

Sri Lanka Energies (Private) Limited and its Subsidiaries – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Energies (Private) Limited (“Company”) and its subsidiaries (“Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income statement, 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 2021, 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 Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are required to maintain proper books and records of all their income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared for the Company and the Group.

1.4 Audit Scope (The Auditor's Responsibilities for the Audit of the 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 Internal control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
(a) The Company had not taken actions to activate or to close a dormant bank account maintained in a Government Bank and the balance of that account as at the end of the year under review was Rs.736,930.	Actions will be taken to get this balance cleared from the said account.	Action should be taken to activate or close the inactive account.
Proper actions had not been taken by the Company to settle the long outstanding accrued balance of Rs.729,992 shown in the financial statements.	Actions will be taken to settle the same.	After inquiring the creditors, action should be taken to settle these balances.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to the paragraph 79(b) of Sri Lanka Accounting Standard LKAS 16 - Property, Plant & Equipment, the Company should disclose the gross carrying amount of fully depreciated property, plant and equipment that still in use. However, the Company had not disclosed the total cost of fully depreciated property, plant & equipment amounting to Rs. 19,214,335 that were in use.	Will adhere to this and disclose accordingly in future.	Should be complied with the provisions of the Accounting Standard.

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| (b) According to the paragraph 20 of Sri Lanka Accounting Standard LKAS 07-Statement of Cash Flows, under the indirect method, the net cash flows from operating activities to be determined by adjusting profit or loss for the effect of non-cash items. However, the Company had adjusted the change of retirement benefits amounted to Rs. 1,431,686 under the working capital changes instead of being adjusted as a non-cash item. | Noted, will rectify the same as mentioned. | -Do- |
| (c) According to the paragraph 37 of Sri Lanka Accounting Standard LKAS 02 – Inventories, The Company had not disclosed information about the carrying amounts held in different classifications of inventories in the financial statements. | Please refer to the note number 06 under the F/S where the classification has been made for inventories as per LKAS 02 by classing the finish product, WIP and raw materials separately. | Classification that has been made is not adequate and should be complied with the provisions of the Accounting Standard. |

1.5.3 Accounting policies

Audit Issue	Management Comment	Recommendation
As per the financial statements, the building of meter enclosure factory of the Company valued at Rs.39, 638,800 had not been depreciated since 01 January 2018.	The factory building need to be depreciated and this will be adjusted accordingly.	The Factory Building should be depreciated.

1.5.4 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
According to the financial statements of the Company, closing balance of borrowings from Private bank was Rs.72,052,267. However, the balance confirmed by the bank was Rs.71,430,255 and no action had been taken to reconcile the difference of Rs.622,012 between two balances.	Actions will be taken to reconcile this accordingly.	Action should be taken to reconcile the loan balance.

1.5.5 Suspense Accounts

Audit Issue	Management Comment	Recommendation
(a) The company had not taken proper actions to identify and clarify an un-identified deposits amounting to Rs.7,114,988 which had been accumulated since 2019 and shown under trade and other payables in the financial statements.	Most of this has been cleared by identifying the deposit of Rs.3,416,970.00 which was received from NWP_DGM Office of CEB for the meter enclosure sales. Rest also will be cleared in due course.	Should identify the origin and clear the balance immediately.
(b) According to the financial statement of the Company as at 31 December 2021, un-identified payable balances of EPF and ETF amounting to Rs.357,495 and Rs.32,908 respectively were observed in audit.	Currently under a practice of settling the EPF and ETF in timely manner. This due balance will be checked and reconciled accordingly.	-Do-
(c) The Company had not taken adequate actions to clear the balance of un-identified payment A/C amounting to Rs.2,156,356 shown in the financial statements as at 31December 2021.	This transaction of Rs.2,156,356 was identified as a bill realization under Letter of credited opened for the electro mechanical equipment imports of Deduru Oya Mini Hydro Plant establishment where the part of the letter of credit was supported through the funds available with Sri Lanka Energies (Pvt) Ltd. This was previously recorded as an unidentified payment and this will be adjusted accordingly.	Intercompany transactions should be recorded properly.

