Ceylon Electricity Board and its Subsidiaries - 2023

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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 2023 comprising the statement of financial position as at 31 December 2023 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 reported to the Parliament appear in this report. The financial statements of the Subsidiaries of LTL Holdings 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 consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2023, 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 Group 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 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 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 Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the 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 Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Comments on Financial Statements of the Board

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) **LKAS 1 – Presentation of Financial Statements**		
(i) Expenses of the Ceylon Electricity Board Employee Provident Fund (EPF) which was operated under the Board as a separate entity, amounting to Rs.54.44 million had been recognized as expenses of the Board in the income statement for the year under review in contrary to the definition and recognition criteria of Conceptual Framework for Financial Reporting in terms of the paragraph 15 of the standard.	The matter in concerned will be rectified and implemented from the ensuring financial year onwards. During the CEB reform process this will be rectified.	It should be complied with the provisions in LKAS 01 relating to the recognition of expenses of the Board.
(ii) Contrary to the paragraph 69 of the standard, the debit balance of stock adjustment account amounting to Rs.448.66 million had been shown under other debtors and the credit balance of stock adjustment account amounting to Rs.424.19 million had been shown under trade & other payables instead of showing under the balance of Inventory. Further, out of the above stock adjustment balances, debit balance relating to stock shortage amounting to Rs.138.52 million and a credit balance relating to stock excess amounting to Rs.128.1 million had been	Disclosure will be made if required in the ensuing financial statements for the year ended 31 December 2024.	It should be complied with the provisions in LKAS 01 relating to the presentation of Financial Statements.

remained in the Stock Adjustment Account for more than one year without being cleared.		
(b) **LKAS 2 – Inventories**		
The Board had applied the standard cost method for valuing overhead costs of its capital and maintenance jobs, instead of being applied the actual costs in line with the requirements of the above standard**.** As a result, it was revealed that there were favorable overhead rate and material price variances aggregating to Rs.3,166.1 million and Rs.15,897.9 million respectively. And also, there was an unfavorable stores price variance aggregating to Rs. 5,592.4 million. Accordingly, the impact occurred thereon to the operating results, assets and equity in the financial statements could not be properly ascertained due to required information relating to those jobs were not made available to audit.	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 restructuring and after restructuring, if individual company will be implemented ERP system with the Weighted Average inventory valuation method, these issues will be eliminated.	It should be complied with the provisions in LKAS 02 relating to the recognition of cost of inventories.
(c) **LKAS 8 – Accounting Policies, Changes in Accounting Estimates and errors**		
(i) As per the paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful lives of the fully depreciated assets with a cost of Rs.214,809 million as at the end of the year under review, which are still in use, had not been reviewed and accounted accordingly.	Annual review of asset useful life at CEB is a significant undertaking that is impractical. Further, CEB being an organization with an asset base of Rs.955 billion and considering the uniqueness and complexity of the major asset components such as power plants and Transmission Lines, it is not easy and practicable to annually review the useful life of the assets. However going forward, we will ensure that the residual value and useful life of all assets are reviewed and any changes in estimates will be recognized in accordance with LKAS 8.	It should be complied with the provisions in LKAS 16 regarding fully depreciated assets that are already being used by the Board.
(ii) A sum of Rs.209.68 million had been charged by Public Utilities Commission of Sri Lanka as annual regulatory levy for the previous year. However, Board had accounted only a sum of Rs.167.25 million for the year 2022 and the difference of	In 2022, Annual regulatory levy is estimated as Rs.167.25 million and approved by the Board as well. However, in 2023, it was approved to pay the balance annual regulatory levy as per the invoice sent by the PUSCL. Therefore, this is	It should be complied with the provisions in LKAS 08 when rectifying errors.

Rs.42.43 million had been accounted as an expense of the year under review without being adjusted retrospectively in terms of the Section 41 and 42 of the standard. Hence, the profit for the year under review had been understated and retained loss at the beginning of the year under review had been overstated by similar amount.	considered as changes in estimates therefore prospective application is permitted by the standard. Further, even if it is considered as error the retrospective application or restatement requires assumptions about the management’s intend would have been in that period. Management intend during 2022 was indicated by the board approval of the estimate of Rs 167.25 million. Therefore, it is impracticable to make a retrospective restatement to correct the error.	

(d) **LKAS 12 – Income Tax**

As per the Default Tax Report of the Board as at 31 December 2023, the amount payable as taxes and penalty for corporate income tax, PAYE tax and Value added tax from the year of assessments 2015/2016 to the end of the year 2022 was Rs.36.62 million, Rs.665.11 million and Rs.97.5 million respectively. However, a final determination had not been received for those taxes at the end of the year even though appeals have been lodged by the Board. Nevertheless, it had not been disclosed in the financial statements of the Board for the year under review in terms of the Section 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12).	In this case, the taxes and penalties under consideration are subject to appeals lodged by the Board. These appeals are pending final determinations, and the amounts are not yet confirmed as payable. The CEB believes it has reasonable grounds to contest the amounts, and the outcome of the appeals may result in reversals of these liabilities. If it is required, we will make disclosures in the subsequent financial statements to ensure transparency.	It should be complied with the provisions in LKAS 12 when disclosing unresolved disputes in taxes.

(e) **LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets**

As per the Cabinet decision No. 21/1920/317/051 dated 16 November 2021 taken with respect to the cabinet memorandum dated 24 October 2021 submitted by the Minister of Irrigation, it was decided to pay the claim amounting to USD 38.612 million to the contractor for the unexpected delays in Uma Oya Multi-Purpose Development Project and this additional payment to be financed by the Board by considering the income generated through this project to the Board. Further, it was decided to pay 50 per cent initially and balance 50 per cent to be paid after the expiration of the defect liability period. However, as per the	The liability has been recorded in the books of accounts of the Projects Division during the October 2024 accounts. However, it is recommended to renegotiate with the contractor via the relevant authorities to reduce/remove the delay claim which is exorbitant.	It should be complied with the provisions in LKAS 37 regarding recognition of provisions at the end of the year.

books of accounts of the Board, a sum of Rs.6,227.3 million equivalent to the 50 per cent of total delay charge had only been accounted at the end of the year under review and no provision had been made even at the end of the year in terms of the Section 14 of LKAS 37 for the balance USD 19.306 million.

(f) **SLFRS 09 - Financial Instruments**

(i) Even though the Board had introduced a specific approach and methodology to recognize the expected credit loss of trade debtors, no such approach and methodology had been introduced for other receivables which include sundry debtors, dues from sacred places etc. Accordingly, a sum of Rs.213.49 million and Rs.118.54 million had remained outstanding on other receivables over 1 to 5 years in distribution division 01 and 04 respectively. However, an amount equivalent to Rs.102.01 million and Rs.59.87 million had only been provided for impairment provision respectively. Further, no provision had been made for balance outstanding over 1 to 5 year in distribution division 02 and 03 amounting to Rs.142.37 million and Rs.107.99 million respectively. Similarly for other receivables outstanding more than five years amounting to Rs.341.32 million, an amount equivalent to Rs.74.35 million had only been provided for impairment without recognizing the expected credit loss properly. Due to these observations, the accuracy of carrying value of financial assets in the financial statement cannot be ascertained in audit.	**Distribution Division 01** Instruction will be given to provinces to make necessary specific provisions for other receivables based on analyzing the recoverability of other receivables. Provision has been made mainly for the dues from sacred places and to the part of sundry debtor balance. **Distribution Division 02** This has been rectified in 2024 financial statements. A 100 percent specific provision has been made for the long outstanding other receivables in the year 2024. (Scared Places. Mahinda Chinthana, free service connection). A board paper has been submitted to write off for outstanding balances of sacred places and Mahinda Chinthana. **Distribution Division 03** A full provision was made for dues from sacred places in May 2024 Accounts. Actions will be taken to make necessary provisions for other receivables after a reasonable evaluation of the increase in credit risk and the recoverability of the balances to comply with the circular. **Distribution Division 04** We have made specific provisions for impairment.	It should be complied with the provisions in SLFRS 09 regarding making provisions for impairment.

(ii) The Economic Service Charges (ESC) amounting to Rs. 3,914 million paid from the year of assessment 2016/17 to 2019/20 had exceeded the claimable period of two years at the end of the year under review. However, it had not been recognized as expenses in the statements of comprehensive income. Instead of that impairment provision of Rs.3,914 million had been made in the financial statements. However, it was observed that the receivable balance of ESC shown in the financial statements does not meet the definition of financial assets in terms of the provisions of the standard.	The amount referred would be charged to comprehensive income as expenditure after getting board approval in subsequent financial statements for the year 2024.	It should be complied with the provisions in SLFRS 09 regarding making provisions for impairment

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the valuation given by the internal valuation team of the Board, the transformers removed from corporate division of distribution division 04 in the year 2016 have been debited and credited to stocks and other payables respectively in the books of accounts for the year under review by Rs.826.6 million. However, the respective cost and accumulated depreciation of those transformers had not been removed from the books of accounts and hence impact to the financial statements could not be ascertained during the audit due to lack of information.	Out of Rs 421.17 million during the year balance of 2023, Rs 205.92 million was cleared in 2024. The cost and the accumulated depreciation of transformers can be removed by identifying the accurate transformer number and SIN number. Accurate information is called from the relevant units to identify the correct transformers prior to removing them from the fixed asset register.	Action should be taken to remove the cost and the accumulated depreciation of removed transformers.
(b) The old coal stock as at 15 September 2023 was calculated from the survey conducted by the board of verification. Remaining thermal coal stock at coal yard as at 15 September 2023 was measured using the above calculated old coal stock and it was negative balance of 14,964.71 MT due to deaf coal stock exceeded the old coal stock calculated. Therefore, remaining	The stock level of deaf coal is considered only for calculation purpose. On this specific date the Thermal Coal stock balance has gathered up to 27,171.39 MT due to remaining coal at bunkers and unloaded quantity from vessel No.369. However, this amount dropped up to 12,206 MT due to refilling of deaf coal negative balance of 14,964.71 MT. Hence the exact physical	Accurate methodology should be established for considering deaf coal in coal stock verification and physical stock calculation should be accurate and complete.

