Sri Lanka Energies (Private) Limited - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Energies (Private) Limited("Company") and the consolidated financial statement 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 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. 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 accompanying financial statements of the Company and Group give a true and fair view of the financial position of the Company and Group as at 31 December 2018, 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 Company'sability 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 Groupor 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

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 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

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
(i) Journal Voucher had not been maintained and Journal entries had been passed through the accounting system. So no any supporting documents prepared.	Management comments had not been received.	Journal vouchers should be maintained with relevant supporting documents.
(ii) The Company had not maintained Fixed Assets register properly. For example, Motor Vehicle amounting toRs. 13,980,560 had not been recorded in the fixed assets register and Intangible Assets Amounting to Rs. 1,202,000 (Quick book accounting package, payroll system) had been recorded as other equipment in the Fixed Asset register.	Management comments had not been received.	Fixed assets register should be maintained properly.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

The following observations are made.

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Sri Lanka Financial Reporting Standard (SLFRs) 07- Financial Instruments Disclosures;		
(i) As per paragraph 08 of the Standard, the carrying amount of each category of financial assets and liabilities shall be disclosed in the statement of financial position or in notes. However, entity had not provided required disclosures.	As we have not had any negative situations with regard to financial management the exposure to the risk is minimum and as such we have not elaborated on issues related to the risk. Will comply as required from 2019.	Should be adhered to the provision of the Accounting Standard.
(ii) As per paragraph 31 and 33of the Standard, required information to evaluate the nature and extent of risk arisen from the financial instrument to which the entity is exposed at the end of the reporting period in relation to exposure to the risk and how they arise, its objectives, policies and processes for managing the risk and the methods used to measure the risk and any changes in above two from the previous period, had not been disclosed.	As we have not had any negative situations with regard to financial management the exposure to the risk is minimum and as such we have not elaborated on issues related to the risk. Will comply as required from 2019.	Should be adhered to the provision of the Accounting Standard.
(b) Sri Lanka Financial Reporting Standard (SLFRs) 15 -Revenue for Contracts with Customers;		
As per paragraph 01 of the Standard, the entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, entity had not recognized revenue according to this Standard.	Revenue from customers relates only to transactions with parent entity which has the 100% ownership of the shares of holding company, Sri Lanka Energies (Pvt) Ltd. Further there is not any contractual agreement with the customer which is the parent	Should be adhered to the provision of the Accounting Standard.

	entity. Will comply as required from 2019.	
(c) Sri Lanka Accounting Standard (LKAS 01) - Preparation of Financial Statements; --		
(i) According to paragraph 79 of the Standard, the nature and the purpose of the reserves should be disclosed in the financial statements. However, entity had not disclosed the nature and the purpose of the reserves in the Statement of Changes in Equity.	At the time where the financial statements were finalized, no final decision has been taken by the management with regard to the share application money received of Rs. 20million. Will comply as required from 2019.	Should be adhered to the provision of the Accounting Standard.
(ii) According to paragraph 113 an entity shall note cross reference for each item in the statement of financial position and in the statement of profit or loss and other comprehensive income, and in the statement of changes in equity and statement of cash flows to any related information in the notes. However, items in the statement of financial position such as fixed deposit, deferred tax assets, retirement benefit liability and income tax provision were not given cross reference.	The two cross references may relate to deferred tax asset and fix deposit of the Sri Lanka Energies (Pvt) Ltd. As there had not been any major movements and fixed deposit had shown an increase only with accumulated interest whereas deferred tax were not calculated. Will correct the issue with our next financial report for the year 2019.	Should be adhered to the provision of the Accounting Standard.
(iii) According to paragraph 117of the Standard, an entity shall disclose the significant accounting policies that are relevant to understand the financial statements**.** Even though LKAS 39 replaced by SLFRS 9, the policy of financial asset was not in accordance with the SLFRS 9 and entity had not disclosed accounting policies for intangible assets and work-in- progress of meter enclosure factory.	Intangible assets and work in progress item had been indicated under note 4 and note 3 clearly.	Should be adhered to the provision of the Accounting Standard.

