

Sri Lanka Energies (Private) Limited and its Subsidiaries - 2019

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 2019 comprising the statement of financial position as at 31 December 2019 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 give a true and fair view of the financial position of the Company and Group as at 31 December 2019, 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’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 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

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 internal control of the Company and the Group.
- 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 Non-Compliance with Sri Lanka Accounting Standard

The following observations are made.

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per paragraph 08 of the Sri Lanka Financial Reporting Standard on Financial Instruments Disclosures (SLFRS 07), the carrying amount of each category of financial assets and liabilities shall be disclosed in the statement of financial position or in notes and as per paragraph 31 and 33 of the Standard, required information to evaluate the nature and extent of risk arisen from the financial instrument to which the Company is exposed at the end of the reporting period shall be disclosed. However, entity had not provided required disclosures.	We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.	Should be adhered to the provision of the Accounting Standard.
(b) According to paragraph 01 of the Sri Lanka Financial Reporting Standard on Revenue for Contracts with Customers (SLFRS 15), Company 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, the Company had not recognized revenue according to this standard.	Do	Should be adhered to the provision of the Accounting Standard.

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| (c) | According to paragraph 79 of the Sri Lanka Accounting Standard on Preparation of Financial Statements (LKAS 01), the Company had not disclosed the nature and the purpose of the reserves in the financial statements. | Do | Should be adhered to the provision of the Accounting Standard. |
| (d) | According to paragraph 113 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the company shall note cross reference 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 are not given cross reference. | Do | Should be adhered to the provision of the Accounting Standard. |
| (e) | According to paragraph 117 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the Company shall disclose the significant accounting policies that are relevant to understand the financial statement. Even though LKAS 39 replaced by SLFRS 9, the policy of financial assets are 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. | Do | Should be adhered to the provision of the Accounting Standard. |
| (f) | According to paragraph 37 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), the company had not disclosed the information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. | Do | Should be adhered to the provision of the Accounting Standard. |
| (g) | As per the paragraph no 80 (a) of LKAS 12 Income Tax, disclosures of Income tax expenses in the note to the financial statement had not been made. | Do | Should be adhered to the provision of the Accounting Standard. |

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| <p>(h) As per Paragraph 57 of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19) defined benefit obligation should be measured in projected unit credit method. However, defined benefit obligation had 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.</p> | Do | Should be adhered to the provision of the Accounting Standard. |
| <p>(i) According to paragraph 140 and 141 of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19), 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, the Company 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.</p> | Do | Should be adhered to the provision of the Accounting Standard. |
| <p>(j) As per the paragraph 17 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24) the Company shall disclose key management personal 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, the Company has not disclosed the key management personal compensation. Further, detailed disclosures had not been made regarding the related parties in the financial statements of the year under review.</p> | Do | Should be adhered to the provision of the Accounting Standard. |

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Section 2(2) of Economic Service Charge Act, No. 13 of 2006 (as amended), an entity turnover has exceeded 12.5 Million per quarter (threshold per quarter) and liable for Economic Service charges. Turnover of the Company was Rs. 396 Million (total turnover). However, the Company had not paid Economic Service Charges for year 2019 and hence ESC liability has been understated by Rs. 1,983,064.	Sri Lanka Energies (pvt) Ltd has not registered under the Economic Service Charge and will comply as required in future.	Should be complied with the provisions in ESC Act.
(b) Staff of the Company had engaged in administrative works of the subsidiary Companies without charging any management fee. Hence Group's staff expenses amounting to Rs.24,847,325 had been charged in the Company expenses erroneously.	Management Comment had not been provided.	Subsidiaries are separate entities and accounts should be kept accordingly.
(c) Composition of cash and cash equivalents had not been shown in the financial statement. Hence, I was unable to identify the cash balance and bank balances separately.	Management Comment had not been provided.	Should be disclosed along with the notes.

1.5.3 Documentary Evidences not made available for Audit

The following observations are made.

Evidence not available -----	Management Comment -----	Recommendation -----
(a) Sufficient appropriate evidence had not been submitted in respect of other advance, prepayment and receivables amounting to Rs. 2,114,005. Hence, I was unable to verify the accuracy of the above balances.	Management Comment had not been provided.	Relevant breakups and details need to be furnished to the audit.
(b) Original WHT certificate were not made available for audit to ensure the accuracy of WHT receivable amounting to Rs. 2,120,524 shown in the financial statements.	Management Comment had not been provided.	Original WHT certificate should be furnished to the audit.