	thermal coal stock at coal yard as at 15 September 2023 should have been considered at least as zero. Accordingly, thermal coal stock shortage should be taken as 9,286.37 MT after considering remaining coal stock at Bunkers and new coal unloaded. However, thermal coal stock shortage of 24,251 MT valued at Rs.1,778.6 million had been charged to the income statements for the year under review considering the above negative balance of coal stock. Accordingly, as per the calculations made by audit, profit for the year under review and coal stock had been understated by Rs.924.3 million.	balance of Thermal Coal was 12,206 MT. The book balance of Thermal Coal as at 15.09.2023 was 36,457.76 MT and resultant stock shortage of Thermal Coal determined by the board of survey is 24,251.08 MT. Hence, profit for the year under review and coal stock had not been understated.	
(c)	Revenue from Energy Sales to Lanka Electricity Company (Pvt) Ltd (LECO) for the year under review was understated by Rs.1,120.1 million due to not accounting or making any provision for Unit Price National Tariff Adjustment (UNT) estimates for third and fourth quarter 2023. Hence, profit for the year under review was understated by same amount.	UNT adjustments are done after obtaining the decision documents from PUCSL. Since no UNT Decision Documents for any of the Quarters were received so far, the mentioned error cannot be rectified until official documents are received.	Adjustment for Uniform National Tariff should be made in the financial statements for all four quarters.
(d)	A number of 8,574 of completed jobs valued at Rs.18,230 million had remained in work in progress account without being capitalized. However, the impact to the profit for the year under review and the retained earnings due to not making provision for depreciation could not be ascertained due to lack of information. Further, as per the random check conducted, it was observed that two jobs in the Construction section (Southern Province 2) valued at Rs.2.98 million, cost incurred on Ja-Ela Area Engineer Office amounting to Rs.113.99 million and cost incurred on construction of three buildings and Katharagama Street Lighting (KSTS) amounting to	**Distribution Division 01** A continuous process has been taken to transfer the completed jobs into assets on a regular basis. **Distribution Division 02** Jobs with a cost of Rs. 3,897 million related to previous years have been completed and transferred to assets during the period ending 31.10.2024. Further the Cost of Construction of Ja-Ela area engineer office has already been transferred to asset in April 2024. **Distribution Division 03** Out of the 1,913 jobs over two years relating to DD3 1,217 jobs (64 percent) have been cleared by end of October 2024 for a value of Rs 1,816 million.	Prompt actions should be taken to capitalize completed jobs that remained in work in progress balances.

	Rs.135.61 million in distribution division 04 had not been capitalized even at the end of the year even though all of above constructions had already been completed and utilized by the Board. Further, out of the above work in progress balance, a sum of Rs.40.15 million had remained in distribution division 04 for more than 5 years as jobs done using Ministry funds. However, action had not been taken to clear them even at the end of the year under review and details of them were not submitted to audit.	**Distribution Division 04** Continuous meetings are carried out among relevant unit heads & Accountant Expenditure to monitor WIP with the supervision of the Deputy General Manager. Further, action has been taken by Finance Division to inform relevant division to expedite the capitalization of WIP jobs and inform us the progress before the finalization of Financial statements for the year ended 31 December 2024. .	
(e)	Total work in progress balance in distribution division 01, 02 and 03 had been understated by Rs.93.7 million due to offsetting of abnormal credit balances relating to 122 jobs without being cleared.	**Distribution Division 01** Relevant Accountants were instructed to clear such balances. **Distribution Division 02** Most of the credit entries made to the WIP Account represent the value of Returning balance materials of the Jobs or the cost of the materials returned due to cancellation of the jobs due to various reasons. **Distribution Division 03** The main reason for the credit balance is the price difference in material movements (Price variance). All these balances are now cleared.	Action should be taken to investigate and clear the abnormal credit balances in work in progress.

(f)	Six vehicles worth of Rs.124.30 million purchased for the Puttalam Coal Power Project (Phase ii) had not been capitalized even after the completion of the Project in 2014, and instead, that amount had been included in work in progress accounts. Further, no proper action had been taken to take over and keep the custody of these six vehicles and another 11 vehicles of Puttalam Coal Power Project (Phase i) to the Board even though cost of these vehicles had already been included in the cost of respective Projects.	Currently, CEB is in the process of filing litigation. Chief Legal Officer submitted the necessary documents to the Attorney General's Department on 03 October 2024 to initiate legal action regarding the matter and awaiting further direction from the Attorney General's Department.	Immediate action should be taken to take over and keep the custody of these vehicles and capitalize them.
(g)	Goods in transit balance amounting to Rs.113.87 million had remained in the books of accounts for over one year without being taken proper action to investigate and clear. Out of the total goods in transit balance of Rs.129.52 million in distribution division 01, a sum of Rs.34.56 million had represented stock with suppliers remained more than 5 years. Further, out of the goods in transit balance of Rs.432.3 million in distribution division 02, a sum of Rs.142.61 million or 33 per cent represent the value of unserviceable aluminium stock (918,830 Kg) that had been issued to Sri Lanka Energies (Pvt) Ltd and had remained approximately 2 years period. However, it had not being accounted as receivable balance from that company to the Board in terms of the provisions of the circular No.2021/GM/40/DCC dated 23 September 2021.	**Distribution Division 01** Some documentary evidences are difficult to trace in this regard. Once the documentary evidence are available, such balances will be cleared . **Distribution Division 02** Other than Unserviceable Aluminium stocks which was handed over to Sri Lanka Energies, out of Rs.36 million, Rs.1.3 million with the aging of 4-5 years was cleared in June 2024 accounts and the tenders relating to balance 33.4mn is forwarded to P&D Branch and actions are being done by P&D branch of DD2. **Distribution Division 03** This issue is relating to Sabaragamuwa and WPS 2 provinces, actions will be taken to clear the balances over one year. **Distribution Division 04** WPS1 has cleared long outstanding Goods in Transit and action will be taken to update the book of accounts in June 2024. Further, balances in Southern Province 2 are already cleared.	Action need to be taken to investigate the long outstanding stocks in transit balances and clear them.

(h) The Board had established a Project Management Unit for the Lakvijaya Power Plant Extension Project as per Cabinet Decision No. 19/2622/113/074 dated 24 September 2019. Subsequently the Board of Directors had taken a decision to close down the Project on 26 October 2021 based on the Government policy taken on 13 September 2021 by the Cabinet of Ministers even after spending a sum of Rs.167.31 million on that Project. However, a sum of 167.62 million had remained under the Capital Work in Progress as at 31 December 2023 without being charged against the profit of the year.	The AGM (Projects) has submitted a board paper seeking approval for writing off, and the board's decision on this matter is still pending.	Action should be taken to make a provision or write off the balance remained in the financial statements
(i) Value of 03 vehicles owned by the Board and accumulated depreciations thereon had not been recorded in the assets register of Lakvijaya Power Station, and as a result, it had not been included in the financial statements of the Board.	This matter is currently resolved. The value of these three vehicles has already been taken into accounts in April 2024.	Action should be taken to record the unrecorded assets balances in the books of accounts as well as in the fixed asset register.
(j) Dam Works valued at Rs.34,386.77 million had been shown under the civil works of Property Plant and Equipment of Mahaweli Complex. However, the accuracy of the said amount and ownership of the respective assets to the Board could not be verified in the Audit.	We had a meeting with MASL officials on 24.06.2024 to discuss this matter in which it was revealed that the cost of dams has been taken to their account in year 2023. Hence, the committee decided to take appropriate actions subject to the approval of the higher management of both organizations.	Action should be taken to ascertain the accuracy of value and right of Dam Works, in the financial statements of the Board.

1.5.3 Un-reconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) As per the bank balance confirmation received from Peoples' Bank with respect to the loan outstanding balance of Broadland Hydro Power Project, a sum of Rs.5,444.76 million had been shown as the outstanding amount. However, as per the records of the Board, it was	Noted and it is already adjusted in the financial statements.	Action should be taken to make a reconciliation statement to identify the differences and adjust books of accounts for the errors identified in loan balances.

	Rs.5,494.76 million and hence a difference of Rs.50 million was observed. Further as per the bank balance confirmation received from Asian Development Bank with respect to the loan outstanding balance of Supporting Electricity Supply Reliability Improvement Project, a sum of 57,338,901 USD had been shown as the outstanding amount. However, as per the records of the Board, it was 57,989,633 USD and hence a difference of 650,732 USD was observed.		
(b)	According to the financial statements of the Board for the year under review amount payable to Ceylon Petroleum Corporation (CPC) was Rs. 308.1 million. However, as per the financial statements of the Ceylon Petroleum Corporation, the corresponding receivable balance was Rs. 3,529.6 million and difference of Rs. 3,221.5 million was observed.	The payable balance to the CPC and the corresponding receivable balance in the accounts of CPC was reconciled up to 31st December 2020. A committee has been appointed by the MOP to resolve the issues and action will be taken to minimize the differences according to the instructions of the Secretary of the Ministry.	Action should be taken to reconcile the differences and minimize the differences according to the instructions of the Secretary of the Ministry.
(c)	An unidentified debtor balance of Rs.423.76 million had remained outstanding since 2012 in distribution division 1. However, out of that, a sum of Rs.185.41 million had been transferred to debtors control accounts, other liability account etc. of distribution divisions from 2015 to 2023 without investigating and adjusting to the individual debtors accounts affected.	Out of original value of Rs. 423.76 million debtor balances and amount of Rs.185.41 million had been transferred based on letter no. AFM(DD1)/Acct(A&MI)/ Revenue Debtors /2018 dated 17 August 2018 to AFM DD3 branch with ledger balance after reconciling their own billing & ledger system. This amount would have been transferred during the process of decentralization somewhere in 2002.Further, to above, it is also communicated to all Divisional AFMMs to check whether any balance belongs to their divisions to effect balance transferring.	Action should be taken to check the accounts affected accurately and clear the unidentified debtor balance.
(d)	Collection Control Account had a debit balance of Rs.378.39 million	**Distribution Division 01** In Corporate Office a sum of Rs.4.29	Action should be taken to identify and clear the

	and a credit balance of Rs.2,204.57 million as at 31 December 2023. However, reconciliation of unsettled debit balances of Rs.230.07 million and credit balance of Rs.465.81 million were not made available for audit. Hence, the accuracy of the Collection Control Account balances could not be satisfactorily verified in audit. Further it was observed that an unidentified opening debit balance of Rs.12.75 million in headquarters had remained more than 5 years and opening credit balance of Rs.95.27 million in WPS (ii) and Sabaragamuwa Province had remained in the same account for more than 1 year without being taken proper action to settle.	million was due to returned cheques and it was cleared now. Regarding DGM Colombo City, the credit balance has been arisen due to cash collection cycle of Ordinary supply consumers and Bulk Consumers in calendar month. In this regard, action has already been taken to develop the IT System as per the guidelines of Revenue steering Committee. In north western province 1, monthly reconciliation was done and in north western province (2), a sum of Rs. 222 million was cleared. In the case of North Central Province, there is an un-reconciled system adjustment in the year 2011. **Distribution Division 02** Noted. Action already taken to reconcile the account and it is in progress. **Distribution Division 03** Actions will be taken to investigate the reasons for long outstanding un-reconciled balances in WPS 2 and Sabaragamuwa Province and clear the balances accordingly. **Distribution Division 04** A single account was maintained for the prior period and actions to be taken to clear this account. **Headquarters** Action has already been undertaken to clear most of the cases and the remaining balance will be cleared in 2024.	long outstanding un-identified balances in Collection Control account.
(e)	A sum of Rs.75.27 million collected during the period from 1998 to 2023 from debtors had been included in the suspense account of distribution divisions without being taken proper action to clear.	The suspense account is used for amounts where the CEB cannot initially identify the correct customer account or determine if the amount should be charged to income. Actions are ongoing to identify and correct erroneous payments through agents such as post offices, Peoples Bank, and Bank of Ceylon etc.	Prompt action should be taken to clear the suspense account.

