

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Public Utility Commission of Sri Lanka 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 tabled in Parliament appear in this report.

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

1.2 Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Commission'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 intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and

liabilities, to enable annual and periodic financial statements to be prepared of the Commission.

1.4 Scope of Audit

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 and its materiality depends on the influence the economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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.
- 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 Commission'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 Institute 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws

1.5 Accounts Receivable and Payable

| Audit Observation | Comment of the Management | Recommendation |
|--|---|--|
| <p>The balance of the annual regulatory fees receivable as at 31 December 2021 was Rs.82,544,592 and it included an amount of Rs.81,852,700 receivable from the Ceylon Electricity Board in relation to the years 2014/15. Due to failure to conduct a proper evaluation on the recoverability of this balance and to make adjustments for the allocation of bad and doubtful debts in relation thereto, an uncertainty cropped up in the audit regarding the fair value of the receivable balance shown in the statement financial position. As such, the fair value of the receivable balance of the annual regulatory fees shown in the financial statements, 2021 could not be established in the audit.</p> | <p>By the letter No. PUCSL/Fin/2022/01 dated 27 January 2022 addressed to the General Manager of the Ceylon Electricity Board, it had been informed to settle this amount. It has been informed that the Commission will resort to legal actions if the relevant amount is not further settled.</p> | <p>Action should be taken to recover the due balances expeditiously.</p> |

1.6 Non-compliance with laws, rules, regulations and management decisions.

| Reference to laws, rules, regulations etc. | Non-compliance | Comment of the Management | Recommendation |
|--|---|---|--|
| (a) Public Utility Commission of Sri Lanka Act No.35 of 2002. | Even though the Public Utility Commission of Sri Lanka had been vested in the powers to regulate the power, petroleum and water services industries in Sri Lanka by the Public Utility Commission of Sri Lanka Act No.35 of 2002, the legal framework required for the said regulation had not been prepared by the Ceylon Petroleum Corporation Act and the National Water Supply and Drainage Board Act. Notwithstanding lapse of more than 19 years from the establishment of the Commission, it had not been possible to amend the relevant Acts so as to subject the petroleum and water industries to the regulation of the Commission. | Although the Water Service Reform bill was drafted in the year 2003 and forwarded to the Legal Draftsman's Department on 23 July 2009 in order to prepare the necessary legal background for water industry regulatory requirements, it was temporarily suspended upon the recommendations given by the Supreme Court. Nevertheless, this task was resumed on the decision taken at the Cabinet meeting held on 02 May 2017. Accordingly, an instruction report was prepared by collecting evidence and handed over to the Ministry of Water Supply on 25 June 2021 to seek Cabinet approval. It is expected to initiate drafting laws soon after the receipt of Cabinet approval for the same. | Action should be taken to prepare the necessary legal framework for regulating petroleum and water industries. |
| (b) Paragraph I and II of the Management Services Circular No. 03/2018 dated 18 July 2018. | Even though the organization structure and the salary structure of the Public Utility Commission of Sri Lanka should have been approved by submitting a memorandum to the Cabinet by the Minister of Finance along | | |

with the recommendation of the National Salaries and Cadre Commission and the approval of the Department of Management Services, it had not been so done even by the end of the year under review and expenditure had been incurred as follows

- | | | |
|---|--|---|
| <p>(i) The staff of the Commission had been paid Rs. 45,873,483 under 11 types of allowances.</p> | <p>In terms of Section 12 (1) (d) of the Public Utility Commission of Sri Lanka Act No.35 of 2002, it has been stated that the Commission shall fix the rates at which such staff shall be remunerated and it has been stated in the Section 3 thereof that the Commission may make rules in respect of all or any of the matters referred to in subsection 12 (1). Accordingly, the Commission has prepared manuals and guidelines incorporating relevant financial rules and obtained the approval of the Commission. The final agreement reached at the discussion with the Department of Management Services was that since this Commission is a unique institution as compared with the other commissions and these have been prepared in accordance with the provisions of the Act which established the Commission, the current position in</p> | <p>Approval of the Treasury should be obtained for the prepared Institutional Administration and Procedural Code.</p> |
|---|--|---|

operation is suitable in terms of the provisions of that Act, and the minutes of the relevant discussions could not be given as they may be used as the precedence by other institutions if the minutes of the discussions are so issued.