(d) Sri Lanka Accounting Standard (LKAS 02) Inventories; --		
According to paragraph 37 of the Standard, an entity shall disclose the information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to the users of financial statements. However, entity had not disclosed different classifications of inventories.	We have disclosed the method of valuing the inventories as weighed average method. However we will comply recommendation in 2019	Should be adhered to the provision of the Accounting Standard.
(e) Sri Lanka Accounting Standard (LKAS 07) -Statement of Cash Flows; ---		
According to paragraph 20 of the Standard, under the indirect method, the net cash flows from operating activities is determined by adjusting profit or loss for the effects of non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed Profits of associates; However, entity had adjusted change of retirement benefits amount of Rs.466,223 under the working capital changes.	Inadvertently the gratuity provision had been classified under working capital changes but we will categories same as a non-cash item movement.	Should be adhered to the provision of the Accounting Standard.
(f) Sri Lanka Accounting Standard (LKAS 08) -Accounting Policies, Changes in Accounting Estimates and Errors; ---		
(i) According to paragraph 30of the Standard, when an entity has not applied the new SLFRS that has been issued but is not yet effective, entity shall disclose this fact, and known or reasonably estimable information relevant to assessing the possible impact. However, entity had not disclosed accounting policies for new and amended Standards issued but	We will comply as required in future.	Should be adhered to the provision of the Accounting Standard.

not effective.		
(ii) According to paragraph 28of the Standard when initial application of a SLFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose, the title of the SLFRS, the nature of the change in accounting policy etc. However, entity had not disclosed the required disclosures in respect of SLFRS 9 and SLFRS 15.	We will comply as required in future.	Should be adhered to the provision of the Accounting Standard.
(g) Sri Lanka Accounting Standard (LKAS 12) -Income Tax; ---		
Disclosures of Income tax expenses in the note to the financial statements in accordance with paragraph 80 (a) of the Standard had not been made with regards to details of the Income Tax provision of Rs.875,214.	Income tax & deferred tax calculations of Sri Lanka Energies (Pvt) Ltd were handed over to an independent audit firm, and financial statements for year 2018 were finalized prior to receiving the said independent calculation and provision of Rs.875,214 was entered only as a provision of finalizing the financials.	Should be adhered to the provision of the Accounting Standard.
(h) Sri Lanka Accounting Standard (LKAS16)- Property, Plant & Equipment; ---		
According to paragraph 73 (c) of the Standard, an entity shall disclose the useful lives or depreciation rates used for each class of property plant and equipment. However, entity had not disclosed the useful lives or depreciation rates used for office equipment, computer equipment, other equipment and meter enclosure factory.	Other equipment has not be mentioned due to the insignificance where same will be corrected in 2019.	Should be adhered to the provision of the Accounting Standard.

(i) Sri Lanka Accounting Standard (LKAS 19) - Employment Benefits; --		
(i) As per Paragraph 57 of the Standard, defined benefit obligation should be measured in projected unit credit method (actuarial valuation method). However, defined benefit obligation has been calculated based on half month's salary of the last month of the financial year of all employees monthly which is contrary to the Standard.	We will adhere to this best practice and the relevant recommendation from 2019 onwards.	Should be adhered to the provision of the Accounting Standard.
(ii) According to paragraph 140 and 141of the Standard, the Company shall disclose a reconciliation of opening and closing balances of the present value showing the interest cost, current service cost, past service cost etc and total expense recognized in profit and loss for current service cost, interest cost, actuarial gain or loss, past service cost etc. However, entity had not presented the required disclosures in the financial statements. Further, there is no any indication that the Company has any plan asset to mitigate the risk of future obligation.	We will adhere to this best practice and the relevant recommendation from 2019 onwards.	Should be adhered to the provision of the Accounting Standard.
(j) Sri Lanka Accounting Standard(LKAS24) - Related Party Disclosures; --		
As per the paragraph 17of the Standard,an entity shall disclose key management personnel compensation in total and for each of the short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, share-based payments. However, entity has disclosed key management personnel	Than the salaries paid or Payable to General Manager and sitting allowances paid for Board of Directors were the only transactions had with the company and KMP's. We will mention the values also in next time.	Should be adhered to the provision of the Accounting Standard.

compensation without disclosing amount of key management personnel compensation.

1.5.3 Accounting Deficiencies

The following observations are made.