(f) An aggregate difference of Rs.159.47 million was observed with regard to the balance receivables from 39 government institutions (including 35 institutions in government health sector) in respect of the jobs carried out by the Asset Management Division of the Board. However, action had not been taken to reconcile the balances with the relevant Government Institutions.	As per the records of DGM (W&AS), the balances shown in the CEB ledger is correct. However, actions will be taken to reconcile the balances with the relevant Government Institutions.	Action should be taken to confirm the receivable balances from government institutions and clear the disputed differences accordingly.
(g) As per the Clause No.02 of the Annexure A to the schedule 09 of the Power Purchase Agreement (PPA), entered into by the Board and West Coast Power (Pvt) Ltd ,the parties agreed to meet at the end of the first year of the term to analyze the combined cycle values of Table A:2 "Agreed Parameters and Values" to explore the possibility of passing any beneficial adjustments to Board based on the actual performance of the plant (Facility). However, the Board of Directors of the Board had granted approval to modify values of some Combined Cycle parameters as an intermediate solution with immediate effect for certification of monthly invoices at its meeting held on 15 February 2019 without agreement of the Company for those modified values. Accordingly, monthly invoices submitted by the Company since February 2019 had been certified by the Board using the reduced values for parameters even the company had submitted their monthly invoices based on the values for parameters specified in the PPA continually. Due to this dispute, the payable balance to the	The balance of West coast Power (Pvt) Ltd as at 31 December 2023, as per books of CEB -Transmission - Energy purchase branch is Rs.50,032.3 million	Action should be taken to amend the values for parameters of PPA with the agreement of both parties to resolve the disputes and to settle the outstanding payables if any.

company as at 31 December 2023 as per the books of accounts of the Board was Rs.50,032.30 million and the corresponding values as per the books of accounts of the Company was Rs.85,561.9 million. Hence, a difference of Rs.35,529.6 million was observed. However, action had not been taken to reconcile the difference and settle them even at the end of the year under review.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs. million	Evidence not available	Management Comment	Recommendation
Lease Creditors	39.8	Balance confirmations	Action will be taken to Provide the balance confirmation on lease creditors as soon as possible.	Furnish the Lease Creditors' balance confirmations to the audit along with the financial statements.

1.5.5 Comments on Consolidated Financial Statements

	Audit Issue	Management Comment	Recommendation
(i)	Un-reconciled related party debit balances amounting to Rs.1,728.36 million and credit balances amounting to Rs.812.7 million had been accounted under other debtors and other payables respectively in the consolidated financial statements without being cleared.	Instructions were given by the Finance Division to relevant units to clearly reconcile and minimize the gap with the subsidiary balances and strictly adhere to the guidelines given in the Finalization of Accounts Circulars.	Prompt action should be taken to clear the un-reconciled related party balances.
(ii)	Differences were observed in the assumptions of actuarial valuation with regard to discount rate and staff turnover used for the calculation of Retirement Benefit Obligation (gratuity) shown in the financial statements of the Ceylon Electricity Board & the Lanka Electricity Company (Pvt) Ltd and the consolidated financial statements.	It is typo error and will be rectified.	Due care and attention should be given when absorbing non- financial data from parent and subsidiary companies to the consolidated financial statements.

Lanka Coal Company (Pvt.) Ltd

(iii) The Company had not made provision for the trade receivables of Rs.1,553 million which was due for more than one year as per the paragraph No. 5.5.15 (a) of SLFRS 9.	CEB will take the necessary action to inform the company to assess the need for provisions after analyzing the historical, current and forward looking factors for the expected credit losses related to trade debtors for the next financial year.	It should be complied with the provisions in SLFRS 09 when making provision for impairment of debtors.
(iv) When importation of coal, a mark-up of 10 per cent had been added to the value at the point of the Customs as a notional adjustment in ascertainment of the value for the Custom purpose which had not been actually incurred. However, the Company had added a 10 per cent mark-up amounting to Rs.14,904.63 million to the revenue for the year under review, 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 for the year under review had been overstated by similar amount in contrary to the provisions stipulated in SLFRS 15. Above adjustment had been accounted by the company according to the instruction given by the Department of Inland Revenue. However, it had not been disclosed in the financial statements.	To comply with IRD instructions, the company adjusted revenue to include the 10 percent mark-up. We acknowledge that this adjustment was not explicitly disclosed in the financial statements. Moving forward, we will include appropriate disclosures to ensure transparency and compliance with SLFRS 15 and other applicable reporting standards. We will reassess this treatment in consultation with the IRD and include any required explanatory notes in subsequent financial statements to enhance clarity and compliance.	It should be complied with the provisions in SLFRS 15 when recognizing Revenue.

Lanka Electricity Company (Private) Limited

Audit Issue	Management Comment	Recommendation
(v) According to the paragraph 5.5 of the Conceptual Framework for Financial Reporting, the initial recognition of assets or liabilities arising from transactions or other events may result in the simultaneous recognition of both income and related expenses. Simultaneous recognition of income and related expenses is sometimes	After the discussions had with CEB and PUCSL, CEB agreed to reimburse. Accordingly, CEB reimbursed Rs 1,544,458,302 by deducting from their energy bill of May 2024 as a UNT adjustment for the year 2022. Therefore, we believe that this matter will be solved in near future.	It should be complied with the Conceptual Framework for Financial Reporting relating to the recognition of cost of sales attributable to the revenue.

	referred to as the matching of costs with income. However, the Company had not identified solar energy purchased cost for the period of 2017 to 2023 (except 2021) amounting to Rs.4,658.2 million had been recognized as receivable from Ceylon Electricity Board instead of being recognized as cost of sales in respective years, even though the sales revenue of solar energy purchased had been recognized as sales in respective years. As a result, the retained earnings, profit for the year and receivable balance had been overstated by Rs. 2,819.6 million, Rs. 1,838.6 million and Rs. 4,658.2 million respectively as at 31 December 2023.		
(vi)	The balance due from Ceylon Electricity Board (CEB) for miscellaneous services as at 31 December 2023 was Rs. 5,777.8 million. Out of that balance Rs 5,770.6 million had been included as due from CEB for the cost of purchasing energy using net accounting and net plus methods for the period of 2017 to 2023. However, as per the balance confirmation received from CEB, the CEB had confirmed that there were no payable balance to the Company. Further, no formal agreement was entered into between two parties for the purchasing Electricity using net accounting and net plus methods. Therefore, the recoverability of that balance could not be satisfactory ascertained in audit and the Company had made provision for impairment of Rs. 5,300.9 million for the above receivable balance.	After the discussions had with CEB and PUCSL, CEB agreed to reimburse. Accordingly, CEB reimbursed Rs 1,544,458,302 by deducting from their energy bill of May 2024 as a UNT adjustment for the year 2022. Therefore, we believe that this matter will be solved in near future.	Action should be taken to resolve the disputes in relation to the related party balances and enter into a formal agreement with the Board.
(vii)	In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16,	Due to resource constraints and the diverse nature of the assets in question,	It should be complied with the provisions in

the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs.11,114.4 million relating to 4 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.	the annual review of 4 categories of assets takes more time. However, going forward, we will ensure that the residual value and useful life of assets are reviewed and any changes in estimates will be recognized in accordance with LKAS 8.	LKAS 16 regarding fully depreciated assets that are already being used.
(viii) Differences of Rs.398.7 million and Rs.50 million were observed in relation to the balances of revenue, cost of sale, trade & other payable etc. between the consolidated financial statement and the financial statement of Anti Leco Metering Company (Pvt) Ltd and LECO Project (Pvt) Ltd respectively.	This matter will be rectified in the consolidated financial statements as at 31st December 2024	Due care and attention should be given when preparing consolidated financial statements by combining the line items of parents and each subsidiary company.

1.6 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
(a) Cabinet Memorandum No. 07/1955/332/045 dated 31 October 2007 submitted by the Minister of Power and Energy on "Payment of Allowances to Employees of the Ceylon Electricity Board" was considered along with the Report of the National Salaries and Cadres Commission dated 31 March 2008 by the Cabinet of Ministers on 09 April 2008 and approval was granted to implement the recommendations of the Committee appointed for the purpose, subject to the conditions stipulated by the National Salaries and Cadres Commission in its report dated 31 March 2008. The following observations are made in this regard.		
(i) Without obtaining the approval of Salaries and Cadres Commission and the Department of Management Services, a sum of Rs. 507.47 million had been paid	Committee was appointed in this regard and their report was forwarded to the ministry for suitable action.	Should comply with the Cabinet decision and the recommendations of National Salaries and

	as 11 types of allowances not included in the list of allowances approved by the Cabinet of Ministers on 09 April 2008 during the first nine months of the year under review.		Cadre Commission in payment of allowances to the staff.
(ii)	The exodus allowance should not be paid to the officers who are entitled to the professional allowance. However, contrary to that a sum of Rs.99.85 million had been paid as exodus allowance for 517 officers during the first 10 months of the year under review.	Committee was appointed in this regard and their report was forwarded to the ministry for suitable action.	Should comply with the Cabinet decision and the recommendations of National Salaries and Cadre Commission in payment of allowances to the staff.
(iii)	As per the random test check carried out, it was observed that officers appointed to a post are also paid allowances for performing the duties of that post.	General Manager has requested from the Secretary, Ministry of Power & Energy by his letter dated 24.06.2024 to obtain the necessary approvals for the Allowances which were approved by the Board of CEB after year 2008 as instructed by the Committee on Public Enterprises (COPE).	Should comply with the Cabinet decision and the recommendations of National Salaries and Cadre Commission in payment of allowances to the staff.
(iv)	Contrary to above Cabinet decision, no performance based incentive scheme had been introduced for officers recruited after 01 April 2008 even at the end of the year under review.	Increments are recommended to all employees, including those recruited after the specified date, based on a comprehensive performance evaluation process conducted annually.	Should comply with the Cabinet decision with regard to introduction of performance based incentive scheme.
(b)	Without the approval of the General Treasury, the board had reimbursed 2/3 of the interest charged on property loans taken by employees under the subsidized housing loan scheme. The interest amount reimbursed from the year 2013 to 2023 was Rs.16,789.5 million.	The Board under powers vested to it under Sections No. 12, (k), (m), and (n) of the Ceylon Electricity Board Act No. 17 of 1969, commenced scheme to grant relief to CEB employees who obtained housing loans in the year 1983. Board has continued to maintain this benefit to employees up to now to motivate them towards working for the betterment of the organization and the country.	Approval of the General Treasury should be obtained for the subsidized housing loan scheme.
(c)	The Cabinet of Ministers declared an emergency on 7 August 2023, to release water from the Samanalawewa Reservoir	Arising from the emergency situation declaration, the Cabinet of Ministers approval was granted	Purchasing of power should be made as per the

