Company should get resolved the matter immediately after negotiating with the CEB.
v.	Management fees amounting to Rs. 22.5 million had been outstanding for over 3 years as at the end of the year under review. However, any provision in this regard had not been made in the financial statements.	According to a meeting held on the 17th of June 2020 at the LVPP Power Plant Manager Office, AGM (G) requested that LCC send a justification letter for the outstanding management fee receivable for the years 2016, 2018, and 2019, stating that "all expenditure was made to the business transaction with CEB.	The company should make provisions for long outstanding receivables.
vi.	According to the information made available, it was observed that the Company had paid a sum of Rs. 205 million as penalty to the Sri	As per the investigation done by Sri Lanka Customs, Lanka Coal Company has not declared the correct transaction values of the coal imported during the period from 19/09/2016 to 09/04/2018. During that time,	The Company should record this payment as penalty expenses and obtain approval from Board of Directors for

	Lanka Customs due to non-declaration of correct value of the coal imported during the period from 19 September 2016 to 09 April 2018. The penalty payment made in 2019 had been accounted for under the Sri Lanka Custom VAT account, VAT control account and CSCL liability account instead of being accounted as expenditure in the respective years. As a result, the retained earnings had overstated by Rs. 205 million and the Sri Lanka Custom VAT account, VAT control account and CSCL liability account had understated by Rs. 158.2 million, Rs. 40 million and Rs. 6.8 million respectively in the year under review.	the custom declaration totally handled by Ceylon Shipping Corporation (CSC) for a charge of Rs.1, 000,000/- per shipment and S.L Customs had imposed a forfeiture of Rs.205, 000,000 to LCC on above wrong declaration. The investigation officers of S.L Customs had informed to LCC Officers that no any final VAT payment to be done after this payment. Further LCC has identified the actual penalty Rs. 6,843,417.00 due to above wrong declaration and debited against CSC liability.	this payment.
vii.	The Company had not taken appropriate actions to get recovered a long outstanding balance of Rs. 539.1 million receivable from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL), and no any provision had been made for impairment. Further, the TISCL/CSCL had not confirmed the due balance. Therefore, it was unable to ascertain the accuracy and existence of the above balance.	A high-level committee handled the Taurian Iron and Steel settlement. The committee has not ruled that the debt is bad, and the buyer has agreed to settle the debt by providing coal. According to information we have, the settlement proposal has been submitted to the Cabinet for consideration. The current status of the outstanding amount receivable from Ceylon Shipping Corporation (Taurian Iron and Steel Company Ltd.) was referred to the Cabinet of Ministers, who appointed a four-member Committee of the Treasury (Chairman), Ceylon Shipping Corporation, Lakvijaya Power Plant, and Lanka Coal Company to negotiate with the Taurian Iron and Steel Company. Furthermore, the Cabinet has advised that the committee's recommendations be submitted to the Cabinet via the Ministry of Ports and Shipping, which has yet to be done.	Company should take actions to expedite the recovery process.

viii. Balance confirmations and other relevant evidences relating to the verification of balances of Miscellaneous Debtors amounting to Rs. 18 million, Receivables from Noble Resources International (Pvt.) Ltd amounting to Rs. 1.1 million, Trade Creditors – Nobel Resources International (Pvt.) Ltd amounting to Rs. 85.9 million and SGS charges of 50 Per cent receivable from Liberty Commodities Ltd amounting to Rs. 8 million were not made available to the audit.	i. Miscellaneous Debtors Rs.18,075,802 Initial investigations revealed that the amount comprises of Rs.17,839,949 of irrecoverable NBT & PAL . Being further investigated to ascertain source/origin. ii. Receivables - Rs.1,115,987 There is a credit balance for a sum of Rs.85,887,776 for Noble Resources and we will set off this debtor balance against the same. iii. Trade creditors-Rs.85,887,776 The balance mainly consists of an under drawn amount by the creditor due to expiry of the LC validity period. iv. SGS Charges 50% receivable Rs. 8,048,531- Draft Survey Charges at discharge port for 17 nos of vessels in the season 2015/16 are included. Arbitration process is going on this matter.	Company should ascertain the sources of the receivable balances, take actions to recover the receivables and should get confirmed the creditors balances and do the needful.
ix. The Company had paid a sum of Rs.136.3 million as Custom VAT for the Shipment No. 123. However, according to the Cusdec, the actual VAT amount was only a sum of Rs.107 million. Accordingly, it was observed that the Company had overpaid a sum of Rs.29.3 million.	Due to a wrong declaration done by Ceylon Shipping Corporation, Lanka Coal Company (Pvt) Ltd overpaid VAT of Rs.29, 266,966 to Sri Lanka Customs for shipment no. 123. LCC has already filed a refund claim, and the Customs Department is working on the appropriate formalities to complete the refund or set off against LCC's outstanding Customs due balances. LCC is holding equal CSC outstanding sum until the refund claim is resolved.	Company should get resolved the matter immediately after negotiating with the IRD.
x. There was an unidentified difference amounting to Rs. 4 million between the balance payable to Ceylon Shipping Corporation as at the end of the year under review as per the financial statements of Lanka Coal Company (Private) Limited, and the balance confirmed by the Ceylon	LCC prepared a reconciliation statement by identifying items for the difference in the balance payable to Ceylon Shipping Corporation as of December 31, 2021. Most of the items were not booked by LCC for justifiable reasons and were disclosed under note no. 24 "Commitment & Contingencies." The LCC and the CSC are currently in discussions to resolve the existing discrepancies and unidentified differences in	Company should recognize the unidentified difference and record accordingly.

	Audit Issue	Management Comment	Recommendation
	Shipping Corporation as at that date. However, the Company had not taken proper actions to reconcile the difference.	the year end balances as of 31 December 2021.	
xi.	Balance confirmations and other relevant documentary evidences relating to a payable balance of Rs. 2.million as at the end of the year under review were not made available to audit.	The above Accounts Payable (Account Code No: 20000) were caused by incorrect accounting entries made in the years 2018 and prior. Action will be taken to effect necessary entries to rectify the above error.	Management had commented on a payable balance not included in the audit observation and Company should ascertain the origin of the balance.