	Audit Issue	Management Comment	Recommendation
(i)	The Group has invested Rs. 7,364,447 as at 31 December 2014 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag with joint venture, 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. 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 Ceylon Electricity Board by 15 July 2019. I am unable to obtain sufficient appropriate evidence on the recoverability of the costs incurred in this regard. And the Group had not done any impairment in relation to the Investment made.	We could obtained valuation through the valuation department of Sri Lanka for a value of Rs. 2.6mn which was confirmed through a letter by the valuation department dated on 31st May 2019. Will adjust the impairment loss in this year	Should be adhered to the provision of Accounting Standards.
(ii)	Term loan interest and penalty charges for the year under review were Rs. 14,410,173 as per bank statement. However, only a sum ofRs. 12,960,397 had been charged as interest and penalty charges. As a result, profit of the year under review had been overstated by Rs. 1,449,776.	Total financial expenses indicates as Rs.15,744,485 out of that Rs.12,836,150 was for interest on loans where the rest indicated the bank charges leasing interest and exchange Loss.	Should be adjusted as per bank statement.
(ii)	The staff of the Company had been engaged in administrative activities of the subsidiaries without any payment. However total administration cost of Rs.21,556,883 had been charged only to the Company as staff administration	As the subsidiaries have not been generating adequate surplus during the year the principle of charging management fees have not been effected. From 2019 will	Subsidiaries are separate entities and accounts should be kept accordingly.

expenses without distribution among the subsidiaries during the year under review.	adhere this concept.

1.5.4 Documentary Evidences not made available for Audit

The following observations are made.

	Evidence not available	Management Comment	Recommendation
(i)	The adequacy of the income tax provision of Rs.875,214 could not be verified due to not provided the income tax computation details to the audit.	Management Comment had not been provided	Tax computation details need to be furnished to the audit.
(ii)	Notes had not been provided in the financial statements for deferred tax assets, fixed deposits, income tax provision and retirement benefit liability.	Management Comment had not been provided	Relevant notes should be included along with the Financial Statements.
(iii)	The Company had not provided schedules, confirmations and calculation details etc. for other receivables, advance and prepayments, accrued expenses, retirement benefit obligation and lease creditors amounting to Rs.704,076, Rs. 797,264, Rs. 1,193,739, Rs.466,223 and Rs. 4,312,917 respectively. Therefore, it was unable to verify the accuracy of such balances in audit.	Breakups for other receivables advance and prepayment and accrued expenses as well as the leases are attached herewith.	Action should be taken to provide breakup for the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The Company had not called confirmations from debtors.	Management Comment had not been provided.	Action should be taken to receive the confirmations to the audit.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
The Company had not called confirmations from Creditors.	Management Comment had not been provided.	Action should be taken to receive the confirmations to the audit.

1.7 Related Parties and Related Party Transactions not disclosed

The following observations are made.

	Audit Issue	Management Comment	Recommendation
(i)	No internal control system to identify related party transactions. (Fund transfer, expenses)	Management Comment had not been provided.	Subsidiaries are separate entities and transactions and recordings should be kept accordingly.
(ii)	The Company had not prepared inter Company transaction reconciliations periodically.	Management Comment had not been provided.	Inter Company transaction reconciliations should be prepared periodically to identify the intercompany balances.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circulars No. PED 3/2015 dated 17 June 2015	The Company had paid Rs. 685,000 of sitting allowance to Board of Directors during the year under review without requisite approval. Further, WHT had not been deducted from them.	Management Comment had not been provided.	Sitting allowance should be paid as per the provisionsin the Circular.

1.9 Cash Management

The following observations are made.

	Audit Issue	Management Comment	Recommendation
(i)	Composition of Cash & Cash equivalents had not been shown in the financial statement. Therefore, we are unable to identified cash and bank balances separately in the financial statement.	Management Comment had not been provided.	Should be disclosed along with the notes.
(ii)	It was observed that Cheque cancellation had been done after 11 months.	Management Comment had not been provided.	Should be complied with the existing approved procedures.
(iii)	It was observed that Petty cash payments had been done exceeding the available cash balance in hand on March to October. (Petty cash negative balance was up to 300,000)	Management Comment had not been provided.	Should be complied with the existing approved procedures.

1.10 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Section 21 of the Value Added Tax Act, No. 14 of 2002 Even though VAT returns should be submitted on due dates, VAT returns of first two quarters in the year 2018 had been submitted with delay of 11 and 13 months respectively.	Management Comment had not been provided.	Should be adhered to the provisions of the Value Added Tax Act, No. 14 of 2002.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2018 had resulted in a pre-tax net Loss of Rs. 64,402,144 as compared with the corresponding pre-tax net Loss of Rs. 37,356,797 in the preceding year, thus indicating deterioration of Rs. 27,045,347 in the financial results for the year under review.

Although revenue was increased by Rs. 53,081,573, Cost of sales and Expenses were increased by Rs. 44,390,714 and Rs.36,283,813 respectively were the main reasons for this deterioration

2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are as follows.