	for irrigation and approved the procurement of 100 MW of supplementary power for 4 to 6 months. Following this, the Public Utilities Commission authorized the procurement of an additional 100 MW capacity starting 18 August 2023. The Ceylon Electricity Board (CEB) signed Power Purchase Agreements with ACE Power Matara (23.75 MW) and ACE Power Embilipitiya (93 MW). However, it was noted that the total procurement amounted to 116.75 MW, exceeding the initially approved limit.	to procure 100MW of Supplementary Power for a limited period of 4 to 6 months. The PUCSL, through the letter No.PUC/LIC/2023/CEB/11 dated 17 August 2023 granted the approval to proceed with the procurement process for adding a generation capacity of 100MW. The effective plant capacity of above both plants were 97.31MW.	approved limit of the Cabinet and the Public Utilities Commission of Sri Lanka and the draft power purchasing agreements should be send to PUCSL for their approval.
(d)	PUCSL approval for the above supplementary power purchases under section 43(7) of Sri Lanka Electricity Act No. 20 of 2009 as amended had not been granted, due to procured generation capacity addition was exceeded the approved generation capacity addition (the letter No.PUC/LIC/2023/TL/21 dated 09 October 2023 sent by Director General of PUCSL) and the signed Power Purchase Agreement between Board and ACE Power Embilipitiya (Pvt) Ltd had been submitted to PUCSL instead of being submitted the draft Power Purchase Agreement for the approval of PUCSL as per the Section 43(5) of Sri Lanka Electricity Act No. 20 of 2009 as amended. (the letter No.PUC/LIC/2023/TL/17 dated 02 October 2023 sent by Director General of PUCSL). Accordingly, the license for generating electricity under Section 13 of Sri Lanka Electricity Act No. 20 of 2009 as amended had not been issued to the ACE Power Matara Power Plant and ACE Power Embilipitiya Power Plant by PUCSL.	Since there was an urgent requirement in purchasing supplementary electrical power and ACE Power Generation Matara (Pvt) Ltd requested more time to study the conditions of the Power Purchases Agreement, the Board of CEB granted its approval on 18 August 2023 to issue a Letter of Award to ACE Power Generation Matara (Pvt) Ltd and granted approval at its meeting on 29 August 2023 to sign a Power Purchase Agreement with ACE Power Embilipitiya (Pvt) Ltd. Since PUCSL had directed to commission the power plants by 18 August 2023 and it has already delayed 11 days, to avoid further delay CEB has signed the PPA with ACE Power Embilipitiya (Pvt) Ltd on 29 August 2023. CEB had sent the available PPA to PUCSL on the same day (29th August 2023) in accordance with Section 43(5) of Sri Lanka Electricity Act No. 20 of 2009 as amended.	Purchasing of power should be made as per the approved limit of the Cabinet and the Public Utilities Commission of Sri Lanka and the draft power purchasing agreements should be send to PUCSL for their approval.
(e)	As per the provisions in the draft collective agreement, the board had increased employee salaries by 25 per	During the special Board meeting held on 15 June 2021, the Board decided to grant approval to	Action should be taken to legalize the collective

cent in the year 2021 based on the decision taken by the board of directors on 15 June 2021 in terms of Cabinet Decision 21/0786/318/025 dated 10 May 2021. Accordingly the personnel expenses had been increased approximately by Rs.9,629.9 million in 2021, Rs.6,725.9 million in 2022 and Rs.8,354.7 million in 2023 respectively compared to 2020.	increase the Board's. employees' salaries by 25 percent for the period 2021-2023 with effect from January 2021 in terms of Cabinet Decision අමප/21/0786/318/025 dated 10.05.2021.	agreement.

1.7 Accounts Receivable and Payable

Receivables

Audit Issue	Management Comment	Recommendation
(a) Trade debtor balance as at 31 December 2023 was Rs. 70,019.1 million. Out of that, a sum of Rs.6,181 million had remained outstanding over 6 months as at 31 December 2023. Further, a sum of Rs.2,252.2 million had remained outstanding over 5 years. The provision for impairment of trade debtors made by the Board as at 31 December 2023 was Rs.4,625.9 million. Following further observations are made in this regard.		
(i) Out of the above total debtor balance, a sum of Rs.2,773.3 million had been categorized and transferred to finalized debtor balance (inactive debtors) due to not recovering outstanding for long period and out of which, Rs.1,106.6 million was related to the distribution division 01.	**Distribution Division 01** Continues recovery actions are being taken to recover outstanding dues from finalized debtors and actions have been taken to send the letter of demand to particular customers and follow up as per procedure. **Distribution Division 02** Out of the total finalized debtors, almost Rs.940 million has been recovered during the period of 05 months ended in the year 2024. **Distribution Division 03** Actions such as recovering the balances in the finalized accounts from security deposit,	Necessary action should be taken to recover due amount from the debtors without delay.

		sending reminders, transferring the balances in defaulted finalized consumer's accounts to the active accounts have been taken to clear the finalized debtor balances. **Distribution Division 04** Recovery action will be carried as per the circular instructions.	
(ii)	Out of the finalized debtors in distribution divisions, a sum of Rs.1,983.3 million had remained outstanding for over 3 years period. Out of that, Rs.927.8 million represents finalized debtors in distribution division 01.	**Distribution Division 01** As per the instruction of Additional General Manager - DD1 following actions are taken to recover long outstanding finalized debtors balances. 1. Appointments of Provincial Revenue committees. 2. Sending reminders to consumers. **3.** Disconnection programs, consumer awareness programs etc. **Distribution Division 02** Out of the total bulk supplier finalized debtors as at 31.12.2023, almost Rs.940 million has been recovered during the period of 05 months ended in the year 2024. **Distribution Division 03** Actions such as sending reminders for finalized accounts less than two years, transferring the balances in defaulted finalized consumer's accounts to the active accounts have been taken.	Appropriate action should be taken to recover the dues from long outstanding finalized debtors as per the Board's circulars.
(iii)	Out of finalized ordinary supply debtors of Rs.104.39 million in DGM (Southern Province 02) in relation to 41,441 connections, a sum of Rs.33.65 million had remained outstanding for over one year. Further, it was observed that out of above connections a sum of Rs.10.98 million had remained as credit balances in relation to 13,549 connections. However, action had not been taken to clear them in terms of the Circular DCC/COM/03/2009 of the	SP-02 has completed the clearing of credit balances and AGM (DD04) approved documents have been forwarded to IT unit to remove the abnormal credit balances. This is done for all three areas.	Appropriate action should be taken with regard to the credit balances remained in finalized debtors in terms of the Board circulars and ensure that all the dues had been recovered before giving a new connection.

Board. Apart from that, it was observed that new connections had been given to finalized customers without taking action to recover the previous outstanding balances.		
(iv) As per the audit test check conducted in relation to the outstanding debtors of Eastern, Northern and Sabaragamuwa province as at 31 October 2023, it was observed that action had not been taken to recover the outstanding balances of Rs.39.65 million due from 357 number of customers whose bills were over Rs.50,000 and remained over one year.	**Distribution Division 01** Committee has been appointed by AGM (DD1) to improve & review the receivable position of the provinces of DD1. Accordingly, several meetings were held and targets given to provincial DGM and Area Engineers to recover long outstanding arrears and improve receivable position of Northern Province. **Distribution Division 03** Out of the 48 consumer accounts, 19 customers have already settled the due amounts and the remaining 29 accounts have already been disconnected.	Prompt action should be taken to recover the outstanding debtors with high bill value.
(v) As per the audit test check, 46 electricity supply connections accounts given to quarters of parliamentary representatives had been categorized as finalized (inactive) debtors at the end of the year under review due to non-payment of outstanding electricity bills amounting to Rs.12.21 million for a long period. Out of that, a sum of Rs.11.66 million had remained outstanding for over one year and a sum of Rs.5.29 million had remained outstanding for over five years without being recovered.	**Distribution Division 01** It is agreed that there are outstanding balances from parliamentary representatives, remaining without being recovered. However, with the close supervision and instructions of Additional General Manager and DGM Colombo City, the Board was able to recover the balances of present parliamentary representatives of Rs.12.01 million and continuous recovery actions are being taken. **Distribution Division 04** The Trade debtor recovery methodology is being applied to recover the balances of the parliamentarians. Only one considerable balance remains in the SP02 province.	Action should be taken to expedite the recovery process for outstanding from connections given to quarters of parliamentary representatives.
(b) Other debtors balance as at the end of the year under review was Rs.24,327.1 million. Following observations are made in this regard		

(i)	A sum of Rs.256.91 million had remained outstanding from sacred places on the supply of electricity at the end of the year under review. Out of that, a sum of Rs.70.14 million had remained outstanding for over five years without being recovered. Further, a sum of Rs.42.5 million due from sacred places with aging for over 5 years relating to the distribution division 01. Further, in relation to the Hambanthota regional engineer office, it was observed that some of the temporary connections had been given without obtaining security deposit or estimated fee contrary to the Guideline issued by Additional General Manager (DD 04) on 26 April 2010 with regard to the procedure to be followed on temporary connections.	**Distribution Division 01/02/03** A board paper was submitted to write off the above receivables from sacred places. **Distribution Division 04** Rs.8.3 million is due from the Ministry of Buddha Sasana and Cultural Affairs from 2012 and we have written to the Ministry of Buddha Sasana & Cultural Affairs and the Ministry of Power & Energy separately requesting funds. However, we have not received any positive feedback from both the Ministries. Therefore, the management has decided that this amount cannot be recovered and a board paper will be submitted to obtain the approval to write off the dues from religious places.	Prompt and reasonable recovery action should be taken to recover the dues from sacred places and ensure that due process had been followed before taking decisions to write off. Further, ensure that no any temporary connections had been given without obtaining security deposit or estimated fee in terms of the Guidelines issued by Additional General Manager (DD 04).
(ii)	Sundry debtors included in other debtors amounting to Rs.3,261.9 million had remained outstanding as at 31 December 2023. Out of that, a sum of Rs.677.59 million had remained outstanding for over one year and a sum of Rs.329.38 million had remained outstanding for over five years. Out of over five years receivable balances, a sum of Rs.14.34 million, Rs.155.61 million and Rs.2.66 million had remained receivable from consumer bulb loan, temporally electric supply for institutions and cash shortage of Colombo city revenue counter in the year of 2013 respectively. However, no action had been taken to	**Distribution Division 01** In relating to Northern Province, loan recovering is delayed and continued action is being taken to recover the loan amount from the consumers. **Distribution Division 02** Rs.1.57 million has been recovered during the period of 5 months in 2024 and board paper has been submitted for Mahinda chinthana for Rs. 1.1million where the decision is still pending. **Distribution Division 03/04/ Transmission** Action will be taken to recover the outstanding balances. **Head Quarters** The amount due for security lights for parliamentarians is currently being negotiated with the Ministry of Power and	Prompt action should be taken to expedite the recovery process of sundry debtors.