(b) Lanka Electricity Company (Private) Limited

	Audit Issue	Management Comment	Recommendation
(i)	Share certificates or any other sufficient appropriate documentary evidence in respect of the investment amounting to Rs. 5 million made in ordinary shares of the Lanka Broad Band Network (Private) Limited as at 31 December 2021 were not made available to audit.	This matter was referred to the Attorney General department. They have requested certain information / clarifications time to time and company working on providing that information and clarifications. It is expected to file a case against this company based on the Attorney General Department's final instructions.	Action should be taken to recover the value of the investment.
(ii)	An unidentified collection from customers (Other creditors) amounting to Rs. 14.7 million transferred from the rejected account had been shown under the balance of other creditors as at 31December 2021. Out of which, a sum of Rs.3 million had been brought forward from prior to 2016.	This matter is being cleared by Treasury Division coordinating with the collection agents and banks. All relevant efforts were taken by LECO to mitigate such issue. As of now LKR 1,746,780.92 was identified and settled. This is a continuous process and there are unidentified collections in several bank accounts due to mistakes made by the depositors and errors/omissions of collectors. When bank reconciliations are prepared, these unidentified collections are cross check with relevant collectors to clear them.	(i) Appropriate actions need to be taken to clear the un-reconciled transactions in ledger accounts. (ii) The internal control system should be improved to minimize un-identified collections.
(iii)	The balance due from the Ceylon Electricity Board (CEB) for miscellaneous services as at 31 December 2021 was amounted to	For the year 2021 receivable amount was already adopted with UNT Tariff adjustment for 4th Quarter of 2021. Discussions are ongoing regarding the settlement of previous years' balances.	Action should be taken to (i) recover the balance from CEB (ii) provide the

	Rs. 1,343.8 million which contained the cost of energy purchased by the CEB amounting to Rs. 1,336.9 million for the years of 2017, 2019 and 2020 using net accounting and net plus methods. However, the balance confirmation for that amount was not made available to audit. Further, CEB had not recognized this liability in its financial statements.		balance confirmations to audit.
(iv)	The Company had incurred a cost of Rs. 206.9 million to purchase the lands and buildings used for construction of the CEB primary substations and that amount had been recorded as a balance receivable from the CEB. However, there was no formal agreement between the Company and the CEB regarding setting up primary substations in Company's lands and charges to be paid by the CEB for utilizing the above mentioned lands and buildings.	Noted, It will be submitted to Board Of Directors, and actions will be taken as per their instructions.	Action should be taken to enter into a formal agreement with CEB.
(v)	According to the Section 6.9 of the Operational Manual for State Owned Enterprises Circular No. PED/01/2021 dated 16 November 2021, the Board of Directors may write off losses, having undertaken a due process and must ensure that there is a due process followed including recommendation from Audit Committee on write offs. However, the Company had not followed the said process in this	Agreed with Auditor's observations. These write-offs were made only with the Authorizations of Board of Directors. Noted to take proper Approval from Audit Committee prior to send the BOD	Action should be taken as per the provisions in the Circular.

regard and a debtor balance for street light amounting to Rs. 387.8 million due from Municipal Councils and Provincial Councils had been written off during the year under review based on the Board approval given on 30 November 2021.		
(vi) The income generated from the non-bulk customers in the last month of a year had been used to recognise as income from the non-bulk customers in the next year. Accordingly, income received from non-bulk customers in December 2020 had been recognised as the income in January 2021, and same practice had been applied for other years continuously. Therefore, the accuracy and completeness of revenues received from non-bulk customers could not be ascertained properly.	The retail (non bulk) bills are distributed from 1st to 25th day of every month. The consumption December and January mixed with the December billing cycle and difficult to cater them for two months. Therefore, these incomes always read with the following month.	Action should be taken to recognize the revenue as per SLFRS - 15 Revenue from contract with customers.

(c) Sri Lanka Energies (Pvt) Ltd

Audit Issue	Management Comment	Recommendation
(i) The building of the meter enclosure factory of the Company had not been depreciated since 01 January 2018, and also, the depreciation policy relating to the meter enclosure factory had not been disclosed under the notes to the financial statements.	Meter Enclosure factory of Sri Lanka Energies (Pvt) Ltd consist with two major components including factory building and injection molding machineries. Among these two, injection molding machineries and rest of the equipment have been depreciated from the point that they were available for use. Only the factory building need to be depreciated and this will be adjusted and necessary disclosures will be made in the 2022 financial statements accordingly.	Should be complied with the provisions of the Accounting Standard.
(ii) According to the paragraph 79(b) of Sri Lanka	Necessary action will be taken to disclose the fully depreciated assets in the next financial	Should be complied with the provisions of

Accounting Standard LKAS 16 - Property, Plant & Equipment, the Company might disclose the gross carrying amount of fully depreciated property, plant and equipment that still in use. However, the Company had not disclosed the total cost of fully depreciated property, plant & equipment amounting to Rs.19 million that were in use. Furthermore, the cost of property, plant & equipment retired from active use and not classified as held for sale were not disclosed in accordance with SLFRS 5.	year.	the Accounting Standard.
(iii) As per the financial statements, accumulated income tax provision as at 31 December 2021 was Rs.40.4 million, and the provision for income tax for the year 2021 was Rs.9.7 million. However, the company had not prepared an income tax computation in accordance with the provisions in Inland Revenue Act No. 24 of 2017 and its amendments. Therefore, the accuracy of the income tax provision made by the Company could not be ascertained satisfactorily.	Income tax provision of 24% from the profit before tax was made for the purpose of finalizing the annual financial statements till the final income tax computation is conducted from the inception of the company. Currently under the process of finalizing the same.	Should be complied with the Inland Revenue Act.
(iv) The Company had not disclosed information about the carrying amounts held in different classifications of inventories in the financial statements as per the paragraph 37 of Sri Lanka Accounting Standard on Inventories (LKAS 02).	Please refer to the note number 06 in the financial statements where the classification has been made for inventories as per LKAS 02 by classifying the finish product, WIP and raw materials separately. Note 6 in financial statements.	Action should be taken to disclose inventories correctly.
(v) Sufficient and appropriate information relating to income tax provisions amounting to Rs.40.4 million, output VAT on	VAT and NBT files has been already submitted.	Should provide required documents timely to the audit.