- | | | |
|---|------|------|
| <p>(ii) According to the Procedural Code of the Public Utility Commission of Sri Lanka, provisions had been made to pay travelling expenditure at Rs.40,000 per month for the post of Assistant Director, Rs. 5,000 for the post of Management and Rs.2,500 for the post of driver. Without obtaining approval of the Treasury for those provisions, sums totalling Rs.8,880,000 had been paid.</p> | -Do- | -Do- |
| <p>(iii) Even though a vehicle loan scheme had been approved for the permanent employees of the Commission subject to a maximum credit limit of Rs.5 million with a repayment period of 5 years by the Commission Paper No.212 dated 15 March 2018, action had not been taken to obtain Treasury approval for that scheme. Accordingly, the Commission had reimbursed Rs. 248,088</p> | -Do- | -Do- |

to the bank as interest for the loan of Rs. 6,500,000 obtained by two officers during the year under review.

(iv) By the Commission Paper No.220 dated 18 August 2018, the housing and property loan scheme for the permanent employees of the Commission had been approved subject to a maximum credit limit of Rs.8 million and repayment period of 15 years. No action had been taken to obtain the Treasury approval for that scheme. Accordingly, the Commission had reimbursed Rs. 3,157,723 to the bank as interest for the loan of Rs.78,140,610 obtained by 18 officers during the year under review.

-Do-

-Do-

- | | | | | |
|-----|---|--|--|--|
| (c) | Paragraph 3.3 of the Public Enterprises Circular No.PED-1/2015 dated 25 May 2015. | The officers who are entitled to the official vehicles had been paid fuel allowances in excess of the value of the amount of fuel litres to be paid according to the provisions of the Public Enterprises Circulars. | Considering the duties of the officers of the Commission and approving the necessary fuel limits by the Commission, these payments had been paid subject to those approval in terms of provisions of Section 12 of the Public Utility Commission of Sri Lanka Act No.35 of 2002. | Action should be taken to submit the prepared Institutional Administration and Procedural Code to the Treasury and obtain approval therefor. |
| (d) | Sections 3.1 and 3.3 of the Public | Either a fuel consumption test on the vehicles used by the Commission had not | Since the relevant drivers had not made any complaint | Action should be taken in accordance with circular |

Administration been done or records regarding fuel provisions.
 Circular regarding the conduct of consumption of the
 No.30/2016 fuel consumption tests of vehicles used by the
 dated 29 those vehicles had not been Public Utility
 December maintained. Commission, fuel
 2016. consumption of those
 . vehicles had not been
 done. However, the
 officers were instructed
 to carry out fuel
 consumption tests and
 record details on log
 entry sheets and
 maintain them as stated
 in this audit report.

- (e) F.R. 396 (d) No action had been taken according to the Financial Regulation 396 (d) 04 outstanding cheques totalled Rs. 29,858 that had not been presented to the bank from their issuance. The measures specified in F.R.396 (d) have been taken in respect of these 4 cheques. Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a surplus of Rs.141,703,508 as compared with the corresponding surplus of the preceding year amounting to Rs.146,775,974. Accordingly, a deterioration of Rs. 5,072,466 was observed in the financial result. This deterioration was mainly due to the decrease of the other revenue by 8 per cent and increase in the consultancy service expenses and operating expenses by 393 per cent and 99 per cent respectively.

3. Operating Review

3.1 Management Inefficiencies

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| (a) Ad hoc sub-imprest | | |
| (i) Out of the expenditure incurred for the implementation of public awareness programmes, 62 per cent or Rs. 58,485,262 had been issued as ad hoc sub-imprests to 20 officers and 04 institutions in 166 | This is not merely a public awareness programme and these are the activities that have been carried out with the objective of executing and discharging powers and functions stipulated in the Act in a manner securing | The Financial Guidelines of the Commission should be followed. |

instances. According to the Financial Guidelines of the Commission, an officer can be paid maximum of Rs.20,000 at a time as ad hoc sub-impressts for a certain work. Nevertheless, the office of the Commission had paid only three hoc sub-impressts comprising Rs. 12,000 and Rs. 18,125 for one officer and Rs. 7,500 for another officer within the above limit. Contrary to the Financial Guidelines of the Commission, the office of the Commission had paid ad hoc sub-impressts ranging from Rs. 20,750 to Rs.1,157,658 to 20 officers in 163 instances.