	recover them even at the end of the year under review.	Energy for recovery. The remaining balance will be written off with the concurrence of the Board of Directors in due course. An amount of Rs. 20.5 million, recognized as POS Counter Deposits & Equipment, has been paid for the establishment of counters (POS) at People's Bank. Headquarters will make the necessary arrangements to transfer the balance to the respective divisions. Any remaining amounts will be written off from the books of account with the concurrence of the Board of Directors. **Generation** Stock surpluses and shortages of the years before 2021 in Lakvijaya Power Plant will be cleared from the stock adjustment account in the year 2024 after receiving the approval of the board. **Project Division** Projects division balance in Sundry debtor Accounts has been rectified. **Asset Management** Action will be taken to recover the outstanding balances.	
(iii)	Stock shortages aggregated to Rs.65.81 million relating to all distribution divisions, generation division and asset management division had remained in sundry debtors for over 1 year and out of that stock shortage amounting to Rs.34.15 million related to Lakvijaya Power Plant in Generation division which had remained unsettled for over 5 years. Further, out of the above stock shortages, a sum of Rs.31.66 million had been identified with the responsible officers. Nevertheless, the recovery actions had been taken only for stock losses worth of Rs.2.8 million.	**Lakvijaya Power Plant** Stock adjustment balance of Rs.34.15million will be cleared in 2024 after receiving the approval of the Board. **Distribution Division 01** Explanations such as, legal branch has to take legal action, employee was interdicted, legal case is pending etc. were provided for Rs.13.08 million. **Distribution Division 02** The preliminary investigation has done, and waiting for the decision to do the necessary adjustments in the ledger. **Distribution Division 03** Recovery actions are in progress from the existing employees for the stock shortages	Immediate action should be taken to recover the losses on stock shortages from responsible officers.

		in Sabaragamuwa and actions will be taken to clear the long outstanding non-recoverable amounts. **Distribution Division 04** Relevant unit heads were informed of long outstanding matters. After receiving relevant information, actions will be taken.	
(iv)	A sum of Rs.435.52 million had remained outstanding from 98 government institutions for the supply of lifts, air conditioners and power generators by the asset management Division of the Board as at 31 December 2023. Out of that, a sum of Rs.153.03 million and a sum of Rs.83.41 million had remained outstanding for over one year and five years respectively without being recovered. Further, a sum of Rs.110.5 million had only been made as provision for impairment at the end of the year under review.	Follow-up actions have been taken to recover the outstanding amount relating to government institutions for the supply of lifts, air conditioners and power generators.	Action should be taken to expedite the recovery process for outstanding from government institutions.
(v)	A sum of Rs. 714.96 million due from Lanka Coal Company through Taurian Iron and Steel Company and Liberty Commodities Ltd had remained outstanding for over six years without being recovered.	A cabinet committee was appointed regarding Taurian Iron and Steel Company dues and the final report was handed over to the Secretary of the Ministry of Ports & Shipping for a settlement. In the case of Liberty Commodities, Lanka Coal Company has commenced an arbitration process. Another committee was appointed by the secretary of the Ministry of Power & Energy on 19.06.2024 to submit a report regarding the transaction between Lanka Coal Company and M/s Taurion Iron & Steel Company. General Manager CEB has also issued a letter dated 10.05.2024 to the Chairman of Lanka Coal Company requesting to settle this long outstanding receivable balance in CEB books of accounts.	Action should be taken to prevent this nature of transactions in future.

(vi) A sum of Rs.241.72 million had remained outstanding from temporary electricity connections given by the Board as at 31 December 2023. Out of that, Rs.189.67 million had remained outstanding for over one year for temporary electricity connections given to government institutions by Colombo city province.	Despite repeated efforts to collect payment, including meetings and reminder letters, some government institutions have not yet made arrangements to settle their outstanding.	Action should be taken to recover the long outstanding balances due from temporary electricity connections.

1.8 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, 27.31 Gwh of energy valued at Rs. 2,957.3 million had been purchased from two retired Independent Power Producers whose generation license was expired during the year under review.	Due to releasing of water from Samanalawewa reservoir for the purpose of irrigation requirements, the Cabinet of Ministers approval was granted on 07 August 2023 for an island wide uninterrupted power supply by procuring necessary supplementary power from available power plants in the Southern Region by 15 August 2023.Accordingly, CEB entered in to Power Purchase Agreements with ACE Power Generation Matara (Pvt) Ltd for 94,500,000 kWh of MGEA and with ACE Power Embilipitiya (Pvt) Ltd for 325,872,000 kWh of MGEA for a period of 06 months. The effective plant capacity of above both plants were 97.31MW. The whole procurement was carried out as a tender in order to comply with Cabinet Decisions for an island wide uninterrupted power supply during the declared emergency situation in the country.	Should comply with the Provisions of Sri Lanka Electricity Act.
(b) Operational Manual for State Owned Enterprises of Department of Public			

	Enterprises dated 17 November 2021.			
(i)	Section 3.5	The Ministry of Power and Energy should reimburse an amount of Rs.288.66 million to the Board for the employees released from the year 2020 to 2023. Apart from that, a sum of Rs.24 million had been incurred by the Board as salaries and allowances of an officer released from the Board from the year 2014 to 2023 who is performing duties as General Manager of Sri Lanka Energies (Pvt) Ltd.	A letter has been sent by the General Manager, CEB to the Ministry of Power, requesting to reimburse the expenses incurred by CEB with regard to the salaries & other benefits of employees released to the Ministry. Reimbursement for the salary for the General Manager of Srilanka Energies (Pvt) Ltd is being settled by that company.	Ensure strict compliance with Guidelines of Department of Public Enterprises.
(ii)	Section 7.7	A Subsidiary Reviewing Policy had not been established by the Board of Directors even at the end of April 2024 even though Board of Directors (Parent) has a fiduciary duty to discuss the performance of the subsidiaries at least quarterly.	After the proposed reforms are achieved, a new Electricity Act will be enacted to deal with all aspects of the electricity sector. Hence, after discussion the Board decided that formulating a Subsidiary Policy as mentioned above may not be required at this juncture as CEB is in the process of an organizational transformation.	Ensure strict compliance with Guidelines of Department of Public Enterprises.
(c)	Cabinet Decision No.23/0199/601/009 dated 07 February 2023	Service of an external lawyer had been obtained for two court cases bearing the numbers 198/2024 and 254/2024 without obtaining approval of the Hon. Attorney General as required by the Cabinet Decision.	Hon Attorney General was retained in SC/FR/198/2024 & 254/2024 on 30.10.2024 and these cases were dismissed on 26 November 2024. However, a sum RS 7.6 million has not incurred as legal chargers in these cases. Therefore, there is no need to take action to recover this amount.	Should comply with the provisions of Cabinet Decisions with regard to the obtaining service of an external lawyer.

Subsequently, invoices of Rs.7.6 million for the period of services have been forwarded to the Board and that is expected to pay in near future. However, action had not been taken to recover the sum of Rs.7.6 million invoiced as legal charges during the month of September 2024 from the responsible officers as mentioned in the Cabinet Decision.

1.9 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Contrary to the Section 17 of the Part V of the Social Security Contribution Levy Act, No.25 of 2022, the Social Security Contribution Levy (SSCL) amounting to Rs.1,224.1 million charged on the supply of electricity to the Lanka Electricity Company Limited from the fourth quarter of the year 2022 to August 2023 had not been remitted to the Department of Inland Revenue even at the end of May 2024.	This issue is now resolved and payment was settled to Department of Inland Revenue on July 2024.	Should comply with the provisions in the Security Contribution Levy Act, No.25 of 2022.

2. Financial Review

2.1 Financial Results

The operating result of the Ceylon Electricity Board for the year under review amounted to a pre – tax profit of Rs. 61,236 million and the corresponding loss in the preceding year amounted to Rs.298,189 million (re-stated). Therefore, a massive increase in profit by Rs.359,425 million was observed. Increase of electricity sales revenue by 97 percent due to massive increases in electricity tariff during the year under review was the major reason attributed for this increase in financial results.

Further, the operating result of the group for the year under review amounted to a pre – tax profit of Rs.78,844 million and the corresponding loss in the preceding year amounted to Rs.274,606 million (re-stated). Therefore, a massive increase in profit by Rs.353,450 million was observed.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the Group for the year under review compared with the preceding year with the percentage of increase or decrease is shown below.

Description	Variance Amount Increase/ (Decrease)	Variance	Reason for the Variance
	(Rs.Billion)	%	
Revenue	305.23	81	Increasing energy rates and monthly fixed charges through electricity tariff revisions imposed from 10 August 2022 to 20 October 2023. .
Cost Of Sales	62.83	13	Increase in cost of fuel, Coal and power purchasing. Increasing operation and maintenance cost of power distribution.
Finance Cost	19.91	43	Increase in interest expense on borrowings, increase in delayed interest on IPP and NCRE Payments

2.3 Analytical Financial Review

2.3.1 Working Capital Management

The Working Capital of the Group as at 31 December 2023 was reflected as a negative figure of Rs.9,288 million whereas the previous year (restated) negative balance was Rs.158,771 million. Hence, working capital of the year under review had improved by 94 per cent as compared to the previous year.

2.3.2 Debt to Equity

Equity balance of the Group as at 31 December 2023 had been increased by Rs.196,663 million or by 48 per cent as compared with the previous year. Further, 39 per cent or Rs. 389,384 million of the total capital employed by the Group as at 31 December 2023 had been financed through borrowings. Further, the Debt to Equity Ratio of the Group had decreased to 64 per cent in the year under review from 93 per cent in the previous year.

2.3.3 Profitability

The average cost per unit (cost of electricity per Kwh) of the year under review was Rs.40.92 as compared with Rs.36.15 (restated) in the year 2022 and sold at an average price of Rs.42.86 per unit (previous year average selling price was Rs.21.24 per unit). Accordingly, the average gross profit per unit of the year under review was Rs.1.94 and it was 113 per cent increase in average profit as compared with the previous year average gross loss of Rs 14.91 per unit. The following table shows the tariff category and the contribution per unit of electricity sold in the year under review as compared with the previous year.

Category	Contribution per unit (kWh)	
	2023	2022 (restated)
	Rs.	Rs.
Domestic	2.74	(17.04)
Religious	2.27	(19.87)
General Purpose	9.78	(8.59)
Hotel	1.36	(14.73)
Industrial	(2.27)	(15.55)
Government	10.83	(12.35)
Bulk Sup. to LECO	(3.27)	(17.02)
Street Lighting	(40.89)	(36.14)
Agriculture	21.08	(11.15)
Average Contribution	1.94	(14.91)

Accordingly, all the tariff categories of the Board except Industrial, Bulk Supply to LECO and street lightening generate positive contribution during the year under review and the highest contributor to the total contribution was agricultural sector. Further, the highest negative contributor to the total contribution of the year under review was Street Lighting.

