Sri Lanka Energies (Private) Limited – 2017

The audit of the financial statements of the Sri Lanka Energies (Private) Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("Group") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of profit or loss and , 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 on the performance of the company which I consider should be furnished to the Parliamentary appear in this report.

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 qualified audit opinion

1.4 Basis for Qualified Opinion

(a) The Group entered into a Joint agreement with Amtrad Holdings (Private) Limited on 27 July 2012 to establish a Joint Venture in Sri Lanka for the manufacture and sale of cement based products using fly ash and bottom slag. An investment of Rs. 7,364,447 has been made by the Group as at 31 December 2014. However, the Board decided to terminate the agreement on 27 March 2014. I am unable to obtain sufficient appropriate evidence on the recoverability of the costs incurred in this regard. Consequently, I am unable to determine whether any impairment loss needs to be recognized in relation to the investment made.

(b) In the absence of independent confirmations or other transactional supports/proper valuations/physical inventory verification sheets, I am unable to satisfy myself as to the existence and the valuation of balance of the inventory meter enclosure amounting to Rs. 7,505,626 reflected in the financial statements as at the reporting date.

(c) It was observed that Rs.642, 434 recorded under retirement benefit obligation is the brought forward balance from the last financial year and the gratuity charge of Rs.438,231 for the year under review has not been reflected in the financial statements as at 31 December 2017.

(d) In accordance with paragraphs 111-124 of the Sri Lanka Accounting Standards on Presentation of Financial Statements(LKAS 1), the Group has to disclose its significant accounting policies comprising (a) the measurement basis or bases used in preparing the financial statements and (b) the other accounting policies used that are relevant to an understanding of the financial statements. However, such accounting policies had not provided along with the financial statements.

(e) In accordance with paragraph 49 of the Sri Lanka Accounting Standards on Accounting Policies, Changes in Accounting Estimates and Errors (LKAS 8), the Group has to disclose the following with respect to prior period errors comprising (a) the nature of the prior period error; (b) for each prior period presented, to the extent practicable; (c) the amount of correction at the beginning of the earliest prior period presented. However, such disclosures has not provided along with the financial statements.

(f) In accordance with paragraphs 12-14 and 15-20 of the Sri Lanka Accounting Standards on Income Taxes (LKAS 12), Standard, the Group has to recognize the current tax liability/asset and deferred tax liability/asset for each financial period along with the respective charge/reversal to statement of profit or loss. However, the Group has not accounted for above in the financial statements as at 31 December 2017.

(g) In accordance with paragraphs 13, 14,18,19,25 and 26 of the Sri Lanka Accounting Standards on Related Party disclosures (LKAS 24), the Group is required to disclose a related party transaction which is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. However, such disclosures has not provided along with the financial statements.

(h) In accordance with paragraph 17 of the Sri Lanka Accounting Standards on Related Party disclosures (LKAS 24), the Group has to disclose the compensation to Key management personnel those who are the people having authority and responsibility for planning, directing, and controlling the activities of an entity, either directly or indirectly in total and for each of the following categories: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment. However, such disclosures has not provided along with the financial statements.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Basic for qualified opinion paragraph of this report, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 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 explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- except for the possible effects of the matters described in the paragraph 2.2 of this report, the financial statements of the Company give a true and fair view of the financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

- 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.

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

Instances of non-compliance observed in audit are given below.

	Reference to Laws, Rules and Regulations etc.	Non-compliance
(a)	Inland Revenue Act No.10 of 2006	Income tax and deferred tax under provisions for the year 2016 was Rs.10,624,577 and Rs. 2,060,609 respectively.
(b)	NBT Act No.09 of 2009	NBT returns for quarters 01 and 04 have not been filled for the year 2017.

3 Financial Review

According to the financial statements presented, the operations of the Company and its subsidiaries for the year ended 31 December 2017 had resulted in a net loss of Rs. 35,825,112 as against the corresponding pre-tax net profit of Rs. 93,216,779 in the preceding year, thus indicating a decrease of Rs. 129,041,891 in the financial results for the year under review. Increase of Financial cost by Rs.11,009,179, decrease of Gross profit by Rs. 91,959,822 and reverse of the gratuity provisions of Rs. 20,863,826 in the preceding year had mainly affected to this deterioration.

4. Operational Review

4.1 Performance

4.1.1. Planning

As per the Public Enterprises Circular No.PED/12 dated 02 June 2003, Corporate Plan and an Annual Action Plan had not been prepared by the company.

4.1.2 Operating and Review

The following observations are made.

(a) Although the Company was incorporated on 09 January 2011 to engage in the business of constructing transmission lines and grid sub stations, constructing, maintaining and operating renewable energy projects and the works necessary for generating electrical energy, engaging in the activities which are necessary for development of renewable energy and recruitment and supply of Manpower for the services of Ceylon Electricity Board, only the construction of a new factory for producing meter boards had been done during the year. However, any income had not been earned by the company during the year under review from operation (except investment income) and the amount incurred as recurrent expenditure was Rs. 40,042,041.

(b) The Group has invested Rs. 7,364,447 as at 31 December 2014 to build a factory to manufacture and sale of cement based products, using fly ash and bottom slag with co-venturer, Amtrad Holdings (Private) Limited. However, the joint venture agreement has been terminated and the asset has been idling due to non-availability of a business partner. According to the valuation report of the Department of Valuation, the assessment of the property was as at Rs. 3,200,000 as at 30 June 2016. Although the Board of Directors of the Company has decided to handover the asset to Ceylon Electricity Board and communicated to the General Manager on 10 November 2016, the asset was not taken over by the Ceylon Electricity Board up to 15 September 2018.

4.2 Management Activities

It was noted that Kubalgamuwa Mini Hydro Power Plant had been demaged due to a natural disaster and a sum of Rs. 2.9 millin had to be spent by the Company to recover the damages and also due to this natural infection, Kubalgamuwa Mini Hydro Power Plant had remained idle for a period of nearly 50 days. Any action had not been taken by the company to minimize the possible damages from natural disasters.

4.3 Human Resources Management

The following observations are made.

(a) Staff recruitments had been done without an approved Scheme of Recruitment (SOR).

(b) Staff of the Company had engaged in administration works of the subsidiaries without charged any management fee.

5. Accountability and Good Governance

5.1 Annual Report

Annual Reports had not been prepared by the Company from the inception of the Company.

5.2 Procurement Plan

A Procurement Plan had not been prepared by the Company for the year under review.

5.3 Internal Audit

An internal audit division had not been established for the the Company and the Internal Audit Divisions of Ministry of Power and Renewable Energy and Ceylon Electricity Board also had not carried out internal audit of the Company during the year under review.

5.4 Audit Committee

According to the paragraph 7.4.1 of the public Enterprises Circular No PED/12 dated 02 June 2003 an Audit Committees had not been conducted by the Company for the year under review.

5.5 Budgetary Control

A budget had not been prepared by the Group for the year 2017.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Control		Weaknesses
(a)	Payroll		Finger print scanners had not been owned by the Company integrated with the payroll module which resulted in extensive manual work in relation to overtime calculation.
(b)	Accounting	(i)	Financial statements not being prepared in accordance which a proper Methodology.
		(ii)	Intercompany transactions are not clearly identified and intercompany reconciliations are prepared only at the year-end for the annual audit purposes. This resulted in time consuming exercise at the year end.
		(iii)	The company has no proper process, policy or any approval process in place for passing journal entries.
(c)	Procedural Manual		Written procedure manual is not available showing the controls that are in place to prevent and detect internal control weakness or any possible errors and irregularities that could occur.