sales in year 2021 amounting to Rs.27.7 million, NBT payable amounting to Rs.595,036, Stamp Duty amounting to Rs.67,100, PAYE payable amounting to Rs.136,795, and deferred tax assets amounting to Rs. 28,999 were not made available to audit. Further ETF, NBT, PAYE and VAT returns, income tax returns, tax assessment received if any, and relevant schedules and.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Out of the trade debtor balance of Rs. 44,079 million as at 31 December 2021, a balance of Rs. 6,839 million relating to both ordinary and bulk supplies had been remained outstanding for over one year, and out of that amount a sum of Rs. 2,928 million had been remained unrecovered for more than five years.	**Division** / **Reply** DD-01 2318.21 Mn DD-02 3474.91 Mn DD-03 572.95Mn DD-04 473.41 Mn Hq 10Mn Amount of Rs.4,920 million were recovered by divisions from outstanding balances as at 31 December 2021 in the year 2022 and Board approvals had been taken to write off some balances and amount of Rs.8.96 million had been write of in year 2022. Committees have been set up to recover possible balances by some Divisions and relevant officials are negotiating with customers to promote them to settle the dues to CEB promptly.	Immediate actions should be taken to recover the outstanding balances.
(b) A sum of Rs. 83.68 million shown under the receivables from Government Institutions for supplying of lifts, air conditioners and power generators by the Asset Management Division of the Board had remained unrecoverable for more than five years.	Most of the receivables consist of Government Hospitals, Ministry of Power & Energy and Other government institutions. Even though, follow up action has been taken to recover by sending letters and using other steps recoverability of those receivable is questionable. Steps have been taken to write off those unrecoverable balances.	Action should be taken to recover the due balances.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
A sum of Rs. 2.9 billion payable to the Northern Power Company (Pvt) Ltd had been included under the trade payables of Transmission Division in the financial statements, and that amount had been remained unsettled for over three years.	The Northern Power Plant has been shut down since 2015-01-27 due to a stay order issued by the Magistrate Court of Mallakam. However, the Company has issued monthly invoices for capacity charges declaring this as a Force Majeure situation. CEB has accounted these invoice values as payable since the Court decision was pending. The Supreme Court has ruled that power plant has been operated violating the environmental law, therefore CEB does not have a liability to settle these invoices. Necessary actions will be taken in due course to write-off these amounts.	Action should be taken to write-off the said amount.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 7(1) and 43(1) of Sri Lanka Electricity Act, No. 20 of 2009 as amended.	Without obtaining the authorization from the regulator, 261.32 Gwh of energy valued at Rs. 6.02 billion had been purchased during the year under review from 3 retired Independent Power Producers (IPPs) whose generation license had been expired.	Retired 3 IPP Plants in 2021: Ace Embilipitiya, Ace Power Generation Matara, and Asia Power. There are no any legal impediments from sections 7(1) or 43(1) of Sri Lanka Electricity Act, No. 20 of 2009 (Amended), for Transmission Licensee to purchase electrical energy from retired IPP power plants. CEB had requested the approval of PUCSL to extend the expired Power Purchase Agreements (PPA) of these three retired IPP power plants and submitted the extended PPAs for their approval. CEB had to extend the PPAs of these power plants to comply with the duty of CEB (as the holder of Transmission license) under section 24(1)(c) of the Sri Lanka Electricity Act (SLEA) to ensure that there is sufficient generation capacity to meet forecasted demand for electricity. CEB had further considered the impact on the country's economy due to unsaved energy to industries/ hotels and commercial buildings, if any power cut was imposed. CEB has	Should Comply with the requirements of the said provisions in the Act and obtain approval for power purchases from the PUCSL.

			done so with the approval of the Cabinet.	
(b)	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.	Even though a contribution of 0.1 per cent of the total value of gross fixed assets as at the end of each year should have been transferred to the Insurance Escrow Fund since 1989, the Board had invested only a sum of Rs. 10,657 million as of 31 December 2021. According to the computation carried out in audit, it was revealed that, a further amount of Rs. 852.87 million could have been invested in the year 2021.	This difference has arisen mainly due to non-investment in Insurance Investment Escrow Account due to CEB is experiencing adverse cash flow situation from many years. For the last 8 years tariff revision has not been taken place while generation cost is escalating due to increase in fuel and coal prices. However, action will be taken to invest equal of 0.1% of the gross fixed assets in insurance reserve investment account once the CEB liquidity position and cash flows are improved.	Should comply with the provisions in the Act.
(c)	Section 3.5 of the Operational Manual for State Owned Enterprises issued by the Department of Public Enterprises dated 16 November 2022.	The Board had paid a sum of Rs.105.22 million in the year under review as salaries and other payments to 65 employees who had been released to the Line Ministry and to the CEB Provident Fund.	C.E.B. is not in a position to withhold the requests made by the line ministry to release its employees to the Ministry and the expenses incurred in this connection are not controllable by the C.E.B. However, a letter has been sent by the General Manager, CEB to the Ministry of Power, requesting to reimburse the expenses incurred by C.E.B. with regard to such the salaries & other benefits of employees released to the Ministry.	Should comply with the operational manual requirements.
(d)	PED Circular No. 95 dated 14 June 1994 issued by Department of Public Enterprises, and the Decision taken by the	A sum of Rs. 1.2 billion had been paid in the year under review as leave encashment for the year 2020.	The PED circular 03/2022 (I) dated 14.07.2022 the board has taken a decision to withhold the unutilized leave encashment for the year 2022.	Should comply with the provision in the Circular.

	Audit Committee of the Ministry on 25 September 2020.			
(e)	Section 47 of Employee Provident Act, No. 15 of 1958.	The Board had considered the highest of the exodus allowance, postgraduate degree allowance and professional allowance/ semi-professional allowance when computing the earnings. EPF had been paid based on those earnings.	In the Sub-section (f) of the Section 47 of Provident Fund Act No. 15 of 1958, it is stated that "such other forms of remuneration as may be prescribed" can be used to calculate the amount to be paid for employee provident fund. In line with this clause, the Board decided to consider the highest of the exodus allowance, postgraduate degree allowance payments or professional allowance / semi-professional allowance when computing the earnings for Employee Provident Fund. Accordingly, this is not against the law.	According to the Provident Fund Act, only allowed to add living allowances for EPF liable salary. Therefore, this practice is against the law and should comply with the said provision.
(f)	Section 6.1.3 of the power purchase agreement entered into with West Coast Power (Pvt) Ltd on 10 January 2007.	The electrical energy supplied by the Board to the West Coast Power (Pvt) Ltd at 220kv should have been at the cost of power, if there were no terms and conditions applicable to the supply of electrical energy at 220kv. However, the Board had considered only the energy charge to compute the rate of the electrical energy supplied to the Company by the Board without being considered the capacity charge and the other charges.	West Coast Power (Pvt) Ltd at Kerawalapitiya power plant is connected to the CEB network at 220 kV voltage level and electrical metering system is installed at the same voltage level. By AGM (DD 2) letter dated 2021-12-16 requested to take actions to consider West Coast Power (Pvt) Ltd as a Transmission customer. In connection with this regards a meeting was held at DGM (EM) branch on 2022-01-24 to discuss on this matter and it was decided to, a) search for the directives issued to adopt the set off method now in practice and; b) Compare the amounts charged to West Coast by CEB from set off method and I3 tariff for the whole period concerned It was observed that by AGM (Corporate Strategy) letter dated 2014-11-12, as per section 6.1.3 of the Power purchase Agreement, the setting-off of the electrical energy consumed from CEB could be only be done from the Energy Charge payable to West Coast Power (Pvt) Ltd.	Should comply with the requirements of the said provision in the Agreement.