3. Operating Review

3.1 Performance

(i) Power Generation and Direct Cost (Other than Distribution and Transmission)

Although the main objective of the Board is to supply of power at low cost to the country, the Board was unable to achieve this objective due to unfavorable conditions existed 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 and the recent tariff revisions imposed to recover the continuous losses of the Board.

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

The position of power generation in 2023 as compared with the previous year is given below.

Source	2023	2022	Increase/(Decrease)	
	GWh	GWh	GWh	%
Ceylon Electricity Board				
Hydro	4,573	5,364	(791)	(14.7)
Thermal	1,972	1,337	635	47.5
Coal	4,646	5,174	(528)	(10.2)
Wind	391	347	44	12.6
Small Islands (Hybrid renewable energy system)	2.7	2.6	(0.1)	3.8
Sub Total	**11,585**	**12,225**	**(640)**	**(5.2)**
Independent Power Producers				
Hydro	1,378	1,377	1	0.1
Thermal	1,160	1,128	32	2.8
Wind	427	376	51	13.6
Other Non-Conventional Renewable Energy	167	117	50	42.7
Grid Connected Solar	227	190	37	19.5
Rooftop Solar	632	530	102	19.2
Sub Total	**3,991**	**3,718**	273	7.3
Grand Total	**15,576**	**15,943**	**(367)**	**(2.3)**

Accordingly, power generation from all the sources except Hydro Power generation from Board’s plants and Coal power generation from Norochcholai power plant had been increased during the year under review. Further, power generation from Thermal (Board) and other non-conventional renewable energy had increased by 47.5 per-cent and 42.7 per-cent respectively and power generation from Grid Connected Solar and Rooftop Solar had also increased by 19.5 per-cent and 19.2 per-cent respectively during the year under review as compared with the preceding year. Nevertheless Hydro Power generation from power plants of the Board had decreased 791 Gwh or by 14.7 per cent as compared with the preceding year due to the drought conditions prevailed during the months of June to October.

(ii) Direct Cost

A cost wise analysis of total direct cost of the year 2023 as compared with previous year is given below.

Description	2023 Rs. million	2022 Rs. million	Increase/Decrease Percentage (%)
Fuel	120,961	68,875	75.62
Coal	158,208	135,126	17.08

Power Purchase	128,004	121,244	5.58
Operation and Maintenance	65,131	85,615	(23.93)
Depreciation	34,662	33,765	2.66
Direct cost	**506,966**	**444,625**	**14.02**

According to the above information, it was revealed that due to increase in fuel and coal prices during the year under review, the cost of fuel and coal had increases by 75.62 percent and 17.08 percent respectively as compared with the preceding year.

3.2 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
(i) The contract for the piling works of Proposed Headquarters Building Complex was initially awarded on 22 October 2012 for the contract sum of Rs.304.6 million. The contract for the construction and remedying defects of the construction of it was awarded again on 02 August 2021 for the contract sum of Rs.4,774.6 million (excluding VAT) and Commencement date was 16 August 2021. However, on 14 February 2023, the Board had decided to terminate the contract based on instructions from the Minister of Power. As of 31 July 2024, the contract had not been terminated, despite the contractor suspended the works in August 2023. A substantial completion certificate was issued for a reduced scope of work on 16 October 2023, while the project's physical progress stood at only 13.2 per cent. Consequently, Rs. 1,484.9 million spent on the project became idle.	During the construction was in progress, the Contractor faced several difficulties due to effect of Covid-19 Pandemic, shortage of labours and material, high price increase of local & imported construction materials, fuel shortage etc. Accordingly, the Contractor reduced the rate of progress of works by his own decision. Meanwhile instructions were given at a meeting with the Hon. Minister of Power on 07 December 2022 to hold the on-going construction works of the building as appropriate in order to control public expenditure during the challenging period. At such time, the progress of works at ground floor and the first floor were 80 percent and 25 percent respectively. The Board at its meeting held on 14' February 2023 decided to terminate the construction works of the meeting after completion of necessary protection works and to follow the contractual procedure to terminate the project. Accordingly, the Contractor was informed regarding the employer's decision. The project consultant issued the reduced scope, which was to be completed by the contractor by 15 August 2023. The progress as per the original scope was only 13.2	Action should be taken to complete the construction activities in such a way to utilize the building economically.

		percent.The Contractor was so far failed to successfully complete the construction defects to the satisfaction of the consultant, despite several rectification methods followed. The termination of the construction contract was delayed due to delay of rectification work. However, the Contractor was advised to complete all the rectification and hand over the project by 08 February 2025.	
(ii)	The Seethawaka Ganga Hydropower Project, identified in the Board's Master Generation Plan in 1988, was set to be commissioned by 2022. Initially that was managed by Sri Lanka Energies (Pvt) Ltd, it was later transferred to the Board after incurring Rs. 1.3 million in preliminary expenses. By 30 September 2021, the Board had spent Rs. 301.19 million on preliminary activities but ultimately decided to wind up the project and transfer it back to Sri Lanka Energies (Pvt) Ltd to develop two mini hydro plants of 7 MW. Due to this decision, expenditure incurred by the Board had become uneconomical and no efforts were made to recover these costs or account it appropriately.	AGM (Projects) has sent a board paper for writing off and the approval of the board is still pending.	Ensure that funds of the Board are used for feasible activities.
(iii)	A sum of Rs.15.2 million had been incurred by the Board for the opening ceremony of Mannar Wind Power Generation project which was commissioned in 2021, was observed as uneconomical	The payment of Rs. 1,345,914.44 was carried based on the Board approval. Further, the event expenditure of Rs. 9,674,887.86 was handled by the AGM (Projects) division and the BOS branch of AGM(CS) division and the respective cost was transferred to the project. However, the PMU was not informed about the other payments as amounting Rs. 4,261,000.00 was carried out by BOS branch of AGM (CS) division and the cost had been transferred to the projects division.	Ensure that the funds of the Board are utilized economically.

3.3 Identified losses

Audit Issue	Management Comment	Recommendation
Due to delay in making supplier's payments on time, a sum of Rs.16,320 million and Rs.5,620.6 million had been incurred as delay interest on power purchases and fuel purchase (CPC) respectively during the year under review. Further, a sum of Rs.10.33 million had also been incurred as default interest due to delay in repayment of loan installments by the Board in respect of local bank loans for the year under review.	Rs.14.23 billion (from 2022 Jan to 2023 April) has been settled by the Treasury on 30.04.2023 to CPC as delayed interest on behalf of the fuel purchased for the Thermal Power Plants. During the said period through the Financial Statements, it is reckoned that the working capital Debt Stock has been increased significantly in lieu of financing the energy suppliers to maintain the uninterrupted power to the country due to far below electricity tariff than the cost of it. In this circumstance, the increase of the finance cost is obvious.	Necessary action should be taken to repay debt service payments on time in order to prevent from incurring default interest and make regular payments to creditors in order to prevent delay charges.

3.4 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to Section 24(1)(c) of the Sri Lanka Electricity Act, No. 20 of 2009, as amended, the Board must ensure there is sufficient capacity from generation plants to meet reasonable forecasted electricity demand. In line with the Least Cost Long Term Generation Expansion Plan for 2018–2037, 2,032 MW of new generation capacity was planned for implementation between 2018 and 2021. However, only 661.6 MW of power plants were commissioned during that period. The Least Cost Long Term Generation Expansion Plan for 2022–2041 included plans for 544 MW of renewable energy capacity additions in 2022, but only 211 MW of new renewable energy power plants were commissioned that year. Additionally, the approved Least Cost Long Term Generation Expansion Plan for 2023–2042 aimed to commission power plants with a total capacity of 607 MW in 2023; however, only 185.6 MW had been commissioned by 31 December 2023. Consequently, the implementation of the	Reasons such as termination of procurement (Furnace oil fired power plants with 320 MW) based on Cabinet Decisions, Sanctions imposed to Iran by USA for the Uma Oya Hydro Power Plant, Stringent financial status of the country and CEB, retendering process, legal disputes, public protests, difficulties in securing finance, delays in granting cabinet approval to award the contract had been given for the slow progress in Least Cost Long Term Generation Expansion Plan.	The Long Term Generation Expansion Plan should be implemented as planned.

	new generation plans was significantly below target, and the goal of providing a least-cost power supply was not achieved. As a result, 27.31 GWh of energy, valued at Rs. 2,957.3 million, had to be purchased as additional power during the year under review, with an average cost per unit of Rs. 108.29. In comparison, the overall average cost per unit and the average cost of power purchased from the West Coast Power Plant were Rs. 40.92 and Rs. 68.29, respectively.		
(b)	As per the Electricity (Amendment) Act, No. 16 of 2022, the requirement to submit a tender on the publication of a notice shall not be applicable in respect of any new generation plant or to the expansion of any existing generation plant that is being developed or to be developed on a permit issued by the Sri Lanka Sustainable Energy Authority (SLSEA) for the generation of electricity through renewable energy sources. However, out of the projects with aggregating capacity of 598 MW forwarded to the Board by SLSEA during the year 2022, power plants with aggregating capacity of 4 MW had only been commissioned up to 31 December 2023.	Several reasons contributed to the lack of implementation of NCRE projects during 2022-2023 following the Electricity Act Amendment. • Suspension of the Feed-In Tariff (FIT) process • Economic Concerns • Lack of Interest in MHPs • Requirement that the developers need to bear the total transmission facility cost by themselves with in SPPA tariff etc. (for the Wind Projects in Kalpitiya area). Further, without strengthening the network, the ability to absorb NCRE generation and deliver of quality power may be compromised.	Immediate action should be taken to resolve the problems associated with commissioning any new generation plant or to the expansion of any existing generation plant that is being developed or to be developed on a permit issued by the Sri Lanka Sustainable Energy Authority (SLSEA) for the generation of electricity through renewable energy sources.
(c)	The avoided cost-based tariff was introduced for Non-Conventional Renewable Energy (NCRE) projects before the year 2000. This tariff now applies only to NCRE projects approved before 2007, with 28 such projects currently in operation. The avoided cost method is based on thermal plant dispatch and varies according to fuel costs. According to letter No. DGM/SYC/TCH/41 from the DGM (System Control) dated January 16, 2020, the actual	After obtaining board approval for the committee report on 07.02.2024, the Energy Purchases branch has informed all developers still under the Avoided Cost category to transition to the TTT by entering new SPPAs based on cost-reflective, technology-specific three-tier tariffs. Regarding proposed	Action should be taken to implement the recommendation of the committee as approved by the Board by applying a reasonable ceiling price for mini hydro plants.