Income/ Expenditure	2018	2017	Increase / Decrease	Percentage
Revenue	155,281,100	102,199,527	53,081,573	51.94 %
Cost of Sales	(86,368,977)	(41,978,263)	44,390,714	105.75 %
Direct Project Expenses	(27,713,528)	(5,132,527)	22,581,001	439.96 %
Finance Expenses	(69,941,307)	(60,371,194)	9,570,113	15.85 %

Revenue had been increased by Rs. 53,081,573 for the year under review compared with the preceding year and also Cost of sales had been increase by 44,390,714. Further, Direct project expenses had been increased by Rs. 22,581,001 due to increase staff expenses and depreciation of the Meter Enclosure Factory. Meter Enclosure Factory operations had started during the year under review was the main reason for the increasing revenue and expenses.

The Company had borrowed Term Loan Amount of Rs.40,722,250 at the 15 times during the year under review. Hence Finance expenses had been increased by Rs. 9,570,113 compared with preceding year due to increasing of interest on Loan.

2.3 Ratio Analysis

Ratio	2018	2017
Gross Profit ratio	44%	59%
Net profit ratio	-42%	-37%
Current Assets ratio	0.87	0.93
Quick Assets ratio	0.84	0.86
Return on capital ratio	0%	2%
Gearing ratio	368%	224%

When comparing Gross Profit ratio and Net Profit ratio Even though the Company had shown high gross profit margin and net profit margin was negative. However, Net profit margin is one of the most important indicators of a company's financial health. The Company net profit margin was negative due to Operating expenses was higher than gross profit.

The Company had shown Current assets ratio and Quick assets ratio were below 1.That indicates the company may have problems meeting its short-term obligations.

A higher Rate on Capital ratio indicates more efficient use of capital. ROC should be higher than the company's capital cost. The Company had shown ROC 0 %. That indicates the company is not employing its capital effectively and is not generating shareholder value.

Higher gearing ratios indicate that a company has a higher degree of financial leverage and is more susceptible to downturns in the economy and the business cycle. This is because companies that have higher leverage have higher amounts of debt as compared to shareholders' equity. The Company had shown high gearing ratio. That indicates the financial risk to which the Company is subjected, since excessive debt can lead to financial difficulties

3. Operational Review

3.1 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The Group has invested Rs. 7,364,447 as at 31 December 2014 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag with joint venture, 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. 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 Ceylon Electricity Board by 15 July 2019.	Management Comment had not been provided	Action should be taken to handover the asset.

3.2 Human Resources Management

The following observations are made.

	Audit Issue	Management Comment	Recommendation
(i)	Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).	Management Comment had not been provided	Should be prepared and obtain approval for the Scheme of Recruitment (SOR)

(ii)	Staff of the Company had done administration works of the subsidiaries without charged any management fee. Staff Expenses amount of Rs. 21,556,883 had not been distributed among subsidiaries.	Management Comment had not been provided	Subsidiaries are separate entities and staff expenses should be distributed among subsidiaries.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Although the approved Financial Statements along with the draft performance report should be rendered to the Auditor General within 60 days after the close of the financial year in accordance with the Public Enterprises Circular No. PED/12 of 02 June 2003 and further it should be accordance with Public Enterprises Circular No. PED/45 dated 02 October 2007; Group's financial statements for the year 2018 have been submitted to the Auditor General on 07 August 2019.	Group Financial Statements were forwarded earlier than this but due to the changes in Group directors and issues relating to authorized signatures delayed this process	Should be adhered to the provisions of the Circular

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided	Should be adhered to the provisions of the Circular.

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
The Company had not prepared Annual Action Plan according to Public Enterprise Circular No. PED/12 dated 02 June 2003.	Management Comment had not been provided	Should be adhered to the provisions of the Circular.

4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal audit division had not been established and Internal Audit Divisions of Ministry of Power and Renewable Energy and Ceylon Electricity Board also had not carried out any audit in 2018.	Management Comment had not been provided	Internal audit should be carried outas an internal control mechanism.

4.5 Budgetary Control

Audit Issue	Management Comment	Recommendation
The Group had not an approved budget for the year 2018. Therefore, actual performance and unusual variances could not be reviewed.	Management Comment had not been provided	Budget should be prepared and obtain approval as per the Public Enterprises Circular No. PED/12 dated 02 June 2003

4.6 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
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 the suitable indicators for measuring the progress as well.	Management Comment had not been provided	Company should adhered to the “2020 Agenda” of the United Nations on the Sustainable Development Goals.