

Lanka Coal Company (Pvt) Ltd - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Coal Company (Pvt) Ltd (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 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 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 Standard

| Non Compliance with the reference to particular Standard | Management Comment | Recommendation |
|--|---|---|
| a) The Company had not made provision for the trade receivables of Rs. 1,553 million which was due for more than one year as per the paragraph No. 5.5.15 (a) of SLFRS 9. | The Company evaluated receivables collectively for impairment and found that no provision is required for the impairment of some individually significant receivables. The reason for this is that receivables are backed by corresponding payables, and if a default occurs, there is the possibility of a set-off. If there is any provision on trade receivables to be charged to CEB as a management fee, with an 18% value added tax, it will be an additional expense for CEB. | Action should be taken to comply with accounting standards. |
| b) When importation of coal, a mark-up of 10 per cent had been added to the value at the point of the Customs as a notional adjustment in ascertainment of the value for the Custom purpose which had not been actually incurred. However, the Company had added a 10 per cent mark-up amounting to Rs.14,904.63 million to the revenue for the year under review, and later, that amount had been recognized as discounts to the debtors and adjusted to the cost of sales. As a result, the cost of sales and revenue for the year under review had been overstated by similar amount in contrary to the | The Inland Revenue Department (IRD) directed LCC to include a 10% customs margin to cost while issuing VAT invoices to CEB. According to IRD officials, the base amount for VAT on CEB invoices cannot be lower than the value for customs purposes. Moreover, the G.M. Ceylon Electricity Board wrote to the Secretary of the Ministry of Finance, requesting a VAT exemption for coal import and supply. We will refer this to the Institute of Chartered Accountants of Sri Lanka for further clarifications, and changes will be made in the next financial year, if required, in compliance with Sri Lanka Accounting Standards. | The Company should take advice/clarification from CA Sri Lanka regarding this matter and it should be adjusted accordingly. |

provisions stipulated in SLFRS 15. Above adjustment had been accounted by the Company according to the instruction given by the IRD. However, it had not been disclosed in the financial statements.

1.5.2 Documentary Evidences not made available for Audit

| Item | Amount Rs. | Evidence not available | Management Comment | Recommendation |
|---|---------------|--|---|---|
| Trade receivable & Miscellaneous debtors | 17.86 | invoices, detailed schedules and balance confirmation s | 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. Attached is an email sent in 2019 informing M/s Liberty Commodities Pte Lte to make this payment based on the signed agreement. Arbitration process is going on this matter. Initial investigations revealed that the Miscellaneous Debtors comprises of irrecoverable NBT & PAL. | Relevant documentary evidence should be submitted to the audit. |
| Payable balances | 99.96 | invoices, detailed schedules and balance confirmations | Rs. 84,771,789.21- Payable to Noble Resources International The balance consists primarily of an underdrawn amount to Nobel Recourses Intl. Pvt. Ltd as a result of the LC validity period expiring. SGS Lanka (Pvt) Ltd – Rs.12,161,313.00 Herewith attached the related communication received from SGS Lanka (Pvt) Ltd. | |
| Final VAT | 197.45 | Balance Confirmation s | This final VAT is associated with shipment numbers 123 through 154. As per the investigation done by Sri Lanka | Relevant documentary evidence should be submitted to the audit. |

Customs, Lanka Coal Company did not declare the correct transaction values of the coal imported during the period from 19/09/2016 to 09/04/2018. For the purpose of 2023-year end audit, LCC has asked the confirmation for the above balance from CEB but they did not confirm as at finalize the Financial Statements. The management conversations are continually underway to resolve the discrepancy.