	unit cost for hydro plants should be less than Rs. 10.00, even for new plants. However, the avoided cost method determined rates for mini hydro plants in 2023 at Rs. 25.09 for the wet season and Rs. 28.46 for the dry season. In comparison, the average CEB hydro cost per unit for the year was Rs.3.52. Despite a Board decision on 16 August 2022, no actions were taken to apply a reasonable ceiling price for mini hydro plants based on the avoided cost method by the end of the review year.	transition from avoided cost principle to cost reflective, technology specific three tier tariff structure, a committee has appointed by Secretary, Ministry of Power & Energy on 28.06.2024 to make their recommendations and Board approval has been granted for the recommendation of the committee on 10.09.2024. Accordingly, it was decided to pay avoided cost tariff for the developers, from January 2025 subjected to maximum CEB Board approved 2023 avoided cost tariff, until the completion of the 15-year period of each project.	
(d)	As per the report of the Chief Internal Auditor of the board, it was observed that the Board had to incur an approximate loss of Rs.262.6 million to purchase additional private electricity as a result of releasing water in Randenigala & Rantambe reservoirs without generating electricity due to trade union action in 2022. However, no action had been taken to recover the loss from the responsible officers even at the end of the year under review. Further, it was observed that a committee had been appointed by the board of directors on 25 July 2022 and the report had been submitted on 16 November 2022 and on 08 December 2022. However, the board of directors had rejected the report and appointed a new committee on 22 February 2023. Although, the committee had submitted their report to the board of directors on 22 November 2023, the recommendations made by the committee had not been implemented even by the end of May 2024. A sum of Rs.1.23 million had been paid by the Board for the members of the above two committees.	General Manager has informed all the Heads of Divisions and the CLO, CIA to implement recommendation of the Committee as appropriate.	Immediate action should be taken to implement recommendation of the Committee as appropriate and recover the loss from responsible officers.

(e) The following observations are included in the Performance Audit report on Purchasing 50 numbers of Containerized Mobile Diesel Generators with an estimated cost of Rs.3,000 million and the amount paid by the board to the contractor as at 31 August 2023 including 10 per cent advance of the contract value of Rs.2,373.32 million. The report had been tabled in parliament on 13 October 2023.

(i) The bidding documents approved by the Technical Evaluation Committee (TEC) appointed by the Department of Public Finance and the Standing Cabinet Appointed Procurement Committee (SCAPC) for commencement of procurements for purchase of the aforesaid generators, has been additionally revised in two instances considering the requests of the bidders. The TEC had notified the Procurement Committee to refrain from making revisions in the conditions maintaining the quality of generators mentioned in the bidding documents as per the requests made by the bidders.	Agreed with the above statement	Recommendations of Technical evaluation Committee should be considered when making revisions to the contract document.
(ii) Despite the recommendations made by the TEC, the contract had been awarded to the bidder who had not filled the requirements of the section 23(b) and 23(d) of the special conditions in the bidding documents and non-comply with the percentage of sulphur contained in the fuel with the percentage of sulphur which should be used in generators.	Agreed with the above statement.	Recommendation of the Technical Evaluation Committee should be considered when selecting substantial responsive bidder.
(iii) During the inspection of performance of the generators, it was observed that the generators had not been operated for a considerable number of hours due to Forced Outage instances, lack of fuel and lubricants and technical defects etc. Due to technical defects, the generators had not operated for 52,452 hours, 36,120 hours, 57,320 hours and 35,345 hours during the year 2019, 2021, 2022 and 2023 respectively. Further, the total repair cost	There were no outages due to lubrication oil.	Recommendation of the Technical Evaluation Committee with regard to the non-compliance of bidding documents should be considered in order to prevent from technical defects.

	and the cost of the spare parts incurred during 2020 to 2023 was Rs.245.71 million and Rs.591.88 million respectively.		
(iv)	The machines were subject to occasional breakdowns due to technical defects and some generators were inactive for long period. According to inspection carried out on 13 November 2023 and the information received to the audit it was observed that the plant availability factor of those machines remained less than 80 percent during the months of July to September in Mathugama site and June in Kolonnawa site in the year 2022 and in the month of August 2023 in Mathugama and Hambanthota site.	Occasional breakdowns have occurred from time to time. The plant availability factors have been considerably affected by the lack of fuel due to the economic crisis of the country.	Recommendation of the Technical Evaluation Committee with regard to the non-compliance of bidding documents should be considered in order to prevent from technical defects.

3.5 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Due to the matters such as delay in implementation of the Least Cost Long Term Generation Expansion Plans, delay in implementations of NCRE projects, emergency power purchase without approval of the PUCSL, significant increase in the number of permanent employees of the CEB in 2016, unauthorized benefits made or being made to the CEB employees etc. the Board had to obtained short term loans and long-term loans for the procurement of oil, coal and spares, payment for the power purchases and capital expenses of the Board. As a result, the Board had to incur a sum of Rs.36,873.4 million as interest expenses during the year under review.	CEB has incurred significant interest expenses on various forms of borrowing, including bank overdrafts, short-term loans, and long-term loans. These borrowings were essential to manage the cash flow requirements of the organization .Borrowings were critical to procure essential inputs such as fuel and coal, without which the CEB would not have been able to generate electricity. Payments to power producers and investments in capital infrastructure were also essential to meet the growing energy demand and maintain the reliability of the power grid. Delaying these payments or investments would have risked power outages and infrastructure failures, which would have had far-reaching consequences for the economy and society.	Action should be taken to avoid unnecessary interest expenses which may be caused by factors which are under control of the Board.

3.6 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The eighteen (18) lands had been purchased at a cost of Rs.188.38 million for project activities, for the construction of regional engineer offices, consumer service centers and Grid Substations during the period from 2000 had not been utilized for the expected purposes even at the end of the year 2023. Out of those lands, four (4) lands valued at Rs.36.48 million had not been recorded in the fixed asset registers of the distribution division 01, 02 and 04. Further, as per the random audit test check, it was observed that the Board had failed to complete the acquisition activities of ten lands acquired for the various construction activities even though over 6 years had been passed after publishing the relevant Gazette Notifications.	These lands had not been utilized for the expected purposes due to following reasons. • Inability to resolve the issues related to access road. • Objections from SLLDC • Suspension of constructions through Public Enterprises Circular No.04/2022 • Changes made to the Long Term Transmission Development Plan etc.	Action should be taken to utilize the idling lands for expected objectives and expedite the process of land acquisition.

3.7 Delays in Projects or Capital Work

	Audit Issue	Management Comment	Recommendation
(a)	The Generations constraints and Transmission Network constraints of the Southern Grid had been highlighted by the Board since 2016, when requesting the approval from the PUCSL for procuring emergency power. However, Polpitiya – Hambanthota 220 kV, 150km Transmission Line which was proposed to strengthen the Southern Grid had been energized on 22 August 2023 with a delay 2 years and 7 months. Also, Horana – Padukka 132kV, 25 km Transmission Line which was expected to be completed on 20 April 2022 and Kotmale – New Polpitiya, 220kv Transmission Line	**Construction of Polpitiya – Hambantota 220kV, 150km Transmission Line** With the land issue of Carney Estate, Siripagama it was dragged until August 11, 2023, to resolve this matter at the PUCSL. Further, progress of the project was seriously affected by the Easter bomb attack, COVID19 pandemic and the negative economic situation of the country during this period. **Construction of Horana – Padukka 132kV, 25km Transmission Line** The progress of the project was seriously affected by the Easter bomb	Action should be taken to expedite the completion of the construction of Transmission Lines which was proposed to strengthen the Southern Grid.

which was expected to be completed on 01 April 2021 to strengthen the Southern Grid had not been completed even at the end of the year under review. The physical progress of these projects as at 31 December 2023 was only 51.15 percent and 59 percent respectively. Further, the contract of Kotmale – New Polpitiya project had been terminated.	attack, COVID-19 pandemic, and the negative economic situation of the country during this period. Under the new scope, the project was completed by January 19, 2024. The balance works of the project will be carried out by CEB. **Kotmale – New Polpitiya, 220kv Transmission Line** Due to the default condition of the country leading to the suspension of funds disbursement by JICA to the National Transmission and Distribution Network Development & Efficiency Improvement Project from April 2022 onwards. Hence, Contractor has served the Termination of the Contract by his letter no. KKJV/NTDND&EIP/HO/W0353/895 dated February 02, 2023 pursuant to Sub Clause 16.2(c) of the General Conditions of the Contract.	
(b) With respect of three foreign funded projects with the aggregated estimated cost of Rs.32,719.06 million, a considerable delay ranging from 26 to 70 months was observed from the scheduled completion date to the end of the year under review. It was further observed that the said projects had not been completed within the first extension granted to the contractors and the physical progress as at the end of the year under review was ranging from 60 percent to 99.7 percent.	These delays were due to following reasons. • Delay in appointment of PMU • Consultancy procurement delay by CACPC decision, • Dam redesign and delay in EIA approval by MASL • Covid-19 pandemic affected in supplying labor, machinery, materials, • Financial issues of the contractors, • Delay in the approval of CEB personnel for Factory Acceptance Tests. • Delay or cancellation in bringing stringing gangs from Pakistan due to attacks on churches. • Economic Crisis in Sri Lanka • Delay in obtaining Cabinet Approval for Contingency Payments • Objections from third party for construction of tower lines • Clearance issues in gantry lands etc.	Action should be taken to expedite completion of project activities.

3.8 Procurement Management

	Audit Issue	Management Comment	Recommendation
(a)	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. However, only 7 procurements for NCRE projects with aggregating capacity of 390 MW had been initiated up to 31 December 2021 by following procurement procedure and out of the said capacity, power plants with aggregating capacity of 102 MW had only been commissioned up to 31 December 2023.	Commonly, the progress of all above projects was hampered due Covid -19 travel restrictions and the financial crisis in the country from year 2022 onwards. Therefore, Project Companies faced difficulties in implementing the projects for the tariff rates quoted at the bidding stage of these tenders and requested for a solution. The matter was taken up by the Cabinet of Ministers and considering the Cabinet decisions and terms & conditions of PPAs, CEB has taken action to cancel and extend projects.	Action should be taken to expedite the progress of uncompleted NCRE projects which had been initiated up to 31 December 2021.
(b)	The contract for the development of 100 MW Solar Park Facility at Siyambalanduwa on Build, Own and Operate (BOO) Basis and Construction of 132 Kv Transmission Facility on Turnkey Basis had been awarded on 16 August 2023. The following observations are made in this regard.		
(i)	It was observed that the one consortium partner of the consortium (The selected bidder) had not complied with the all criteria under the financial capability (clause No. 4.2.1, 4.2.2, 4.2.3 (i) and (ii) of Volume I in the Request for Proposal (RFP) documents.) and Project Committee (PC) had noted that non compliances observed in financial capabilities of the said consortium partner was a deviation.	Correct as per Project Committee (PC) evaluation reports	Should comply with the provisions in RFP (Request For Proposal) when evaluating the bids.