- (ii) In the issuance of ad hoc sub-impressts by the Management of Commission, such impressts should have been issued in a manner not to occur a fraud temporarily to the funds of the Commission. Nevertheless, due to the fact that the office of the Commission had issued ad hoc sub-impressts in atypical amounts, it was not established that such a control had taken place. Ad hoc sub-impressts exceeding Rs. 1,261,693 had been issued to 14 out of those 20 officers. After retaining money ranging from Rs.5,682 to Rs. 1,543,864 out of the ad hoc sub-impressts thus issued for a certain period of time, 19 officers had settle them in
- This situation has occurred owing to the prevailing condition in the country and the activities of the remote arrears. Nevertheless, in order to prevent this situation in the year 2022, the amendment of the Financial Guidelines inclusive of new laws prepared in this connection has been submitted to the Commission for necessary approval for implementing the same on the observations of the Audit and Management Committee.

-Do-

cash. Since ad hoc sub-impressts had been issued exceeding the amount required for the relevant purpose without an accurate estimate, deposits had to be made in cash on completion of the advance activity. No adequate evidence was furnished to the Audit to confirm that the relevant officers had not temporarily defrauded those funds.

- | | | | |
|-------|---|--|------|
| (iii) | Out of the ad hoc sub-impressts issued to four officers, sums totaling Rs..677,279 had not been settled even by 31 May 2022. | Although these funds have been paid in favour of the persons, everything has been done on the approval of the Action Plan of the Commission. | -Do- |
| | | Provisions relating to the payment of advances have been streamlined in order to prevent these types of expenses in the future. | |
| (iv) | In terms of Section 12.8.3 (b) (iii) of the Financial Guidelines of the Commission, the ad hoc sub-impressts could be issued only for the officers of the staff. Nevertheless, contrary to that ad hoc sub impressts totalling Rs.3,601,090 had been issued to 04 external institutions in 14 instances by the office of the Commission. Ad hoc sub-impressts of Rs. 413,200 had been issued in respect of Rs.331,100 payable to one institutions in two instances. Accordingly, it had paved the way to use irregularly the funds of Rs. 82,097 of the Commission by the external parties. | Funds have been given as advances for various services and those have been settled at the end of those contractual services. | -Do- |

- (v) In terms of This situation has occurred -Do-
 Section 12.8.3(b)(iv) of the owing to the prevailing
 Financial Guidelines of the condition in the country and
 the Commission, the advance the activities of the remote
 should be settled within 03 arrears. Nevertheless, in
 days from the completion of order to prevent this
 the work for which an ad situation in the year 2022,
 hoc sub imprest was issued. action will be taken to the
 Nevertheless, the sub amended the Financial
 imprests totalling Guidelines inclusive of new
 Rs.6,025,153 issued by the laws prepared in this
 Commission to three connection and obtain
 officers in 15 instances had approval of the
 been settled after a delay Commission.
 ranging from 30 days to 270
 days.
- (vi) Although the travelling Although these funds have The expenses
 expenses of the officers been paid in favour of the relating to the staff
 should have been borne in persons, provisions should be dealt
 in accordance with the usual regarding the payment of with according to
 expenditure procedure of advances had been the usual payment
 of the Commission, those streamlined in order to procedure.
 expenses had been prevent these types of
 considered as urgent expenses in the future.
 payments and settled
 through the ad hoc sub
 imprests. Ten officers had
 participated in 09 public
 awareness programmes
 conducted in the year 2021
 and sums totaling
 Rs.1,809,050 had been
 settled as their subsistence
 and combined allowances
 by the ad hoc sub imprests.

