

Lanka Electricity Company (Private) Limited – 2016

The audit of the financial statements of the Lanka Electricity Company (Private) Limited (“the Company”) and the consolidated financial statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, 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. My comments and observations which I consider should be furnished to the parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka on the operations of the company for the year under review appear in this report. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Other Matter

The consolidated financial statements of Lanka Electricity Company (Private) Limited for the year ended 31 December 2015 were audited by another firm of Chartered Accountants in public practice who expressed an unmodified opinion on those financial statements on 13 May 2016.

2.1.2 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion :
 - I have obtained all the information and explanation that required for the audit and, as far as appears from my examination, proper accounting records have been kept by the Company.
 - the financial statements of the Company give a true and fair view of the financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
 - the financial statements of the Company, and the Group comply with the requirements of Section 151 and 153 of the Companies Act No. 07 of 2007.

3. Financial Review

3.1 Financial Result

According to the consolidated financial statements presented, the operations of the Group for the year ended 31 December 2016 had resulted in a pre-tax net profit of Rs. 2,266,799,000 as compared with the corresponding pre-tax net profit of Rs.1,523,935,000 in the preceding year, thus indicating an increase of Rs. 742,864,000 in the financial results for the year under review. Increase of other income and finance income by Rs. 166,663,000 and Rs. 370,475,000 respectively had mainly affected to the above improvement.

4. Operational Review

4.1 Human Resources Management

The actual and Board approved cadre of the Company as at 31 December 2016 was 1,558 and 1,649 respectively. Hence, there were vacancies in 91 posts. However, the Company does not have formally approved Scheme of Recruitment covering the entire staff as per the Public Enterprises Circular No. PED/12 of 02 June 2003.

4.2 Management Activities

The following observations are made.

- (a) No formal power purchase agreement exists between the Ceylon Electricity Board (CEB) and Lanka Electricity Company (Private) Limited.
- (b) Accounting and Operating Procedure Manuals had not been updated since 2002.
- (c) Trade receivables in respect of “street light customers” amounting to Rs. 286 Million had been outstanding over a considerable period of time and had been fully impaired in the financial statements without taking actions to recover the said amount.

5. Sustainable Development

In accordance with the “2030 Agenda” of the United Nations on the Sustainable Development Goals (SDG) all state institutions should contribute in implementation of goals and functions under its scope. But the Company was not aware of SDG and had not identified the targets to be achieved, the gaps in achieving those goals and suitable indicators for measuring the progress as well.