		From that direction CEB has started setting off the amount of Energy imported by West Coast Power (Pvt) Ltd power plant from CEB starting from the month of October 2014. According to the comparison, the amount charged to West Coast by CEB from the set off method is higher than the amount from I3 tariff method for the whole period concerned. Therefore, it was decided to continue the set off method currently done by Transmission Division and to consider West Coast Power (Pvt) Ltd as a Transmission customer and transfer to Transmission Division in the event an approved Transmission Customer Tariff is available.	
(g) The decision of the Cabinet of Ministers dated 3 October 2018.	The Board had not implemented the Cabinet decision on utilization of the standby Generators owned by Government entities.	The above decision has not yet been implemented due to various reasons.	Action should be taken to comply with the Cabinet decision.
(h) Section 5.1 of the Operational Manual for State Owned Enterprises of 21 November 2021.	Even though the Board had incurred losses continuously, a sum of Rs. 2.7 billion had been paid as bonus in the year under review based on the draft collective agreement.	Based on various requests received to the management of C.E.B. from trade unions regarding payment of bonus for year 2021, the management sought the advice of the Board on December 06, 2021. Consequently, the Board decided to make the payment of Bonus and communicated the same for GM, CEB on December 17, 2021.	Should comply with the operational manual requirements.

1.8 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per the decision taken by the Cabinet of Ministers at the time of salary revision on 13 December 2007, and as per the Collective Agreement entered into on 20 May 2015, the liability of Pay As You Earn (PAYE) tax/ Advanced	From November 2020 onwards, Advance Personal Income Tax (APIT) was paid by employees of CEB.	Should comply with the Cabinet decision and the Circular instructions.

Personal Income Tax (APIT) had been decided to be shifted to the employees of the Board. However, the Board had paid PAYE tax/ APIT amounting to Rs. 4.98 billion out of its owned funds without deducting from the salaries of the respective employees during the period from 2010 to 2020 in contrary with the above mentioned Cabinet decisions and the instructions of the circular No. 3/2016 issued by the Department of Public Enterprises.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs.6,016 million and the corresponding loss in the preceding year amounted to Rs.51,530 million. Therefore an improvement amounting to Rs.45,514 million of the financial result was observed. The main reason is the decrement of cost of power purchase and fuel by 22 per cent and 19 per cent respectively due to increase in the generation of hydropower by 45 per cent.

2.2 Trend Analysis

(a) Power Generation

Although the main objective of the CEB is to supply of power at low cost to the country, the CEB was unable to achieve this objective due to unfavorable conditions in the Power Purchase Agreements, high cost incurred for generation of Thermal Power and less contribution from Wind and Other Non-conventional Renewable Energy Sources.

Further, Significant delays were observed in implementation of the activities included in the Long Term Generation Plan and the Transmission Plan of the CEB. As a result, the CEB had made emergency power purchases which were affected to the least cost objective of the CEB.

The position of power generation in 2021 as compared with the previous year is given below.

Source	**2021**	**2020**	**Increase/(Decrease)**	
	GWh	**GWh**	**GWh**	**%**
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Hydro	7,208	4,958	2,250	45
Thermal	2,631	4,179	(1,548)	(37)
Coal	5,519	5,754	(235)	(4)
Wind	645	332	313	94
Other Non-Conventional Renewable Energy	163	100	63	63

Grid Connected Solar	156	118	38	32
Rooftop Solar	389	269	120	45
Small islands	2.7	2.6	0.1	4
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Total	**16,713.7**	**15,712.6**	**1,001.1**	**6**
	=====	=====	=====	===

Accordingly, Hydro, Wind, other Non-Conventional Renewable Energy, Grid connected solar and rooftop solar during the year under review had been increased by 45 per cent, 94 per cent, 63 per cent, 32 and 45 per cent respectively while decreasing of Thermal and Coal generation by 37 per cent, and 4 Per cent respectively due to the favorable whether condition in the country.

(b) Direct Cost (Other than Distribution and Transmission)

A category wise analysis of direct cost of the year 2021 as compared with previous year is given below.

Description	**2021**	**2020**	**Increase/ Decrease**
	Rs. million	**Rs. million**	**Percentage %**
Fuel	24,373	30,195	(19.28)
Coal	47,311	42,805	10.52
Power Purchase	85,690	110,213	(22.25)
Operation and Maintenance	64,172	61,793	3.8
Depreciation	32,907	31,932	3
	-----------	----------	--------
Total Direct cost	**254,453**	**276,938**	**(8.12)**
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According to the above information, it was revealed that the cost of the fuel and cost of power purchase had decreased by 19.28 per cent and 22.25 per cent respectively compared to the previous year as a result of increment of power generation through least cost energy sources (Hydro, Wind, other Non-Conventional Renewable Energy, Grid connected solar and rooftop solar). However, the cost of coal had been increased by 10.52 per cent even power generation through coal is decreased by 4 per cent due to increase of coal prices.

2.3 Ratio Analysis

2.3.1 Working Capital Management

The Working Capital of the Group as at 31 December 2021 was reflected as a negative figure of Rs.76,634 million whereas the previous year negative balance was Rs.72,109 million. Hence, working capital of the year under review had been decreased by 6 per cent as compared to the previous year.

2.3.2 Debt to Equity

Equity balance of the Group as at 31 December 2021 had been increased by Rs.10,517 million or 3 per cent as compared with the previous year. Further, 47 per cent or Rs. 427,653 million of the total capital employed by the Group as at 31 December 2021 had been financed through borrowings. Further, the Debt to Equity Ratio of the Group had increased to 125 per cent in the year under review from 123 per cent in the previous year.

2.3.3 Profitability

The average cost per unit of the year under review was Rs.18.63 as compared with Rs.21.67 in the year 2020 and sold at an average price of Rs.16.37 per unit (previous year average selling price was Rs. 16.72 per unit). Accordingly, the gross loss per unit of the year under review was Rs. 2.26 and it was 54.34 per cent decrease as compared with the previous year average gross loss of Rs 4.95 per unit. The following table shows the tariff category , the contribution per unit (kWh) and the total contribution of electricity sold in the year under review as compared with the previous year.