3.2 Deviation from the Government Procurement Guidelines

| Audit Observation | Comment of the Management | Recommendation |
|--|---------------------------|----------------|
| ----- | ----- | ----- |
| <p>According to Paragraph 01 of the Minute No. 260 of the Commission dated 03 December 2021, a decision had been taken to obtain a vehicle for the Chairman not exceeding the value of Rs. 375,000 by following the procurement procedure. The</p> | | |

Director General had appointed 03 members to the Technical Evaluation Committee on 08 December 2021 for obtaining the vehicle on rent. The tender documents had been reviewed and approved by the Procurement Committee on 27 December 2021. The notice relating to the procurement of a vehicle on rent had been published only in the newspaper, Daily News on 28 December 2021. In response, 02 bids had been received and they had been opened at 2.30 PM on 11 January 2022 without the bidders' participation. It was decided by the Procurement Committee on 18 May 2022 that the contract be awarded to the bidder whose bid value amounted to Rs. 375,000 per month. Accordingly, the contract agreement was entered into on 08 June 2022 thus giving consent to obtain the Benz Mercedes CLS 350 motor vehicle bearing No. Western Province KB-2828.

The following observations are made in that connection.

- | | | |
|--|---|---|
| <p>a) The registration number of the contractor's institution had not been mentioned as per the agreement. Although a Director of that company had signed, his name and identity card number had not been mentioned. As such, it was not satisfactory in audit as to the validity of the agreement.</p> | <p>The agreement was not executed due to failure of the party relating to the agreement in properly furnishing the information.</p> | <p>The contract agreement should be revoked.</p> |
| <p>b) Without fuel and driver, the Benz Mercedes CLS 350 motor vehicle bearing the registration number WP KB- 2828 manufactured in the year 2005 had been obtained on lease to be used by the Chairman of the Public Utilities Commission of Sri Lanka during the period from 07 December 2021 to 30 June 2022 at a monthly lease rent of Rs. 375,000. A sum totalling Rs. 2,187,475 had been paid as lease rent for the period 07 December 2021 to 31 May 2022.</p> | <p>The decision was taken at the meeting of the Commission held on 03 December 2021 that a vehicle be obtained on lease for a period of one year from 01 December 2021 at a maximum lease rent of Rs.375,000 per month.</p> <p>The vehicle had been obtained under shopping method, and the Commission had approved to pay the monthly lease rent of Rs. 375,000.</p> | <p>Action should be taken in accordance with the Government Procurement Guidelines.</p> |

Those payments had been approved by the Director General.

- c) According to the register furnished to the audit relating to the delegation of financial powers, the Public Utilities Commission of Sri Lanka had been authorized to make the said payments. Nevertheless, the said payment of Rs. 2,187,475 had been made without being authorized by the Commission.
- Do. Should be done by the officers authorized in terms of Financial Regulation 135.
- d) Payment of monthly lease rents of the vehicles should have been approved by the Director General of the Commission as per the said register of delegation of financial powers, but it was not verified that he had approved the payment vouchers furnished to the Audit.
- Do. - Do.
- e) Payment of the said amount of Rs.2,187,475 had been recommended by the Director (Human Resource and Administration) without formal authority and approval. Attention had not been brought on the following matters for that recommendation.
- (i.) It was verified in accordance with the registration certificate of the Department of Motor Traffic that the motor vehicle No WP KB-2828, Benz Mercedes CLS 350 had been owned by a different institution during the period from 07 December 2021 to 25 January 2022. Furthermore, ownership of that vehicle had been transferred to be effective from 26 January 2022 to the company with which the agreement had been signed by the Commission on 08 June 2022. Although information in that connection had been in possession of the Commission, payments had been made to an unverified person rather than making the payments to the company that had owned the vehicle.
- The company that had owned the vehicle at that time, had handed over the vehicle to a private institution in order to be sold, and the vehicle had been sold to the contractor on 06 December 2021 who provided the vehicles on lease. However, the absolute ownership of the vehicle should have been acquired from the Department of Motor Traffic though, it had not been so done.
- Action should be taken in accordance with the Government Procurement Guidelines.

