**Ceylon Electricity Board Provident Fund - 2025**

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## 1. Financial Statements

### 1.1 Qualified Opinion

The audit of the financial statements of the Ceylon Electricity Board Provident Fund for the year ended 31 December 2025 comprising the Statement of Financial Position as at 31 December 2025 and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the Section 23(iii) of the extraordinary Gazette No. 1321/18 read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2025, 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

I expressed qualified opinion 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Audit scope also extended to examine as far as possible and as far as necessary the following;

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

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;

- Whether the Fund has performed according to its powers, functions and duties; and

- Whether the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standards (LKAS/SLFRS)

| | Non-Compliance with the reference to particular Standard | Management Comment | Recommendation |
|---|---|---|---|
| (a) | Contrary to the Conceptual Framework for Financial Reporting and paragraph 15 of LKAS 01– Presentation of Financial Statements, it was observed that operating expenses amounting to Rs.66.55 million directly attributable to the Provident Fund for the year under review, had not been recognized, while fixed assets valued at Rs.7.22 million utilized by the Fund had not been recognized in the financial statements. | As per the Clause No. 20 (i) of the Provident Fund Rules gazette on 31st December 2003 by extraordinary Gazette No.1321/18, all the Administrative Expenses are borne by CEB and recorded under CEB. Hence the CEB, acting as the Trustee of the Fund bears all administrative expenses as laid down by the gazette Rules. | All attributable assets and expenses should be recognized in accordance with the applicable Accounting Standard. |
| (b) | The recoverability of the investment made in Entrust Securities PLC, amounting to Rs.2,772.76 million including accrued default interest, was doubtful as the securities relating to the investments were not held under the name of the Fund in the Central Depositary System. Although the matter had been disclosed in Note 11.2 to the financial statements, only an impairment provision of Rs. 615.28 million had been recognized, while the balance of Rs.2,157.48 million had been recognized as an investment reserve instead of recognizing the full impairment loss in accordance with Section 5.5 of the | An impairment provision of Rs. 615.28 Mn had been made in the financial statement for the interest receivable from Entrust Securities PLC.As legal proceedings are continued on the matter, an investment reserve has been created against any possible impairment loss on the said investment through the annual income statement of the Fund as the provision against loss of the above investment. As at the end of 31st December 2025, the reserve was at Rs. | The Fund should recognize the impairment loss on the investment in accordance with the requirements of SLFRS 9 |

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| | Sri Lanka Accounting Standard on Financial Instruments (SLFRS 09). | 2,157,482,999.33. | |
| (c) | Contrary to the disclosure requirements of paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), the Fund had not disclosed unresolved corporate income tax dispute relating to the Year of Assessment 2018/2019, amounting to Rs.925.95 million, which remained outstanding according to the default tax report issued as at the end of the year under review. | The assessment was issued due to an oversight by the Inland Revenue Department (IRD) in not updating RAMIS to reflect the Withholding Tax (WHT) payments already settled by the Fund. This matter was communicated to the Assistant Commissioner, Large Taxpayers' Office Finance 2, by letter dated 1 August 2022, and it was verbally confirmed that the necessary adjustments would be made. Accordingly, the Fund is not liable for the assessed tax, interest, or penalties, and therefore no contingent liability exists requiring disclosure under Paragraph 88 of LKAS 12. | Unresolved tax disputes and their potential financial implications should be disclosed in accordance with the requirements of LKAS 12. |
| (d) | According to the letter issued by the Inland Revenue Department dated 13 June 2024 in respect of the Year of Assessment 2020/2021, the applicable income tax rate for the Fund should be 24 per cent instead of the Special Tax Rate of 14 per cent, unless the Fund had obtained the requisite approvals and complied with the requirements stipulated in Gazette Extraordinary No. 1704/18 dated 06 May 2011 and Gazette Extraordinary No. 2232/6 dated 14 June 2021. However, this matter remained unresolved as at the end of the year under review, and was not disclosed in the financial statements, contrary to paragraph 88 of LKAS 12- Income Taxes. | In response to the said letter dated 13th June 2024, CEB Provident Fund officials were called for an interview with Assistant Commissioner – Large Tax Payers' Office Finance 2 on 16th June 2024, in which a statement was given detailing CEB Provident Fund's position in this regard and no communication was sent by Inland Revenue Department thereafter. The fund has not violated the investment conditions stipulated in above Gazettes. Hence no disclosure is required in the Financial Statements as per section 88 of the Sri Lanka Accounting standard on Income Tax (LKAS 12). | The Fund should obtain a formal determination from the Inland Revenue Department regarding the applicable tax rate and appropriately account for and disclose the matter in accordance with LKAS 12. |

