

Lanka Coal Company (Private) Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Coal Company (Private) Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss and other 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 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 Company 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 Company 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 Company.

1.4 Audit Scope (Auditor's Responsibility 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 Company'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 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 Company 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
As per the paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), the assessment of Rs.159.5 million relating to the Economic Service Charge (ESC) for the year of assessment 2017/2018 and the penalties imposed of amounting to Rs.75.5 million had not been disclosed in the financial statements of the year under review.	A letter was sent to the Department of Inland Revenue requesting for an extension of the settlement of ESC and a request was also made to refrain from any recovery action or imposition of any levies against the company in this regard until an amicable agreement is made with CEB on the settlement of the ESC.	Should be complied with the provisions of the accounting standard.

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
(a)When importation of coal, a mark-up of 10 per cent added to the value at the point of Customs as a notional adjustment in ascertainment of the value for custom purpose which is not actually incurred. However, the Company had been added such 10 per cent mark-up amounting to Rs.3,653 million to the revenue and later the Company had given such amount as discount to the debtor and charged to the cost of sale. As a result, the cost of sales and revenue had been overstated by similar amount.	LCC was given a directive by Inland Revenue Department (IRD) to add the customs margin to cost in the issuance of VAT invoices to CEB in the meeting held in the ministry on 28th June, 2018. Since then, CEB has challenged the directive and written to IR by their letter dated 2018-09-07 to which the response is yet to be received.	Company should take immediate action to receive the IRD directions on the matter.

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| <p>(b) The Company had not made any provision for impairment for the management fee receivable outstanding over 3 years amounting to Rs.10.6 million as at the end of the year under review.</p> | <p>AGM (Gen) of CEB asked LCC to send a justification letter along with the management fee invoice mentioning “All the expenditure was made to the business transaction with CEB”. This matter is scheduled to take at the upcoming Board Meeting. After send the said letter, CEB will settle this outstanding.</p> | <p>Company should make provisions for long outstanding receivables and take action to recover the dues.</p> |
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1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) According to the documents available, the Company had paid a penalty of Rs.205 million to Sri Lanka Customs on non-declaration of correct transaction value of the coal imported during the period from 19 September 2016 to 09 April 2018. The penalty payment made in year 2019 had been debited to Sri Lanka custom VAT payable account, VAT control account and CSCL liability account, instead of being accounted as expenditure of the respective year. As a result, the retained earnings had been overstated by Rs.205 million and Sri Lanka Custom VAT payable account, VAT control account and CSCL liability account had been understated by Rs.158.2 million, Rs.40 million, and Rs.6.8 million respectively of the year under review.</p>	<p>As per the investigation done by Sri Lanka Customs, Lanka Coal Company has not declared the correct transaction values of the coal imported during the period from 19/09/2016 to 09/04/2018.</p>	<p>Company should record this payment as penalty expenses and obtain approval from Board of Directors for this payment.</p>
<p>(b) Without a liability in the financial statements the Company had paid a sum of Rs.4 million to a Singaporean company in 2019 through Ceylon Shipping Corporation Ltd (CSCL). However, the Company had deducted this amount from the CSCL payable balance erroneously. Hence, the liabilities had been understated by similar amount.</p>	<p>This payment had done to M/s Mercator Singapore (Pvt) Ltd through Ceylon Shipping Corporation Ltd in the year 2019 & being investigated to ascertain source/origin of the Mercator liability & will pass the relevant entries to CSC accordingly.</p>	<p>Company should discover the origin of liability and should not make payments without ensuring the existence of the balances in the accounts.</p>

<p>(c) Without disclosing a sum of Rs. 285.4 million paid by CEB for the freight and VAT charges for the forthcoming financial year separately, it had been deducted from the account of, “Trade Debtors (CEB) for thermal Coal Shipments”. As a result, the balances of “Trade Debtors (CEB) for thermal Coal Shipments” and Advance received from CEB had been understated by Rs.285.3 million .</p>	<p>Advances that will be received in next year's financial statements are expected to be disclosed separately.</p>	<p>Company should disclose financial information appropriately.</p>
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1.5.4 Unauthorized Transactions

Audit Issue

The Company had paid a sum of Rs. 136.2 million as Custom VAT for the Shipment No. 123. However, according to the Cusdec the actual VAT amount was Rs.107 million. As a result, the Company had incurred VAT over payment of Rs. 29.3 million.

Management Comment

The latest customs refund request was made on 10 February 2021.

Recommendation

Company should get the matter resolved immediately after negotiating with IRD.

1.5.5 Suspense Accounts

Audit Issue

A sum of Rs.12 million receivable from CEB has contained in a suspense account that carrying a debit balance of Rs.2.6 million at the end of the year under review and the opening balance as at 01 January 2020 was Rs. 4.7 million . During the year under review the Company has debited a sum of Rs.1.6 million and credited a sum of Rs.3.7 million to the above suspense account without any reasons.

Management Comment

A sum of Rs.3,708,547 was credited to 11422k -154 Shipment account based on the Internal Audit Report No – CEB/CIA/SA-33/2019-85. Rs.1,594,325 debited to 11422k -154 Shipment account: This is the balance amount of Credit note of Rs.15,870,104 dated 17/07/2020 issued to Ceylon Electricity Board for non-paid lightering VAT. LCC have already set-off Rs.14,275,779 against CEB receivables in the year 2019.

Recommendation

Company should ascertain the origin of the balances and clear the suspense account accordingly. Furthermore, should prevent from accounting to the suspense account without reasonable basis and need to improve the accounting system.