	2021		2020	
Category	**Contribution per unit Rs/KWh**	**Total contribution Rs. million**	**Contribution per unit Rs/KWh**	**Total contribution Rs. Million**
Domestic	(3.72)	(19,485.36)	(6.81)	(34,662.90)
Religious	(11.46)	(928.26)	(14.45)	(1,184.90)
General Purpose	5.09	14,745.73	2.26	6,411.62
Hotel	(0.86)	(189.20)	(3.57)	(689.01)
Industrial	(3.96)	(19,095.12)	(6.83)	(28,440.12)
Government	(0.31)	(70.06)	(3.60)	(748.80)
Bulk Sup. to LECO	(4.59)	(7,495.47)	(5.64)	(9,052.20)
Street Lighting	(18.61)	(1,805.17)	(21.64)	(2,337.12)
Total	**(2.26)**	**(34,383.64)**	**(4.95)**	**(70,720.65)**

Accordingly, the tariff category of General Purpose was only the positive contributor to the total contribution of the year under review and it also had increased by 130 per cent compared to the previous year. The tariff on industrial and domestic category were the highest negative contributors to the total contribution of the year under review and the tariff on religious, hotel, government, sales to LECO and street lightening had also shown unfavorable contributions thereto.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
As per the Long Term Generation Plan 2018-2037, Seethawa Ganga Hydropower Project should be commissioned by 2022. A project management unit (PMU) was established in September 2016 and carried out activities such as feasibility study, detailed design and preparation of the draft tender documents. The total cost incurred by the project up to the end of the year 2020 was Rs. 301.19 million. However, the Board had decided to windup the project activities due to funding issues at the Board meeting held on 20 December 2020 due to funding issues. Further, at the Board meeting held on 23 February 2021 it was decided developing the above project through the Sri Lanka Energies (Pvt) Ltd (SLE), and to seek the approval of the Cabinet of Ministers to award this contract as a "Single Source Procurement" to SLE. Accordingly, it was observed that there was a risk that the cost of Rs. 301.19 million incurred by the project might be recognised as an expenditure of the Board, because this expenditure incurred for above mentioned purposes could not be used by another investor.	Board Paper has been referred to the Audit Committee for their observations and based on the board decision further action will be taken.	Should use the work done so far effectively to achieve organizational objectives.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the Section 24(1)(c) of Sri Lanka Electricity Act, No. 20 of 2009 as amended, the Board should be able to ensure that there is sufficient capacity from generation plants	When long term, low cost power plants are not developed as anticipated on time, (for which there are numerous reasons, most of which are beyond the control of CEB), CEB is compelled to procure short term supplementary capacity to avoid ensuing	The Long Term Generation Expansion Plan should be implemented.

to meet reasonable forecasted demand for electricity. However, as a result of not commissioning of plants as per the Long Term Generation Expansion Plan, the Board had to purchase thermal power on short term basis at an excessive cost.	shortfall and to comply to the duty of CEB (as the holder of Transmission license) under section 24(1)(c) of the Electricity Act to ensure that there is sufficient generation capacity to meet forecasted demand for electricity. Thus, the said procurement is made to comply to section 24(1)(c) and hence is not a violation of the same. Further, even though CEB prepare Long Term Generation Expansion Plans, CEB do not have the authority on its own to carry out the development of such plants identified in the LTGEPs. CEB is heavily dependent on other agencies and are governed by the Rules and Guidelines of other institutions such as "Electricity (Procurement) Rules No. 02 of 2016" published by the PUCSL and Government Procurement Guidelines. Some of these processes are overlapping too.	
(b) At the Cabinet of Ministers' meeting held on 16 May 2017, it was highlighted that there should be a viable programme to transfer the technical knowhow of CMEC engineers to the Board staff. However, without considering that decision the Board had signed the second and third technical corporation agreement for operation and maintenance of Lakvijaya power station on 23 November 2017 and 25 February 2020 respectively without getting the approval from the Cabinet of Ministers. Total invoice value for the said two agreements (From 01 October 2017 to 30 September 2021) was USD 13,766,367. Further, the another agreement had been entered into for obtaining of Technical Advisory Service for Operation	Initially in 2017, about 170 CMEC staff was working. With time it was reduce only to 15 numbers by transferring their knowledge to CEB staff. Present situation is as follows. Considering the Cabinet Memorandum (82/2921/E) submitted by the Hon Minister of Power the Cabinet approval was received on 29th December 2021 to pay all outstanding payment due for CMEC for providing O&M advisory service. The reference number of the relevant decision is PE/TEN/SCAPC/SJ/2021/18. The counting number of breakdowns does not reflect the plant performances. Plant breakdowns happen due to internal and external problems. Where external problems are having no control for LVPP. Plant availability factor and the plant factor are the suitable indexes for evaluate the performance of power plants.	Should Obtain approval form Cabinet of Ministers before entering into the agreement.

and Maintenance of the Plant for the sum of Rs. 435.64 million (Including Vat) with CMEC Lanka (Pvt) Ltd on 27 December 2021 for one year period from 01 January 2022. Even after entering into those agreements for the operation and maintenance of the power station, 16 numbers of breakdowns had been occurred only during the year 2021 with the loss of 105 days and energy loss of 758,587 mwh. Those breakdowns had resulted in significant adverse impacts on power supply of the country.		
(c) The estimated cost of the proposed head office building had been increased from Rs. 1,000 million to Rs. 6,161.87 million (including payments made for consultancy and previous contractor) due to delay in completion of the project from 2011 to 2021 as an additional space requirement, scope changes and price inflation. Further, amounting to Rs. 284.41 million had been incurred by the Board during the period from 2017 to 2020 for renovation of the existing head office building of which the ownership had not been confirmed even after planning a new building to be completed in the year 2023.	The reasons for increase in estimated cost of the proposed head office building are identified as follows. i. The floor area of the building was increased for the purpose of utilizing maximum space for offices by closing the Atrium well inside the building. Therefore the architectural floor area was increased from 27,750 sq.m to 33,818 sq.m with Cabinet approval. Therefore total floor area was increased by 6,068 sq.m (65,290 sq.ft). Accordingly, the cost is increased due to addition of works. ii. Significant increase of material prices for the period of; December 2018 to March, 2021. iii. Introduce internal partition arrangement for all offices. iv. Introduce essential building services which were not included in the previous design such as Building Cleaning system, Access control system, CCTV Camera system, Gas supply, Design and construction of Sewer treatment plant etc.	Make sure that the Project had completed within the Project period to avoid unnecessary cost.

		The existing Head Office building was constructed nearly five decades ago and still functioning. There were several repairs and maintenance works carried out with the aging of the building as per the recommendation of CECB consultant to withstand further twenty years. Therefore, repair and maintenance of the existing building was carried out by the Asset Management Division – CEB. Further due to civil aviation restrictions, no of floors of new building at Narahenpita proposed CEB head office Building is limited to eleven floors and CEB expects to utilize present Head office Building to accommodate rented offices in and around Colombo city and suburbs.	
(d)	According to the Long Term Generation Expansion Plan of 2018 – 2037, new generations of 500MW, 657MW, 430MW and 445MW were planned to be implemented in the years of 2018, 2019, 2020 and 2021 respectively. However, out of the planned new additional capacity of 2,032MW, power plants with aggregating capacity of 661.6MW had only been commissioned. Therefore, the progress of implementation of new generation plants was significantly lower, and the objective of the plan to produce least cost power supply was unable to achieve. As a result, a quantity of 267.17 Gwh valued at Rs. 6.54 billion had to be purchased as additional power during the year under review.	Even though CEB prepare Long Term Generation Expansion Plans, CEB do not have the authority on its own to carry out the development of such plants identified in the LTGEPs. CEB is heavily dependent on other agencies and are governed by the Rules and Guidelines of other institutions such as "Electricity (Procurement) Rules No. 02 of 2016" published by the PUCSL and Government Procurement Guidelines. Some of these processes are overlapping too.	Expedite commissioning of power plants as per the Least Cost Long Term Generation Expansion Plan to achieve least cost objectives.