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| (c) The Company had not provided sufficient appropriate evidence for accrued expenses of Rs. 1,170,279 and retirement benefit obligation of Rs. 962,573. Therefore, I was unable to verify the accuracy of the above balances in the financial statements. | Management Comment had not been provided. | Action should be taken to provide details. |
| (d) The Company had not provide sufficient appropriate evidence for Income tax provision of Rs. 9,126,591, Input VAT on purchase in year 2018 amounting to Rs. 18,164,500 , NBT payable of Rs. 2,995,358, Output VAT on sales of Rs. 1,541,658, deferred tax asset Rs. 28,999 etc. Further NBT and VAT returns, Schedules and payments slips were not submitted for audit. Hence, I was unable to verify the accuracy of above balances shown in the financial statements. | Management Comment had not been provided. | Action should be taken to provide details. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

The Company had not called confirmations from debtors amounting to Rs. 105,833,584 as at 31 December 2019.

Management Comment

Management Comment had not been provided.

Recommendation

Action should be taken to call confirmations.

1.6.2 Payables

Audit Issue

(a) The Company had not called confirmations from Creditors amounting to Rs. 139,720,165 as at 31 December 2019.

Management Comment

Management Comment had not been provided.

Recommendation

Action should be taken to call confirmations.

(b) A sum of Rs.1,060,279 shown in the financial statements as accrued expenditure as at end of the year under review which had been brought forward from the year 2017 had remained without been settled.

There were some payable balances which were long outstanding and necessary actions will be taken to write off the said balances.

Action should be taken to settle outstanding balances.

1.7 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 a sum of Rs. 1,662,500 as per-sitting allowances during the year under review without a formal approval.	Management comments had not been received	Sitting allowance should be paid as per the Circular provisions.

1.9 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) According to Section 126 of the Inland Revenue Act, No.24 of 2017, the duly completed return along with the schedules and any other required documents should be submitted to the Inland Revenue Department on or before the 30 th of November subsequent to the end of the year of assessment. However, the Company had not submitted any Income tax return to the Department of Inland Revenue since the date of incorporation (year 2011 up to the year 2019).	Management comments had not been received	Should be complied with the provisions in the Inland Revenue Act, No.24 of 2017.
(b) As per the Section 08 of Nation Building Tax Act No.09 of 2009 (duly amended), NBT tax returns should be submitted on due dates, However, the Company had submitted NBT tax returns with 02 to 09 months delays.	Management comments had not been received	Should be complied with the provisions in the Nation Building Tax Act No.09 of 2009 (duly amended)
(c) As per the Section 4 of National Building Tax Act No.09 of 2009 (duly amended), NBT should be paid on or before 20 th day of the subsequent month at the end of each month, However, the Company had made NBT payment with 03 to 09 months delays on quarterly basis.	Management comments had not been received	Should be complied with the provisions in the Nation Building Tax Act No.09 of 2009 (duly amended)
(d) According to Section 21 of Value Added Tax Act No 14 of 2002 (duly amended), VAT returns should be submitted on due dates, However, the Company had submitted VAT returns with 03 to 08 months delays.	Management comments had not been received	Should be complied with the provisions in the Value Added Tax Act No 14 of 2002 (duly amended).
(e) According to Section 7 of Stamp Duty Act, No. 43 of 1982 (as amended),	Management comments	Should be complied with the provisions in

- (i) Even though Statement of stamp duty compounded should be furnished on or before fifteenth day of following month after ending quarter, statement of stamp duty compounded had been furnished with 42 to 72 days delay. had not been received the Stamp Duty Act, No. 43 of 1982 (as amended),
- (ii) The Company had not paid the Stamp Duty Payments on or before 15 days of following month.
- (f) According to Section 86 and 87 of Inland Revenue Act No 24 of 2017, PAYE monthly payments should be made on or before the 15th day of the following month. However, the Company had not paid PAYE payments on due dates. Management comments had not been received Should be complied with the provisions in the Inland Revenue Act No 24 of 2017

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2019 had resulted in a pre-tax net Profit of Rs. 59,427,166 as compared with the corresponding pre-tax net Loss of Rs. 72,118,154 in the preceding year, thus indicating improvement of Rs. 131,545,320 in the financial results for the year under review. Increased in Meter enclosure sales income was the main reason for this improvement.