1.5.6 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
Income tax provision of the Company had been computed as 24 per cent of the profit before tax. As per the financial statements, the accumulated income tax provision as at 31 December 2021 was Rs. 40,427,303 and the provision for income tax for the year 2021 was Rs. 9,659,581. However, the Company had not prepared an income tax computation in accordance with the provisions in Inland Revenue Act No. 24 of 2017 and its amendments.	Income tax provision of 24% from the profit before tax was made for the purpose of finalizing the annual financial statements till the final income tax computation is conducted from the inception of the company. Currently under the process of finalizing the same.	Should be complied with the Inland Revenue Act.

1.5.7 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(a) The Company had not claimed the long outstanding WHT receivable balance amounting to Rs. 2,120,524 against the income tax payable as at the end of the year under review. Further, the WHT certificates were not made available to audit.	Action will be taken to claim the WHT receivable against the income taxes from next year onwards. Already requested from the bank for first time.	Documentary evidence need to be furnished to the audit.
(b) The accuracy of the retirement benefit obligations as at the end of the year under review amounting to Rs.5,055,220 could not be ascertained in audit since computation schedules had not provided for audit.	Gratuity Calculation will be communicated with immediate effect.	-Do-
(c) The balance confirmation relating to the balance payable to the Ceylon Electricity Board amounting to Rs. 8,262,820 was not made available to audit.	Number of Requests for the Balance confirmation was already communicated to the relevant.	-Do-

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

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation
Inland Revenue Act No. 24 of 2017 and its amendments.	The duly completed returns along with the schedules 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 Income tax returns since the incorporation of the Company in year 2011.	Management comment had not been Provided. Should be complied with Provisions in 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.127,366,160 and the corresponding profit in the preceding year amounted to Rs.109,752,124. Therefore, an improvement amounting to Rs.17,614,036 of the financial result was observed. The reason for the improvement is increase in the revenue by Rs.198,304,460.

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	2021	2020	Increase / (Decrease)	Percentage
	Rs.	Rs.	Rs.	%
Revenue	711,009,388	512,704,928	198,304,460	38.7
Cost of Sales	456,059,286	311,193,432	144,865,854	46.5
Administrative Expenses	81,165,832	50,001,931	31,163,901	62.3
Finance Expenses	49,558,479	46,634,610	2,923,869	6.3
Finance Income	2,505,469	4,626,471	(2,121,002)	(45.8)

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had engaged in the business of producing and supplying of meter enclosures to the Ceylon Electricity Board and Lanka Electricity Company (Pvt) Limited. However, according to the information made available to audit, there were no any business agreement or MOU entered in to between the two parties.	This is an in house business where the decision was taken by the Board of Directors of CEB and conveyed down to purchase directly.	An agreement should be signed between the Company and CEB/LECO regarding business activities.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The Company had invested a sum of Rs.7,364,447 as at 31 December 2014 to build a factory for manufacturing and selling of cement based products using fly ash and bottom slag with a joint venture with Amtrad Holdings (Private) Limited. However, the joint venture agreement had been terminated and the asset had been remained idle due to non-availability of a business partner. According to the valuation report of the Department of Valuation, the assessment of the property was shown as Rs.2,660,000 by 31 May 2019. However, it was unable to obtain sufficient and appropriate evidence on the recoverability of the costs incurred by the Company.	Please refer to the board minutes for the decision taken to hand over these premise to CEB and the request also made from this end.	Company should get resolved the matter immediately after negotiating with the CEB.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
A Scheme of Recruitment (SOR) had not been prepared by the Company for staff recruitments and promotions.	Currently under review.	A Scheme of Recruitment (SOR) should be prepared and approved as per Public Enterprises Circular No.PED/12 dated 02 June 2003.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
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. However, the financial statements for the year 2021 had been submitted to the Auditor General on 05April 2022.	Management comment had not been Provided.	Should be complied with the provisions in the Public Enterprises Circular No.PED/12 dated 02 June 2003.

4.2 Corporate Plan, Annual Action Plan, Budget and Annual Reports

Audit Issue	Management Comment	Recommendation
The Company had not prepared and approved the Corporate Plan, Annual Action Plan and the Budget for the year 2021.	Corporate Plan and Budget prepared for 2022.	Should be complied with the provisions in the 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.	Annual reports have been prepared and currently under translation process.	

4.3 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.	Will adhere with this best practice	Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.