(e) According to the training documents submitted by China Machinery Engineering Corporation (CMEC), the level “A” maintenance interval which refers to the comprehensive disassembling inspection and repair for the unit, so as to maintain, recover or improve the equipment’s performance, shall be between 4 to 6 years. However, it was observed that level “A” maintenance for units 02 and 03 of the Lakvijaya power plant had not been conducted even after 7 years from the commissioning date of the units. It was further observed that 13 numbers of breakdowns had been occurred relating to the unit 02 and 03 of the Lakvijaya power plant during the year under review with a loss of 663,510Mwh energy.

Level A Overhaul of Unit 2 was initially planned in 2020. CEB requested to appoint a SCAPC for procurement of this service in February 2020. The procurement process to obtain expert service was commencing in 2020, by appointing a SCAPC a TEC. A bid was called from CMEC, the relevant Cabinet approval was received on 1st July 2021. The man service contact was awarded to CMEC on 16th July 2021.

- The procurement process was not able to perform due to the worldwide Covid-19 pandemic situation in 2020. The lockdown situation in both countries effected for the procurement process.

- The overhaul was re-scheduled to September 2021 and the agreement was signed between CEB and CMEC but as per the request made by CMEC as they could not mobilize the Chinese experts. The work was postponed to 2022 due to the Covid-19 restrictions imposed in both countries and the Board of CEB decided to postpone the overhaul until June 2022.

- The unit 2 shoot down for level A overhaul on 18th Morning of June 2022

The audit statement mentioned there are 14 number of breakdowns. The number of breakdowns are counted by considering the breakdowns due to both internal and external faults. The Internal fault is the fault occurs in the machineries and equipment within the plant. The external fault is the fault occurs outside the plant due to the problems initiated through national grid.
Some breakdowns are occurred due to the internal faults which exist for very short time period and it can be rectified and the plant can be re-started within few hours. And this kind of breakdown will not affect the overall plant performance. The total net energy generated by unit 02 and unit 03 from the date of commissioning the plant are 15,482.01 GWh and 14,087.50 GWh respectively.

Break down counted by the auditor is based on internal breakdowns due to forced outages and it is without the external failures and planned outages. Therefore, should do the maintenance timely as per the schedule to maintain, recover or improve the equipment performance.

(f)	The Board was unable to complete the remaining works of Tangalle Gantry to Nonagama Gantry line (from Tower 13 to 36) even after 15 years from the initiation of Lighting SriLanka Hambanthota Project due to unresolved objections.	Several objections have been received. PHM branch started the process of proper wayleave clearance in accordance with the PUCSL guidelines. Recently met the AG - Tangalle and relevant GSs to aware the situation.	Immediate action should be taken to resolve the matter and take steps to clear land issues to complete remaining work.
(g)	A sum of Rs. 61.39 million had been deducted by the lending agency in 2020 as commitment charges from the foreign funded loans given to the Board to implement projects. Many projects implemented by the Board had not been completed in due dates, and it had led to additional commitment charges. Further the details of computation of commitment charges were not made available to audit, and accordingly, the occurrence and accuracy of the commitment charges could not be verified satisfactorily.	Commitment charge is common to all projects and it cannot be avoided even if the project is on schedule due to stringent loan covenants in the loan agreements.	Should implement project activities as planned to avoid additional commitment charges.
(h)	Even after the completion of the formal investigation, prompt actions had not been taken by the Board up to 16 August 2018 against the person who was liable for stock shortages of Rs. 3.67 million occurred during the period from 20 November 2006 to 20 February 2012 in Asset Management Division (Power Plant). Further, the same employee was liable for another fraud occurred in other office of the Board, and his duty had been terminated on 05 December 2016 after recovering only Rs. 99,155 as the value of	In order to recover the losses from Mr. R.B. Wedagedara, the CEB Officers have been summoned several times to the Attorney General's Department with the required files to file a case. A pre-legal discussion was held with the Attorney General's Department on 2021-11-01 to recover the shortage of the stock from Mr. R.B. Wedagedara. However, the recommendations made by the Attorney General's Department after that discussion have not yet been received to this office by the Chief Legal Officer (CEB). A meeting has been held on 2022-09-12 with Actg. General Manager (CEB) to discuss the report of the three member committee on the stock shortage and the	Action should be taken to recover the loss and if any fraud was occurred, conduct investigation within a reasonable time period and take disciplinary action immediately on investigation report to avoid losses to CEB.

this fraud without being considered the prior fraud.	action is being processed	
(i) The Board had not acquired the right of dams valued at Rs. 62.95 billion as at 31 December 2021 shown in the financial statements.	All the dams relating to above mentioned power plants are operated, maintained, and managed by Mahaweli Authority of Sri Lanka by its act. However, the Board has acquired only the waterway up to the power intake at the reservoirs and those are fully operated, maintained and managed by the relevant power stations.	Should expedite the survey and valuation process of the lands of the CEB.
The Board had not taken actions to write-off the surcharges and interests amounting to Rs. 361,992,685 as per the Cabinet decision and the Board decision related to Valachchena Paper Corporation.	Still this agreement has not signed between Valaichchenai Paper Company Ltd with CEB in order to proceed this Board decision.	Action should be taken to clear the balance.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs. 2.46 billion, representing 8.5 per cent of the total consumable stocks amounting to Rs. 28.79 billion, had been shown in financial statements as slow moving, non-moving and damaged stocks as at 31 December 2021. Accordingly, it was observed that maintaining of such types of consumable stocks might cause for stock damages, increase in holding costs and creating opportunities for frauds.	Lakwijaya Power Plant – Rs. 1,336,017.15 Some of the consumables in LVPP is slow moving, because they are used very rarely as per the requirements. Because they are used only for the necessities. Thermal complex – Rs.4,197,497.67 Actions are being taken to clear the above stocks. Mahaweli complex- Rs.2,507,161.93 million This balance represents 0.0008% of total consumable stock and action will be taken to clear these balances in the future. Laxapana Complex - Rs.10.505 million Already a four member committees for each station have been appointed on 13/10/2021 to dispose the obsolete and damaged items. Samanala Complex –Rs.1,573,328.03 With the recommendation of a committee appointed, approval has already been	Remedial actions should be taken to reduce the nonmoving and slow moving stocks to avoid the damages, cost of holding and fraud etc.

obtained from the AGM (Generation) to dispose some identified items from above obsolete and non-moving items. Balance will be cleared before the end of the year.

