

Sri Lanka Energies (Private) Limited and its Subsidiaries - 2020

1. Financial Statements

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 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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 (Auditor's Responsibilities for the Audit of Financial Statements)

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 internal control of the Company and 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 Company'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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to paragraph 37 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), the Company shall disclose the information about the carrying amounts held in different classifications of inventories. However, the company had not disclosed different classifications of inventories in the financial statements.	Values of the inventories stated under the Financial Statements are related to the Meter Enclosure Manufacturing of SLE and this value is basically consisted with values of raw materials, work in progress and finish products of Meter Enclosures. This will be detailed and adhere to this best practice from next time onwards.	Should be complied with the provisions of the Accounting Standard.
(b) According to paragraph 80(a) of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), disclosures of Income tax expenses in the notes to the financial statements had not been made.	Financial Statements were proceed with draft income tax calculation and will attend to the needful to proceeded with final tax calculations and return filling.	-Do-
(c) According to paragraph 118 (a) and (b) of the Sri Lanka Accounting Standard on Intangible Assets(LKAS 38), the Company shall disclose whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rate used and the amortization method used for intangible assets with finite useful lives. However, the company had not made the required disclosures in the financial statements.	Will adhere to this best practice in future.	-Do-

- (d) According to paragraph 79 (b) of the Sri Lanka Accounting Standard on Property, Plant and Equipment (LKAS 16), the Company shall disclose the gross carrying amount of any fully depreciated property, plant and equipment that is still in use. However, Company had not presented the required disclosures for fully depreciated assets amounting to Rs.9,573,376 in the financial statements.
- Will adhere to this best practice in future. -Do-

1.5.2 Suspense Accounts

Audit Issue	Management Comment	Recommendation
The Company had not taken action to clear the suspense account balance of Rs.2,218,582 exist as at 31 December 2020.	Please seek to get a detail elaboration on this Audit qualification.	Should identify the origin and clear this balance immediately.

1.5.3 Documentary Evidences not made available for Audit

Evidence not available	Management Comment	Recommendation
(a) As per Note No. 07 in the financial statements, the Withholding tax receivable outstanding amount over two years was Rs. 2,120,524. However, the WHT certificate was not made available for audit perusal.	Will adhere to this best practice in future.	Documentary evidence need to be furnished to the audit.
(b) Documentary evidences were not available to the audit for a sum of Rs. 13,861,600 of electronic fund transfer made during the year under review.	Each and every payment was proceed with properly approved documents and if each payment dates and values can be provided in detail, we will be able to sought out this doubt.	-Do-

1.6 Accounts Payable

Audit Issue	Management Comment	Recommendation
A sum of Rs. 729,992 shown in the financial statements as accrued expenses is remained more than one year without being settled. However, no action had been taken to settle the outstanding balance.	Actions will be taken to rectify this immediately.	After inquiring the creditors, action should be taken to settle these balances.

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
According to the Section 126 of the Inland Revenue Act, No.24 of 2017, the duly completed return along with the schedule and any other required documents should be submitted to the Department of Inland Revenue on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not submitted any Income tax return since the incorporation of the Company in year 2011.	Management comments had not been provided.	Should be complied with the Inland Revenue Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.109,752,124 and the corresponding profit in the preceding year amounted to Rs.59,427,166. Therefore, an improvement amounting to Rs. 50,324,958 of the financial result was observed. The reasons for the improvement are decrease in the administrative expenses and finance expenses by Rs.17,464,940 and Rs.31,535,761 respectively.

2.2 Trend Analysis of major Income and Expenditure items

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

Income/ Expenditure	2020	2019	Increase/ Decrease	Percentage %
Revenue	512,704,928	521,835,317	(9,130,389)	(1.7)
Cost of Sales	270,550,441	282,892,769	(12,342,328)	(4.4)
Direct Project Expenses and Administrative Expenses	90,644,922	107,889,046	(17,244,124)	(15.9)
Finance Expenses	46,634,610	78,170,371	(31,535,761)	(40.3)

Revenue and cost of sales had been decreased by Rs 9,130,389 and Rs.12,342,328 respectively for the year under review compared with the preceding year. Direct project expenses and administration expenses had been decreased by Rs.17,244,124 mainly due to COVID 19 pandemic and absence of any impairment loss for the year under review compared with impairment loss of Rs.4,704,447 reported in year 2019. Furthermore, finance expenses had been decreased by Rs. 31,535,761 due to interest rates concessions granted by the Government on loans.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The Company had engaged in producing meter enclosures and supplying the product to Ceylon Electricity Board and Lanka Electricity Company (Pvt) Limited. However, any agreement or MOU had not been submitted to audit relating to the production and sales of meter enclosures.

Management Comment

MOU was not signed and this is one of the in-house business cause SLE is 100% owned subsidiary of CEB.

Recommendation

An agreement should be signed between the Company and CEB/LECO regarding the production and sales of meter enclosures.

3.2 Human Resources Management

Audit Issue

A Scheme of Recruitment (SOR) had not been prepared by the Company for staff recruitments and promotions.

Management Comment

Management comments had not been provided.

Recommendation

A Scheme of Recruitment (SOR) should be prepared and approved as per Public Enterprises Circular No.PED/12 dated 02 June 2003.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue

The Company had 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 had been terminated and the asset had 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 Rs.2,660,000 by 31 May 2019 and difference was impaired. It was unable to obtain sufficient appropriate evidence on the recoverability of the costs incurred in this regard.

Management Comment

With the approval of BOD – SLE, this was communicated to CEB to handover the said buildings at Norocholai to CEB.

Recommendation

An appropriate action should be taken immediately to utilize the idle asset.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue

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. However, Group's financial statements of the year 2020 had been submitted to the Auditor General on 28 April 2021.

Management Comment

Management comments had not been provided.

Recommendation

Should be complied with the provisions in the Circulars.

4.2 Corporate Plan, Annual Action Plan and Tabling of Annual Report in Parliament

Audit Issue

The Corporate Plan and the Annual Action Plan had not been prepared by the Company according to Public Enterprises Circular No. PED/12 dated 02 June 2003.

Further, Annual Reports had not been prepared and tabled in the Parliament since the year 2016.

Management Comment

Management Comment had not been provided.

Recommendation

Should be complied with the provisions in the Public Enterprises Circular No. PED/12 dated 02 June 2003.

4.3 Internal Audit

Audit Issue

An internal audit division had not been established and Internal Audit Divisions of Ministry of Power and Ceylon Electricity Board also had not carried out any audit in 2020.

Management Comment

Management Comment had not been provided.

Recommendation

Internal Audit should be carried out to ensure a proper internal control system.

4.4 Budgetary Control

Audit Issue

The Group had not an approved budget for the year 2020. Therefore, actual performance could not be reviewed against the budget.

Management Comment

Management Comment had not been provided.

Recommendation

Budget should be prepared and approved as per the Public Enterprises circular No. PED/12 dated 02 June 2003.

4.5 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 had not identified the relevant goals and 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 comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.