

**1.1 Opinion**

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The audit of the financial statements of Lanka Electricity Company (Private) Limited (“Company”) and the consolidated financial statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 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. My comments and observations which I consider should be reported to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**

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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 opinion.

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

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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 Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’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**

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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 scepticism 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 Group'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 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Accounting Policies**

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Following observations are made

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Different inventory provisioning policy had been used across its branches and the head office.	All branches are following same policy and provision is made based on age. Aging of stocks as well as technical experts' advice is considered in making the provision by the Head Office.	The Company should review the current provisioning mechanism in place for inventories followed by the head office and branches. Based on this review determine a proper and consistent policy in order to identify any impairment required.

## **1.6 Accounts Receivable and Payables**

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### **1.6.1 Receivables**

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Following observations are made

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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The Company has recognized an amount of Rs. 5,457,292 as rental income receivable for the financial year 2018 and the total balance receivable as at 31 December 2018 was Rs.18,645,748 from Ante LECO	Once new valuation report is received for both buildings, new lease agreement will be formulated with the support of Legal division. After	Company should enter into a formal agreement with the Ante LECO Metering Company and actions should be taken to recover the

Metering Company (Private) signing the agreement, we outstanding.  
 limited, relates to a property will take necessary steps to  
 belonging to the Company being recover outstanding rent  
 occupied by Ante LECO Metering amount.  
 Company(Private) limited.  
 However, no recoveries have been  
 made during the year as well as the  
 previous year.

**1.7 IT General Controls**  
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Following observations are made

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) The Company does not possess an IT strategy to illustrate the overall plan for the IT, in short term or long term.	Preparation of a Road Map to LECO IT is already in progress.	The entity should establish the strategic direction that IT should adopt which is rendered to the local business requirements, mandated by Senior Management review and approval.
(b) The Company does not perform formal periodic user access monitoring for both normal and super users of both PRONTO XI and BILLING systems.	Existing user IDs being reviewed for duplicate /demised employees and action will be taken to deactivate immediately.	All activities performed by powerful user IDs should be logged and reviewed by an internal (or external) IT audit team to ensure that there are no unwarranted actions taken. It is further recommended to carry out periodic reviews in order to ensure the accuracy and appropriateness of the user access rights against their actual job roles/ functions.
(c) The new connections start date can be backdated to any date	The new connections are not given on-line. Therefore, a	It is recommended that the management should enhance the BILLING

in the BILLING system.

provision has been made in the system to cater to this requirement.

system to restrict the connection start date being back dated.

## 2. Operational Review

### 2.1 Management Inefficiencies

Following observations are made

Audit Issue	Management Comment	Recommendation
<p>(a) LECO has bought a land in Narahenpita in 2002 for constructing the Head Office Building. The Company incurs substantial costs providing security to this land which has been idle since its purchase.</p> <p>Even though Leco has own land in Narahenpita still conducting their operating activities in No. 411,E.H Cooray building ,Galle Road, Colombo 03 for monthly rental of Rs.3,543,040 inclusive all taxes.</p>	<p>The consultancy of Head Office project is given to University of Moratuwa, Department of Architecture. Design is completed. Billing documents are prepared. All documents are submitted to line ministry to appoint a Cabinet Approved Procurement Committee (CAPC)</p>	<p>Actions should be taken to construct a building following Government procurement Guide Line without further delay.</p>
<p>(b) Share Certificates and share allotment still pending for an investment of Rs.47.1 Million made 4 years ago in Ante Leco (Private) Limited.</p>	<p>Shareholding of Ante Metering Company china consist 10% for the share capital 20%for technical knowhow which was in a working process. Therefore it has to be identified after valuation.</p>	<p>The Company should discuss and resolve any dispute with Ante Leco (Private) Limited and ensure the shares in respect of this investment is allotted as soon as possible.</p>
<p>(c) No Formal Power Purchase Agreement exists between the CEB and Lanka Electricity Company (Private) Limited.</p>	<p>Preliminary discussions were organized with initiations of Board of Directors between LECO and CEB. However, this discussion is on hold</p>	<p>Formal power purchase agreement should be formulated prevent conflicts may be occurred between two</p>

until PUCSL is parties, without preparing guidelines for further delay. Power Trading Accord.

- (d) The Company failed to produce share Certificates for the investment in ordinary shares amounting to Rs. 5 million, had made in Lanka Broadband (Private) Limited. However, this amount has been fully impaired in the financial statements as at 31 December 2017.
- We have seek Attorney General’s advices for recovery of this total investment of Rs 20.0Mn
- Company should take actions to recover the amount after received AG’s decision.

## 2.2 Human Resources Management

Following observations are made

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
There is no comprehensive control and administrative procedures manual available within the Group.	The Company had been taken steps with SLIDA to prepare the manual considering Company circulars and government circulars.	The Group should prepare and maintain written standard control and administrative procedures. Subsequent to the manual being prepared staff should be trained to the extent necessary to understand and apply them.

## 3. Accountability and Good Governance

### 3.1 Tabling the Annual Report

Following observations are made

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Annual Reports for the years 2016 and 2017 had not been tabled in the Parliament	Year 2016 annual report documents submitted to Cabinet approval through the Ministry.  We already published annual report English version. However, due to lack of resources to translate these documents to Sinhala and Tamil, there were considerable delay in submit the report to Cabinet approval and to table to the	Actions should be taken to table the annual reports. According to the public enterprises circulars without further delay.

**Parliament.**

**3.2 Annual Action Plan**

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Following observations are made

**Audit Issue**

**Management Comment**

**Recommendation**

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According to the progress review of Action Plan for the year under review physical progress was 5 percent to 50 percent for 16 numbers of activities.

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Progress mentioned.

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Company should be review periodically the reasons affected to delaying the activity and role of responsible officers on implementation of action plan.