Asset Management – Rs.31,100,900

Power Plants Unit (Cost Code: 653)
The given values of Non-moving & Slow-moving stocks represent the spare part items essential for generator maintenance which are required to be stored for urgent situations and cannot be procured readily and timely undergoing normal procedure.
The damaged & obsolete stock values represent the items which shall be disposed & the relevant action will be taken to proceed with the disposal

Air conditioning Refrigeration Unit (Cost Code: 656)

The given value of Non-moving stock represent the spare part items essential for Chiller, AHU, Packaged, Cool Room & Mortuary Cooler maintenance which are required to be stored for urgent situations and cannot be procured readily and timely undergoing normal procedure.

Lifts Unit (Cost Code: 657)
The given values of Non-moving & Slow-moving stocks represent the spare part items essential for Lift maintenance which are required to be stored for urgent situations and cannot be procured readily and timely undergoing normal procedure.
The damaged & obsolete stock values represent the items which shall be disposed & the relevant action will be taken to proceed with the disposal.

DD1 – Rs.824.14 million
Continuous actions have been taken to minimize stocks level; presently due to the shortage of materials, slow moving items have been issued for jobs whenever

		suitable. In addition to this, the continuous actions have been taken to minimize stocks levels of DD1 with the instructions of Additional General Manager DD1. DD-02 Rs.1,200,857,421.07 After the annual verification of 2021, the approval of the Board has been obtained on March 22, 2022, in order to remove the Obsolete & Damaged Stocks from the stores of Rs.26,853,254.43. DD 03 In Sabaragamuwa Rs. 6,167,272.83 worth of damage items (Board Approved) have been sold during the period of 2022 to reduce the damage and unserviceable stock prevail as at 31.12.2021. DD 04 Out of the damaged and unserviceable stock items, the BOS identified Rs. 3,081,087.50 which can be sold out and stock items worth Rs. 683,669.00 to be destroyed and disposed. Based on the observations board paper was submitted on 15th March 2022 to obtain approval to write-off obsolete, idle and damaged stock from the accounts and sell or dispose those items according to the GM's Circular No.2021/GM/39/FM and board papers are in the review stage of the audit committee.	
(b)	Unit costs (Per kwh) of purchased energy from the three retired IPP power plants and from the additional power plant of 24MW during the year under review were Rs. 21.75, Rs. 25.26, Rs. 24.97 and Rs. 88.85 respectively, while average selling price of unit was Rs. 16.37. Therefore, excessive cost of energy purchasing could have been reduced, if power plants were able to commission as per the Least Cost Long	During the first 04 months of a year, there is a dry weather condition, system demand increases and all the thermal power plants are operating at maximum Plant Factor during that period as hydropower generation is minimal. Therefore, the unit cost (considering both capacity and energy charges) of generating electricity in all thermal power plants during that period is comparatively low. Then, with the onset of the rainy season, system demand reduces and hydro power plants are operated at maximum plant factor and requirement for dispatching of thermal power plants will be	Should expedite the completion of activities stated in the plan.

Term Generation Expansion Plan to cater the real time demand requirements instead of being used emergency power plants at excessive cost.	reduced. In that case the cost of fuel will be less than the energy charge and the capacity charge will have to be paid. Also, these power plants have to be used even during the rainy season to meet the night peak demand. As a result of purchasing electricity at different times of the year, the unit cost of generating electricity in any of the generators mentioned above will go up or down. Contract period of Ace Power Embilipitiya (Pvt) Ltd, Ace Power Generation Matara (Pvt) Ltd and Asia Power (Pvt) Ltd Power Plant expired during dry season and minimum unit cost under maximum Plant Factor (50% - 70%) (21.00 Rs./kWh - 25.00 Rs./kWh) is shown. However, the Valachchenai power plant was operated under a very low Plant Factor (5.4%) overall due to the reduction in power demand due to the effect of Covid 19 and the heavy rainfall that prevailed during the period of operation. Therefore, the unit cost of generating electricity at this thermal power plant is Rs. 88.00, indicating a higher unit cost. In this case amount of capacity charge is considered for determination of the unit cost. However capacity charge is committed cost for the agreed term which has no relationship with energy delivery to CEB.

3.4 Procurement Management

Procurement procedure should be followed for non-conventional renewable energy (NCRE) projects after 6 August 2013 as per the Sri Lanka Electricity Act, No. 20 of 2009 as amended. Following observations are made in this regard.

Audit Issue	Management Comment	Recommendation
(a) Even though the rate for mini hydro plants should have been decided on actual costs method based on bid price, that rate had been decided on	The Avoided Cost based tariff system was introduced at the beginning to attract the investors for emerging field of NCRE power plant development. Subsequently, the drawbacks of this system had been identified and a new	Should review the ability of changing the method or rate used for mini hydro plants which are

	avoided cost method, which had no any relation with the actual cost of the mini hydro power plants. The avoided cost method was based on the thermal plants dispatched, and it had varied from fuel costs. As per the letter No. DGM/SYC/TCH/41of DGM (system control), the unit cost of mini hydro plants should have been less than Rs. 10.00. However, the rate determined on the avoided cost method for the mini hydro plants for the year 2021 was Rs. 19.11 for the wet season and Rs. 20.59 for the dry season. Further, as per the statistics reports, the hydro cost per unit for the Board was Rs. 2.49 in 2020.	tariff system identified as 'Cost Reflective, Technology Specific Three Tier Tariff' was introduced in the year 2008. Later, this system was also replaced by competitive bidding process where the tariff was decided by market forces.	currently operated under the avoided cost method.
(b)	Regardless of that, the Cabinet of Ministers had given approval for five Municipal Solid Waste Plants to be implemented based on Waste to Energy technology at Rs. 36.20 per Kwh (flat tariff for 20 years) in 2017. Accordingly, a power purchase agreement for one Solid Waste Plant had been signed with an independent power producer in December 2020 and hence, the total tariff of Rs. 36.20 per Kwh had been borne by the Board. However, Rs. 13.10 per Kwh had not been reimbursed by the General Treasury as per the Cabinet decision.	**Five Municipal Solid Waste Plants** There has been an element of ambiguity among the stakeholders of the industry on the viability of the Tendering Procedure in implementing NCRE projects. Therefore, the procurement of NCRE based electrical energy have been continued using a standardized tariff system until July 2017 when Hon. Attorney General has given his opinion that procurement of electrical energy shall be based on competitive bidding. In addition, CEB has complied with the Cabinet decisions dated 2017-10-10 and 2019-02-12 for signing PPAs for Colombo Waste (Municipal) to Energy Power Project and Thumbowila Karadiyana Waste (Municipal) to Energy Power Project. As approved by the Cabinet, Rs.13.10 per kWh out of total tariff of Rs.36.20 has to be reimbursed from General Treasury. The balance portion of tariff paid to Western Power Company (Pvt.) Ltd has been invoiced to the General Treasury for reimbursement. The invoices from 2020 December to 2021 August at	Action should be taken to recover the receivable balance from the Treasury.