1.5.6 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
<p>(a) According to the financial statements final VAT and other receivable and trade debtors receivable balance as at the end of the year under review from CEB were Rs.197.4 million and Rs.12.1 million respectively. However, it had not confirmed by the CEB. Therefore, audit was unable to ascertain the accuracy of trade debtor balance since no evidence was made available for audit.</p>	<p>Currently CEB is working on the above VAT payable and will be settled in near future.</p> <p>The contain of Trade Debtors (CEB) - Steam Coal Rs.12,073,788 is given below.</p> <ul style="list-style-type: none">a. Receivable from CEB Rs.2,563,287b. Trade debtor (CEB) Steam Coal Rs.7,750,000c. Other Receivable from CEB Rs.1,760,500 <p>Being further investigated to ascertain source/origin.</p>	<p>Company should get the matter resolved negotiating with the CEB and ascertain the origin of accounts immediately.</p>
<p>(b) The Company had failed to take actions to recover the long outstanding receivable balance amounting to Rs.539.2 million from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL) and no provision had been made for the impairment. Further, TISCL/CSCL had neither confirmed this balance. Therefore, it was unable to ascertain the accuracy and existence of the above balance.</p>	<p>Taurian Iron and Steel settlement was handled by a high level committee. The committee has not opined that the debt is bad and even the buyer has consented to settle the dues by supplying coal. According to information in our possession, the settlement proposal has been submitted for determination by the cabinet. Present Status of Outstanding amount receivable from Ceylon Shipping Corporation (Taurian Iron and Steel Company Ltd.) was referred to the Cabinet of Ministers and the Cabinet appointed a four-members Committee of the Treasury (Chairman), Ceylon Shipping Corporation, Lakvijaya Power Plant and Lanka Coal Company to negotiate with the Taurian Iron and Steel Company. Further, Cabinet has advised to submit the recommendations of the committee through Ministry of Ports and Shipping back to the Cabinet which is yet to be submitted.</p>	<p>Company should take action to expedite the recovery process.</p>

- (c) The balance confirmations and evidences relevant to verification of ESC receivable from CEB amounting to Rs. 578.7 million, Miscellaneous Debtors amounting to Rs.18.1 million, receivable from Nobel Resources International (pvt) Ltd amounting to Rs. 1.1 million, payable to same company amounting to Rs.85.9 million and SGS charges receivable amounting to Rs.8 million from Liberty Commodities Ltd were not made available for audit.
- (i) ESC Receivable from CEB : Rs.578,678,686
 The ESC receivable from CEB is containing the ESC liability as at 31/12/2019. The Board had decided to write to CEB to give a reminder to release funds to settle the ECS. Company should comply with ESC Act and take action to recover the receivable from CEB immediately.
- (ii) Misc. Debtors Rs.18,075,802
 Initial investigations revealed that the amount comprises of Rs.17,839,949 of irrecoverable NBT & PAL. Being further investigated to ascertain source/origin. Company should ascertain the source of the receivable balance, take actions to recover the receivable and should confirm the creditors balances and do the needful.
- (iii) Trade creditors Noble Resource Rs.85,887,776
 Balance mainly consists of an under drawn amount by Nobel Recourses Intl. Pvt. Ltd due to expiry of the LC validity period. Receivable from Nobel Resources Rs.1,115,987 is a credit balance for a sum of Rs.85,887,776 for Noble Resources and we will set off this debtor balance against the same.
- (iv) SGS Charges 50% receivable from Liberty Commodities Ltd: Rs.8,048,531
 Draft Survey Charges at discharge port for 17 nos of vessels in the season 2015/16 are included. Arbitration process is going on this matter.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. No. 05/2016 dated 16 December 2016.	The Company has paid a sum of Rs.1.8 million as staff bonus for the	The Board has granted approval on 30.11.2020 for the payment for Bonus as a private company.	Should be complied with the Circular.

year under review, without the approval of the General Treasury.

(b) Government Procurement Guideline- 2006 Sec.4.2.1.	The company had not prepared a Master Procurement Plan for procurement activities envisaged at least for a three years as per the procurement guideline.	Annual procurement plan had been approved by the Board of Directors.	Should be complied with the Government Procurement Guidelines.
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2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2020 had resulted neither pretax net profit nor loss as per the preceding year, due to entering into an agreement with the Ceylon Electricity Board to reimburse the net overhead cost incurred by the Company since the year 2014.

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
	Rs.	Rs.	Rs.	%
Revenue	41,000,383,219	42,470,160,495	(1,469,777,276)	(3.5)
Cost of Sales	40,954,618,074	42,414,953,867	(1,460,335,793)	(3.4)
Administrative Cost	53,836,714	65,288,550	(11,451,836)	(17.5)

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The Company had not maintained a fixed asset register and the list of assets are maintained in a MS Excel document which may prone to risk of unauthorized alterations. That document is not contained serial numbers of electrical equipment and as a consequence, it is not possible to verify the completion of the assets.

Management Comment

The authorized officers were instructed to take action to maintain a fixed asset register with proper serial numbering system.

Recommendation

Company should maintain a fixed asset register and introduce appropriate internal controls in maintaining fixed assets.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Issue

Annual reports for the years from 2015 to 2019 had not been tabled in the parliament as per the Public Enterprise circular No. PED/12 dated 02 June 2003.

Management Comment

Management comment had not been provided.

Recommendation

The Company should comply with the provisions of the Circular.