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| (e) | The dividend payment made to retired employees and interest paid to inactive members during the year under review amounting to Rs. 338.295 million had been presented as a decrease in trade and other payables under working capital changes in the Statement of Cash Flows, contrary to the paragraph 21 of Sri Lanka Accounting Standard LKAS 07– Statement of cash flows. | The presentation in the cash flow will be rectified from next year financial statements and will be classified under investment activities. | Cash flow items should be classified and presented in accordance with relevant Accounting Standard. |
| (f) | It was observed that loan and related interest receivables amounting to Rs. 31.33 million as at 31 December 2025 had been erroneously classified under contribution receivables contrary to the paragraphs 15 and 29 of LKAS 01- Presentation of Financial Statements. | The note will be corrected in the Accounts of the next financial year, with a break up for contribution receivable and loan receivable. | Loan and related interest receivables should be separately identified and appropriately classified and disclosed in the financial statements in accordance with the applicable accounting standards. |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

| Audit Observation | Management Comment | Recommendation |
|---|---|---|
| An amount of Rs.13.26 million remained as loans receivable from the 124 inactive members which were granted against members' balances over 5 years as at end of the year under review due to unsettlement of member balances to the deleted and vacated members. Out of that amount, an amount of Rs.7.7 million belonging to the 32 inactive members and an amount of Rs.2.3 million belonging to the 86 inactive members were remained receivable over 9 years and 33 years respectively. | Noted | Appropriate action should be taken to recover the outstanding loan balances from inactive members without further delay. |

### 1.6.2 Payables

| | Audit Observation | Management Comment | Recommendation |
|---|---|---|---|
| (a) | An amount of Rs.92.87 million belonging to the 597 deleted members remained payable for more than 5 years as at end of the year under review due to non- submission of required documents to release the balances of respective members. Out of that, a sum of Rs.52.3 million belongs to the 303 deleted members and an amount of Rs.1.91 million belonging to the 124 deleted members remained payable for more than 9 years and 33 years respectively. | Noted | Appropriate action should be taken to obtain the required documents settle the outstanding member balances without further delay. |
| (b) | An amount of Rs.4.9 million belonging to the 299 vacated members remained payable for more than 8 years as at end of the year under review. | Noted | Appropriate action should be taken to settle the outstanding member balances without further delay. |

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

| | Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
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| (a) | Provident Fund Regulations | | | |
| (i) | Rule 11 (i) and (ii) | Every member and the employer shall contribute to the Fund 10 per cent and 15 per cent respectively from the employee's salary or wages. In terms of the Rule 04 of the Act, salary and wages shall mean the basic salary and basic wages respectively excluding all other emoluments, payments and allowances etc. However, contrary to this provision, in computation of contribution to the Fund, CEB had considered the highest allowance out of the allowances of Exodus Allowance, Postgraduate Degree Allowance and Professional Allowance/Semi-professional Allowance apart from the Basic Salary. | When calculating provident fund contribution, highest allowance (among Exodus Allowance, Postgraduate Allowance, Professional Allowance and Semi Professional Allowance) was considered, apart from the Consolidated Salary, which is in accordance with the Personnel Circular Ref No: DGM(P)/Policy/GS(1)/181 dated October 23, 2007. | The calculation of Provident Fund contributions should be carried out in accordance with the applicable Provident Fund Regulations. |

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| (ii) | Rule 22 | Contrary to this provision, retained earnings as at 01 January 2025 and net profit amounting to Rs.11.65 billion only after deduction of inspection cost and tax for the year under review had been fully distributed amongst members. | Net income of the fund after creating reserves, provisions and expense chargeable to the fund, has been distributed among members. All administrative expenses have been charged to the Trustee account as per the Clause No. 20 (i) of the Provident Fund Rules. | The distribution of the Fund's net income should be carried out in accordance with the Provident Fund Regulations. |
| | Rule 31 | Amendments to rules shall be lawful for the Ceylon Electricity Board by decision of the Board from time to time and at any time to alter, vary, modify, remake or rescind the rules or any of them, subject to the approval of the Commissioner of Labour, and the Commissioner of Inland Revenue. However, without the approval of the Board, the Commissioner of Labour and the Commissioner of Inland Revenue and without publishing the amendments to the Provident Fund Regulations of 2003 through the gazette notification, rules relating to the powers and duties of the Management Committee had been amended by the Fund and acted upon accordingly. Further, during the year under review, 54 education loans amounting to Rs. 54 million and 5,667 property loans amounting to Rs. 8,284.5 million had been granted contrary to the provisions in the Fund Rules. In addition, contrary to the provisions, loans had been granted based on the member's balance at the time of application instead of the balance as at the end of the preceding financial year. Moreover, although the rules required that loans not exceed 55 per cent of total earnings, the amended practice allowed loans up to 85 per cent of total earnings. | These changes have been made under the powers vested to the Management Committee of the Fund in accordance with the Clause 15 (i) of the Extra Ordinary Gazette Notification No. 1321/18 dated 31st December 2003. | The Fund should ensure that amendments to the Provident Fund Regulations are made and loans are granted in accordance with the approved Regulations. |