	a total of Rs 633,260,550.00 has been submitted by CEB but has not received any reimbursement claim as of November 2022.	
(c) Only 7 procurements for NCRE projects with aggregating capacity of 390MW had been initiated up to 31 December 2021. Further, out of the above mentioned power plants, only one power plant with aggregating capacity of 49MW had been commissioned up to 31 December 2021.	It is to be noted that, from March 2020, Covid 19 pandemic first outbreak occurred in the country and travel restrictions were imposed from time to time up to 2021. This has resulted in most of the activities being blocked and caused delays in almost all the works. At present, due to the volatility in many parameters such as FOREX, bank interest rates, inflation rate, material shortages, constrains on opening LC's etc., have resulted in most of the projects financially non-viable and directly affects the progress of ongoing NCRE projects.	Should expedite the procurement process for NCRE projects.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Scheme of Recruitments and Promotions (SOR) of the Board had not been updated for a longer period.	One of C.E.B. trade unions, namely Ceylon Electricity Board Technological Engineers and Superintendents Union filed two Writ cases i.e.: CA/Writ/163/2021 and CA/Writ/288/2021 in the Court of Appeal, and the court issued interim injunctions to stop amending the existing SORP of C.E.B. Accordingly, all positive efforts taken by the C.E.B. management to amend the existing SORP is temporarily suspended until this interim injunction is revoked by the Court of Appeal.	Immediate actions should be taken to develop the SOR and obtain approval from Management Services Department.
(b) According to the existing SOR, 50 per cent of the total cadre of Human Recourse Officers (HRO) had been filled from externally and that percentage was planned to be increased year by year gradually up to 85 per cent. Further, there was no proper promotion scheme to get equal opportunities for all externally recruited persons. For instance, functions of two divisional heads of the Board	A promotion scheme for Human Resources Officers is included in the current SORP of C.E.B. Despite the audit query mentions that functions of two divisional heads of the Board had been covered by two engineers for a long time, the two particular divisions referred under this item are unclear. Therefore, providing a comprehensive answer at this moment is not possible. However, all divisions in C.E.B. except the Finance Division are headed by Special Class Electrical Engineers who are holding the posts of Addl. General Managers.	Should Include a clear promotion path for the employees who are externally recruited in the SOR.

had been covered by two engineers for a longer period.		
(c) The Chief Legal Officer post was one of the key positions of the Board, and that post was the Head of the Legal Division. However, that post had been in vacant since 03 June 2014. Even though, the Board of Directors had taken a decision to strengthen the Legal Unit in the Board meeting held on 09 December 2021, appropriate actions had not been taken to fill that post yet.	The Board is in the process of recruiting a suitable Chief Legal Officer (CLO) on the basis of external recruitment. In order to fulfil this task, it is required to amend the existing SORP, which was temporarily suspended due to an interim injunction of Court of Appeal. In the meantime, in-line with the government policy, the Board decided to stop all external recruitments until November 2023. Because of these two reasons, the management was unable to float an advertisement to recruit a suitable CLO externally.	Necessary actions should be taken to fill the key posts to maintain operations of the organization effectively and efficiently.
(d) The post of Secretary to the Board of Directors was in vacant since 08 July 2016. However, appropriate actions had not been taken by the Board to fill that vacancy.	The Secretary to the Board is directly responsible for administrating the activities of the Board. However, the Board has not granted permission to recruit a Secretary to the Board externally.	Necessary actions should be taken to fill the key posts to maintain operations of the organization effectively and efficiently.
(e) The Project Manager (ERP) post had been in vacant since 29 May 2017, and the covering up the duties of that position had been done by the Additional General Manager (AGM) of Distribution Division 04 without being taken actions to fill the vacancy.	Post of the project Director (ERP) was advertised with in CEB in November 2016. It was expected to appoint a suitable project Director by calling open applications within CEB. However, no applications were received for the advertisement published for selecting a suitable project, Director. Due to this reason Mr. Rohan Seneviratne, then Deputy General Manager (WPS1) was appointed as the project Director of the ERP Project on covering up basis by the General Manager on 29th May 2017 considering his educational qualifications and the seniority.	Necessary actions should be taken to fill the key posts to maintain operations of the organization effectively and efficiently.
(f) According to the approved cadre of Eastern DGM Office, there were 123 employees in excess in some categories of staff. However, despite of that, 57 skilled employees, 163 employees on casual basis and 14	Approved carder is not updated after 2018. Some of the skilled employees are with shortages when compared with the last approved carder and some of the employee categories are in excess. Therefore, skilled employee requirements are covered with the unskilled or semi-skilled employees. This will result to shortage or excess of some categories of	Necessary actions should be taken to identify the required man power and recruit accordingly.

<table>
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<td>employees on hired basis, though Manpower, had been attached to the DGM office (Eastern). Further, 58 numbers of bill-man had been attached to that office exceeding the cadre. However, there were 365 vacancies in that office in some employee categories of the cadre.</td>
<td>employees.</td>
<td></td>
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<td>(g)</td>
<td>According to the approved cadre, 260 vacancies in 19 technical posts were observed in Lakvijaya Power Station as at 31 December 2021.</td>
<td>Cadre details of the 19 Technical posts.

<table>
<tr><th>Approved Carder As per the approved personnel plan -2018</th><th>Present strength as at 31-12-2021</th><th>Vacancies as at 31-12-2021</th></tr>
<tr><td>479</td><td>219</td><td>260</td></tr>
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In accordance with the government policy to temporary suspend the external recruitments, the Board too have decided to stop all external recruitments until November 2023. Nevertheless, the management will take efforts to fill these existing vacancies at Lakvijaya Power Station from internal recruitments /promotions as much as possible.

In order to operate and to carry out maintenance activities with the view to keep the plant in reliable condition, necessary steps were taken to outsource the required service on the recommendation of the relevant Deputy Plant Managers up to filling of vacancies of the above technical posts.</td>
<td>Necessary actions should be taken to rectify the said matter.</td>
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