(ii) After considering the requested clarification response from the consortium, PC was of the view that the consortium had not fulfilled the financial capability requirements stipulated in Clause 4.2 in Volume I of RFP which was a deviation. However, PC had recommended to negotiate with the consortium to reach a tariff of 7.61 USD Cents/kwh for Solar Park Facility and Semi annuity payment of USD 1.25 million for Transmission Facility as maximum acceptable values, considering the financial deviation mentioned above positively by its report dated 22 March 2023. If not, PC had recommended to conclude the ongoing RFP process and initiate a new RFP process to this project.	Correct as per Project Committee (PC) evaluation reports.	Recommendation of Project Committee should be considered by responsible parties.
(iii) As per the financial proposal submitted by consortium, the tariff for Solar Park Facility and Semi annuity payment for Transmission Facility was 12.2 USD Cents/kwh and USD 1.67 million (Present value of all the transmission facility payments proposed was USD 25.58 million) respectively. The consortium had provided a separate proposal by removing Transmission Facility cost loaded to the Solar Park Facility on 03 May 2023. According to the revised proposal, Tariff for Solar Park Facility was 8.15 USD Cents/kwh and semi annuity payment for the Transmission Facility was USD 3.31 million. Accordingly, it was observed that present value of all the transmission facility payments revised (Present value of all the transmission facility payments was USD 50.81 million approximately) was exceeded the ceiling value	Correct as per PC evaluation reports. It's understood that USD 3.31 million semi annuity payments has been discounted at the rate of 3.8 percent in calculating the present value. However, market rates of cost of capital (USD) at the time of bid evaluation / negotiations were very higher than this value. Hence suggest using a reasonable rate for discounting that match the economic situation of the country at that time in calculating the present value.	Should comply with the provisions in RFP (Request For Proposal) when evaluating bids.

	imposed in the RFP (Present value of all the transmission facility payments should be less than USD 27.3 million) by 86 percent.		
(iv)	As per the letter dated 17 May 2023, the consortium had finally agreed to revise the tariff for Solar Park Facility as 8.00 USD Cents/kwh and semi annuity payment for the Transmission Facility as USD 2.29 million with some changes in scope of work in Transmission Facility. Therefore, it was observed that present value of all the transmission facility payments revised (Present value of all the transmission facility payments was USD 35.13 million) was exceeded the ceiling value imposed in the RFP by 29 percent.	It is understood that USD 2.29 million semi annuity payments has been discounted at the rate of 3.8 percent in calculating the present value. However, market rates of cost of capital (USD) at the time of bid evaluation / negotiations were very higher than this value. Hence suggest to use a reasonable rate for discounting that match the economic situation of the country at that time in calculating the present value.	Should comply with the provisions in RFP (Request For Proposal) when evaluating bids.
(v)	As per the Clause No. 8.1.3 (iv) (b) of the signed contract agreement for the Transmission facility, project company shall be entitled to reimburse the taxes, duties, levies, and fees (including SSCL) in terms of Clause 5.3.4 via submitting a Reimbursement invoice if it was not granted exemptions from customs, other import taxes, duties, levies and fees (including VAT and SSCL) payable by the project company on all imports of plants, machinery, equipment and material even the Minister of Finance, Economic Stabilization and Nation Policies had observed that it should be decided also taking into account the condition mentioned in the RFP and such conditions had not been mentioned in the RFP. Further, it was observed that present value of all the transmission facility payments	Though it was not specifically mentioned in the RFP, as decided by the CANC during negotiations with the bidder on arriving at the final semi annuity value, taxes & levies related to the transmission facility development were to be either exempted or reimbursed by CEB. Generally, in all turnkey transmission projects of CEB, taxes and levies related to the project are either exempted or reimbursed to the contractor by CEB. However, due to an oversight, that was not specifically mentioned in the issued RFP document. Further, the ceiling value (USD 27.3 Million) of the transmission facility estimated by CEB was also without the taxes & levies as it was estimated based on rates of earlier completed turnkey projects (where taxes & levies are not part of turnkey contract price).	Provisions in the RFP document should be taken into consideration when exempting or reimbursing taxes to the bidder as observed by Minister of Finance, Economic Stabilization and Nation Policies.

	after taking into account of estimated Custom Duties & Other Levies on CUSDEC amounting to USD 3.27 million (Present value of all the transmission facility payments was USD 39.96 million) was further exceeded the ceiling value imposed in the RFP by 46 percent.		
(vi)	The Cabinet Appointed Negotiated Committee (CANC) had decided to award the contract to the consortium at 8.00 USD Cents/kwh for Solar Park Facility and semi annuity payment of USD 2.29 million for the Transmission Facility at its meeting held on 15 May 2023. The approval of the Cabinet of Ministers had been granted for the same at its meeting held on 17 July 2023. However, it was observed that any recommendation had not been made by PC to CANC for the awarding contract to the consortium. Further, it was observed that the accepted tariff for Solar Park Facility and accepted semi annuity payment for the Transmission Facility had been exceeded the maximum acceptable tariff of 7.62 USD Cents/kwh for Solar Park Facility and the maximum acceptable semi annuity payment of USD 1.994 million for Transmission Facility recommended by PC at its report dated 27 April 2023.	CANC conduct the final negotiations with bidder based on evaluation data provided by the PC and decision on awarding the contract is vested with CANC which ultimately has been approved by the Cabinet of Ministers.	Recommendations made by the Project committee should be considered when selecting bidders.
(vii)	The fact that the submission of two RFPs for such procurement and only one RFP being considered for technical evaluation and financial evaluation did not create the competition as expected from the	CEB is of the view that CANC has made their final determination considering the facts such as complex nature of the project, qualification evaluation requirements of both facilities, time required for retendering process etc. After the CANC and Cabinet approvals, the	Ensure that effective completion is in place before making decisions to award the contract.

	procurement guideline. Hence, it was observed that the opportunity to get more favorable price for both Solar Park facility and Transmission facility had been deprived to the Board. Further, it was observed that Rejection of all bids received can be justified when lack of effective competition is clearly evident as per the section 7.12.1 of the National Procurement Guidelines.	proposed tariff has also been approved by the Public Utilities Commission of Sri Lanka (PUCSL) as per clause 43(7) of the Sri Lanaka Electricity act which endorsed that offered tariff complies the principle of least cost.	
(c)	Demand Side Management Unit of the Board had been established by the Board Decision taken on 07 March 2023 and after 8 months of its operations, it had been decided to suspend its activities by the board decision taken on 31 October 2023. During this short period, in order to make aware the public the importance of reducing electricity consumption and demand management, 18 videos had been prepared through 03 external organizations by incurring a sum of Rs.14.33 million without following proper procurement procedure as stipulated in the Procurement Guideline-2006. Further, as per the report of Government Analyst Department, these videos had been produced by computer animation without being live recording. Hence, Board had paid Rs,6.4 million to above contactors for those activities which had not been actually done by the them as quoted.	Regarding this issue, decision was given by the Board on 31.10.2023 in Minute No. 23.14430F case was transferred to Chief Internal Auditor for initial investigations. As per the special Investigation report of the CIA, management has already suspended the service of publicity manager & the D.G.M (Demand side management). Also, further investigation action is being carrying out for the same.	Provisions laid down in the procurement guideline should be followed when awarding tender for the transparency. Further immediate action should be taken to recover losses incurred by the Board from responsible parties due to payments made to contractors for activities not executed by them.

4. Other matters

Following observations are made with regard to the audit of LTL Holdings Ltd.

	Audit Issue	Management Comment	Recommendation
(i)	With the 19th Constitutional Amendment, the audit of public	Action has been taken by CEB to refer this matter to Ministry of Energy.	Should act in accordance with

companies came under the purview of the Auditor General and in relation to the audit of LTL Holdings (Pvt) Limited and its subsidiaries, an interim injunction had been obtained on 10 July 2020, against the statutory audit of LTL Holdings (Pvt) Limited through the court case filed by employees' union of LTL Transformers Holdings (Pvt) Limited along with two others in the Honorable Court of Appeal and another court case filed by H.D. Chaminda and 15 others in the Honorable Court of Appeal. In spite of that, by the court order dated 10 October 2022, that obstacle was removed and the audit of that company could have been carried out under my direction in pursuance of provisions assigned to the Auditor General as per the Constitution. However, at that time, my staff had been obstructed to carry out the audit of LTL Holdings (Pvt) Limited by citing the interim order obtained from the Commercial High Court against holding the special general meeting that was proposed to be held to remove the auditors appointed in the annual general meeting of the said company. Due to the above facts, the audit of that company could not be carried out under my direction from the year 2020 to 2023.		provisions of the Constitution of Sri Lanka and National Audit Act
(ii) According to the Cabinet decision taken on 01 January 2024, it was decided at the board meeting of the Electricity Board held on 01 February 2024 to transfer 28 percent of the 63 percent share capital of LTL Holdings Limited for the settlement of part of the dues to the West Coast (Pvt) Limited by the Electricity Board.	The legal opinion which was obtained by the company concerned from their corporate lawyers is submitted. LTL is the sole transformer and galvanizing provider to CEB. CEB enjoys agreed credit period in these transactions and those are disclosed in current liabilities, long term liabilities, finance leases, contingent liabilities and goods in transit accounts at any given point of time.	Should comply with the observations given by Minister of Finance, Economy and Policy Development regarding share transferring to West Coast (Pvt) Ltd.

Accordingly, 919,517,200 numbers of shares were transferred to West Coast (Private) Limited by LTL Holdings Limited on 07 February 2024 for a consideration of Rs.26.08 billion. However, legal clearance had not been obtained from Hon. Attorney General with regard to the crossholding in accordance with Section 72 of the Companies Act No.07 of 2007. Further, all the liabilities to LTL Holdings Ltd and its subsidiaries had not been settled by the Electricity Board as instructed by the Secretary to the Ministry of Finance, Economic Stabilization and National Policies and the Director General of Public Enterprises in his observations.	These liabilities are settled by CEB on an ongoing basis. Therefore, it is not possible to settle all liabilities before the share transfer.	
(iii) The approval of the Board of Directors of LTL Holdings Limited and full approval granted by the Board of Directors of Ceylon Electricity Board for the realization of shares had not been communicated to the Treasury before commencing the share transfer process as instructed by the Minister of Justice, Prison Affairs and Constitutional Reforms.	Treasury owned the majority of WPCL and Treasury representatives are present in both WCPL and CEB board meetings. The board of directors of CEB and WPCL extensively discussed the share transfer prior to granting their approvals. The relevant board decisions were communicated to the Treasury by CEB letter dated 11 March 2024. Subsequently, a meeting was held by the Deputy Secretary to the Treasury with the Secretary, Ministry of Power and Energy, the Chairman CEB and Director General, Director General, Director & Assistant Director of the Department of public Enterprises to appraise the completion of the share transaction process.	Should comply with the instructions given by Minister of Justice, Prison Affairs and Constitutional Reforms regarding share transferring to West Coast (Pvt) Ltd.