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	2019	2018	Increase / Decrease	Percentage %
Revenue	521,835,317	155,281,100	366,554,217	236
Cost of Sales	282,892,769	86,368,977	196,523,792	228
Direct Project Expenses and Administration Expenses	107,889,046	75,806,863	32,082,183	42
Finance Expenses	78,170,371	69,941,307	8,229,064	12

Revenue had been increased by Rs. 366,554,217 and Cost of sales had been increased by Rs. 196,523,792 for the year under review compared with the preceding year due to increase in Meter Enclosures sales and Material cost respectively. Further, Direct project expenses and administration expenses had been increased by Rs. 32,082,183 due to increase staff expenses.

The Company had borrowed Term Loan Amount of Rs.155,690,474 at the 13 times during the year under review. Hence, Finance expenses had been increased by Rs. 8,229,064 compared with preceding year due to increasing of interest expenses on Loan.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company had engaged in producing of meter enclosures and supply the product to Ceylon Electricity Board and Lanka Electricity (Pvt) Limited. However, any agreement or MOU had not been submitted to audit relating to the production and sales of meter enclosures.	Purchasing of Meter Enclosure directly by CEB is done with a CEB Board decision. What is done is each branch sends their requirement at the beginning of the year and they collect the requirement accordingly as per the Board Decision and settle the payments less than 3 months on average.	An agreement should be signed between the Company and CEB/LECO relevant to production and sales of meter enclosures.
(b) Physical verifications of assets had not been carried out by the Company for the year under review.	Management comments had not been received	Should be carried out Physical verification of assets.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The Principle activities of the Company are to engage in the business of constructing transmission lines and grid stations, constructing, maintaining and operating renewable energy projects and the works necessary for generation electrical energy, engaging in the activities as are necessary for development of renewable energy. However, the Company had not engaged in any activities to develop renewable energies.	This task has been practically achieved through separate company names; SLE HR (Pvt) Ltd, Kumbalgamuwa Mini Hydro (Pvt) Ltd, Dadiru oya Mini Hydro (Pvt) Ltd which are 100% owned by SLE , the main company.	Action should be taken to achieve the Company's objectives.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
As at 31 December 2014, the Group has invested Rs. 7,364,447 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag in a joint venture with Amtradr Holdings (Private) Limited. However, the joint venture agreement has been terminated and the asset of the project has remained idle.	Basically this investment was stopped in year 2014 to construct few buildings to initiate the Ash Brick Project in Norochcholai Based on the decision by SLE Board of Directors at meeting held on 31 Oct 2016, a request letter was communicated to CEB to handover the said buildings for the purpose of CEB.	Action should be taken to handover the asset.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).	Management Comment had not been provided	Should be prepared a Scheme of Recruitment (SOR)

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
(a) 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 in accordance with the Public Enterprises Circular No. PED/45 dated 02 October 2007. However, Group's financial statements of the year 2019 had been submitted to the Auditor General on 13 July 2020.	Draft Financial Statements of Sri Lanka Energies (Pvt) Ltd were duly prepared and submitted for the first board meeting held on 06 th February 2020. Board of Directors decided to appoint audit committee to review the draft financials prepared for year 2019 and sudden COVID pandemic came across and resulted for considerable delay in reviewing the said draft financials	Should be complied with the provisions in the Circular
(b) Annual reports had not been prepared and tabled in the parliament since the year 2016.	Management Comment had not been provided	Should be complied with the provisions in the Circular

4.2 Corporate Plan

Audit Issue

A Corporate Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.

Management Comment

Management Comment had not been provided

Recommendation

Should be complied with the provisions in the Circular

4.3 Annual Action Plan

Audit Issue

The Company had not prepared Annual Action Plan according to Public Enterprise Circular No.PED/12 dated 02 June 2003.

Management Comment

Management Comment had not been provided

Recommendation

Should be complied with the provisions in the Circular

4.4 Internal Audit

Audit Issue

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 2019.

Management Comment

Management Comment had not been provided

Recommendation

Internal audit should be carried out to proper internal control

4.5 Budgetary Control

Audit Issue

The Group had not an approved budget for the year 2019. Therefore, actual performance and unusual variances could not be reviewed.

Management Comment

Management Comment had not been provided.

Recommendation

Budget should be prepared and get approval as per the Public Enterprises Circular No. PED/12 dated 02 June 2003.

4.6 Sustainable Development Goals

Audit Issue

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

Management Comment had not been provided

Recommendation

Company should comply with “2020 Agenda” of the United Nations on the Sustainable Development Goals.