- (ii.) Cheques should be encashed in favor of a specific payee only. However, the cheques relating to the payment of lease rents for the vehicle had been written as cash cheques and without written approval of the Company, payments had been made to a different party which had not been the permanent owner of the vehicle. The sum payable under the cheque number printed on the voucher amounted to Rs. 2,187,425, but a sum totalling Rs. 3,061,165 had been paid as per the bank statement. Accordingly, a sum of Rs. 873,739.87 had been paid in excess of the cheque value shown in the voucher.
- A request had been made by the payee that cash or cheques be given under his name. Accordingly, the monies had been paid in cash. The actual owner had acknowledged the receipt of cash.
- Except for the petty cash, all other payments should be made only through crossed cheques.
- (iii.) The invoice presented for monthly lease rent had not contained the name, address, telephone number and signature of the service supplier. It was observed that the said invoice had been printed using a computer by the office of the Commission. The fee and the duration for which the lease rent should be paid had been mentioned on that invoice, and although it was requested that the payment be made to a person rather than crossing the cash cheque, the payment was made by the Director (Human Resources) without considering whoever had made that request.
- Considering the Condition No. 06 of the bid documents presented by that payee to the PUCSL that "Payment should be made in cash or favoring not crossed", the payment had been made in cash.
- Accuracy of the documents presented should be verified and responsibility should be exercised.
- (iv.) Payments should be made under approval of the approving officer that a service has been rendered for the Government properly. However, those payments had been made at the beginning of the month prior to obtaining the services. As such, payments had been made without proper approval.
- The approvals obtained on payments have been presented.
- Payments should be made after obtaining the service.
- (v.) A sum of Rs. 375,000 had been paid as the vehicle lease rent for
- This situation had arisen as a driver
- The internal control relating to

January 2022 through the voucher number 6577 dated 07 January 2022. No one had signed that the voucher had been prepared, checked, certified, approved, and the payment had been accepted. The bank had made a payment of Rs. 473,440 in favor of the cheque No. 716550 by exceeding the sum of Rs. 98,440 mentioned in that voucher.

- appointed on contract basis had been attached to this vehicle. As he had failed to comply with requirements of the Commission, he had left the Commission after lapse of the contract period.
- payments should be strengthened.
- (vi.) The Director (Human Resources) had recommended payment to a person other than the owner of the vehicle without proper authority, approval, and an invoice, before obtaining the service. Based solely on that recommendation and without considering the other facts, payment had been made by the Director (Finance) in excess of the value mentioned on the cheque relating to the voucher. The value so mentioned on that voucher amounted to Rs. 2,187,425 though, a sum of Rs. 3,061,165 had been paid through the bank account of the Commission.
- As those payments were made in cash, cheques were written by including the other payments to be made on the same day, thus such differences occurred. However, only the specified amount had been paid through the relevant voucher.
- Do.

4. Accountability and Good Governance

4.1 Annual Action Plan

| Audit Observation | Comment of the Management | Recommendation |
|---|---|--|
| a) According to progress report of the year 2021, no progress whatsoever had been achieved with respect to 05 activities. | As necessary data had not been furnished in the year 2021, the activities could not be executed in the year 2021. | The activities should be executed in accordance with the plan. |
| b) According to information made available to the Audit, progress of 15 out of 74 activities executed, remained below 30 per cent, and of that, | As necessary data had not been furnished in the year 2021, the activities could not be executed in the year 2021. | The activities should be executed in accordance with the plan. |

progress of 08 activities remained less than 10 per cent.

- c) The Audit had not been provided with any progress on the Activity Nos. AP21/CP/RA/26, 27, 28, 31 and 32 that had been identified under RA section in the Action Plan. Instead, 05 new activities, of AP21/Pasindu/01, 02, 03, 04 and 05 had been executed under the petroleum division.
- As all those activities were related to the petroleum division, they had been so named for the purpose of identification. Accordingly, those activities were executed with the progress achieved during the year.
- The activities should be executed as per the plan.
- d) The functions to be discharged had been mentioned under Section 14 (2) of the Act of the Commission. However, instead of discharging those functions, 49 per cent or Rs. 86,808,538 of the total operating expenditure amounting to Rs. 177,630,486 had been spent on the public awareness programme. This indicated a 633 per cent increase equivalent to Rs. 74,976,422 as against the preceding year.
- As programs had been conducted to train technical officers in accordance with the Cabinet Decision dated 21 August 2019 given under Annexure 2-A and the Letter, No. PS/COS/COM/2022 of the Presidential Secretariat dated 2022.06.27 given under Annexure 2-A-4, it is informed that additional expenses had been incurred in the year 2021 as against the year 2020.
- The activities should be executed as per the plan.