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| (b) | Section 3.7 of the Public Enterprise Circular No PED 05/2022 dated 22 August 2022 | No any legally binding agreements with employees had been reached by the fund regarding the repayment plan during the period of no pay leave. Instead, standing orders for settling monthly loan installments had been only submitted by such members who had been granted for no pay leave for employment in overseas. | All the members, who are under the No-Pay Leave, were requested to submit a Standing Order to repay their monthly Loan Installments during their No-Pay Leave period. Though this is a compulsory prerequisite, certain members do not remit their recoveries as agreed. These balances will be recovered with surcharge once they are reported for duty in CEB. The respective Pay Unit of such members was informed already on the non-recovery. | The Fund should ensure that legally binding repayment arrangements are entered into with all members proceeding on no-pay leave and that outstanding loan instalments are recovered promptly in accordance with the applicable regulations. |
| (c) | Section 25A of the Value Added Tax Act, No.14 of 2002 | The Fund was informed to register for Value Added Tax on the Supply of Financial Services on or before 15 February 2022 as per the letter sent by Inland Revenue Department and further stated that failure to comply would result in forced registration in terms of the provisions of Subsection (3) of Section 25A of the VAT Act. However, the Fund had not acted accordingly. | This has been referred to the senior Deputy Commissioner by AFM (TM) letter dated 21.02.2022 FM/AFM™/DFM(Tax)/ Provident Fund. In addition to that DFM (PF) has addressed this issue to the Secretary to the Treasury of the Ministry of Finance by his letter dated 26.04.2022. | The Fund should follow up with the Inland Revenue Department and obtain a formal determination regarding its VAT registration requirement, and take necessary action accordingly. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.13, 236.12 million and the corresponding profit in the preceding year amounted to Rs.13,163.86 million. Therefore, an improvement amounting to Rs.72.26 million of the financial result was observed. The improvement was mainly attributable to the Rs.68.60 million increase in interest income during the year under review.

## 2.2 Ratio Analysis

According to the information presented some important ratios of the Fund for the year under review and for the previous year are mentioned below.

| **Ratio** | **2025** | **2024** |
|---|---|---|
| | **%** | **%** |
| Net Profit Ratio (PAT) | 88.12 | 90.24 |
| Rate of Return on Average Investment | 17.11 | 18.2 |
| Rate of Return on Member Balance | 10.10 | 11.48 |
| Dividend Declaration Rate on the Closing Member Balance | 10.94 | 12.71 |

During the year 2025, all key performance ratios recorded a decline compared to 2024. The net profit ratio, Rate of Return on Average Investment, Rate of Return on Member Balance, and Dividend declaration rates were decreased by 2.12 per cent, 1.09 per cent, 1.38 per cent, and 1.77 per cent, respectively, compared to the preceding year. The decline in these ratios was primarily attributable to the 25 per cent increase in income tax expense and the comparatively lower growth in interest income relative to the increase in the investment portfolio during the year under review.

## 3. Operational Review

### 3.1 Management Inefficiencies

| **Audit Observation** | **Management Comment** | **Recommendation** |
|---|---|---|
| Although Rs.2.3 billion had been invested in three Treasury Bonds through Entrust Securities PLC (ESP) in the years 2008 and 2009, it was revealed in the year 2015 that securities relating to the investments were not held in the name of the Fund in the Central Depositary System. Accordingly, CEB had lodged a complaint to the Financial Crimes Investigation Division (FCID) against ESP on 09 December 2015 and the FCID had filed a case against ESP. Further, CEB had filed a civil case in 2018 against ESP to recover the face value and the defaulted coupon interest. The face value and the defaulted coupon interest of the investments that matured in the years 2018 and 2019 was Rs. 2.8 billion and both cases are being | Ceylon Electricity Board Provident Fund has initiated a Civil Case against Entrust Securities PLC, who made this Bond Scam against several leading banks, financial institutions and certain welfare funds, in the District Court of Colombo, under the Case No: DMR/1405/2018. The next hearing date is scheduled on 8th July 2025. Further, High Court of Colombo, has given an order to wind-up Entrust Securities PLC and for which SJMS Associates has been appointed as the Liquidator. CEB has submitted an affidavit on 10th March 2025 to participate for the liquidation process. Further an independent committee of judges has been appointed by Ceylon | All possible legal measures should be pursued to recover the outstanding investment and related interest, and action should be taken against the responsible officers for their negligence. Further, effective internal controls over investments should be strengthened to prevent the recurrence of similar incidents. |

heard. However, proper action had not been taken in a timely manner to recover the loss by identifying the responsible officers who were serving the Fund at that time, for their negligence and they were allowed them to retire from the Ceylon Electricity Board.

Electricity Board, to investigate the foresaid fraud and the final committee report has been submitted to the chairman, CEBEF (Pvt.) Ltd. on 2026.05.11. Accordingly, the recommendations of the committee will be acted upon immediately.