Management Fee 44.58 Balance Confirmation
s

Management Fee Receivable from CEB – Rs. 104,012,222.00

LCC has asked to confirm this balance also from CEB but they did not confirm as at finalize the Financial Statements. As at 30th June 2024, the balance of the Management fee receivable from CEB was Rs. 39,332,485.00 only.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

| Audit Issue | Management Comment | Recommendation |
|---|--|---|
| <p>(a) The Company had unable to recover the long outstanding receivable balances of Rs.589.97 million and Rs. 244.83 million due for more than two years from Ceylon Shipping Corporation Ltd (CSCL) and Liberty Commodities Ltd respectively even as at the end of the year under review and no provision had been made for impairment. Further, since CSCL & Liberty Commodities Ltd had not confirmed the said due balances, the audit was unable to ascertain the accuracy and the existence of such balances.</p> | <p>Liberty Commodities Ltd LCC Received an order and/or award from Arbitration on 31/12/2021, directing the Respondent to pay the Claimant (Lanka Coal Company) US \$ 1,575,141.86 with 3% annual interest plus the Arbitration cost of 10 million rupees. A letter was sent to the Sri Lankan High Commissioner in the UK through Line Ministry, requesting asset details for Liberty Commodities. Ceylon Shipping Corporation Ltd The settlement proposal has been</p> | <p>Action should be taken to recover the long outstanding dues.</p> |

submitted to the cabinet for consideration. The Cabinet has advised that the committee's recommendations be submitted to the Cabinet via the Ministry of Ports and Shipping. Accordingly, CSC has communicated to the Sri Lankan High Commission in India and waiting for their response.

(b) The Company had paid a sum of Rs.136.24 million in 2016 as Custom VAT for the Shipment No.123. However, according to the Cusdec, the actual VAT amount was only a sum of Rs.106.97 million. Accordingly, it was observed that the Company had overpaid a sum of Rs. 29.27 million and the action had not been taken by the Company to recover the said balance even as at the end of the year under review.

LCC found that IRD has recorded this overpayment VAT Rs.29,266,965.00 & it will take the appropriate formalities to set off this overpaid VAT against LCC's outstanding Customs due balances.

Action should be taken to recover overpaid VAT amount.

1.7 Non-compliance with Tax Regulations

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| (a) As per the Section 90 (1) of the Inland Revenue Act No. 24 of 2017, the Company had not paid the quarterly income tax installments during the year under review as required by the provisions of the Act. | We are in continually negotiations with Inland Revenue Department for the outstanding tax payable & we will settle the final tax liability based on the return for the year of assessment 2022/2023. | Should be complied with the provisions in the Inland Revenue Act. |
| (b) As per the section 26(1) of Value Added Tax Act No. 14 of 2002 (incorporating amendments up to 01.01.2014), the tax in respect of any taxable period shall be paid not later than the twentieth day of the month following the end of the taxable period. However, the Company had not paid the VAT as per the said provision and the VAT payable as at 31 December 2023 was Rs. 20,930.73 million. | As stated in the financial statements' note no. 21.2, the Ministry of Finance granted a request made through the Ministry of Power to defer the Provisional VAT payments from the coal season of 2022–2023 due to CEB's liquidity constraints in 2023. The outstanding balance is being settled shipment by shipment and now the payable balance is around 1.3 billion. | Should be complied with the provisions in the Value Added Tax Act. |

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2023 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

| Income/Expenditure | 2023 | 2022 | Increase/(Decrease) | Percentage |
|------------------------|---------|---------|---------------------|------------|
| | Rs. | Rs. | Rs. | (%) |
| | million | million | million | |
| Revenue | 161,408 | 117,406 | 44,002, | 37.48 |
| Cost of Sale | 161,334 | 117,337 | 43,996, | 37.50 |
| Registration and Other | 19 | 8 | 11 | 137.15 |
| Income | | | | |
| Administration Cost | 74 | 78 | (4) | (5.13) |
| Finance Income | 9 | 1 | 8 | 800 |

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The Company had failed to make the advance payment to the supplier as agreed in the contract agreement. As a result a sum of Rs. 137.88 million had been paid by the Company as load port demurrage for three shipments during the year under review.

Management Comment

Supplier agreed to supply the balance quantity of coal 1.125 million +/-10% under advance payment method of 30% prior to the vessel nomination, approximately 15 days before the first date of loading port before unloading. also supplier added a condition in the effect of any payment delays occurred will be on buyer's accounts with the approval cabinet of ministers Accordingly, we were unable to make the advance payment to the supplier as agreed in accordance with the new terms of the contract a sum of Rs.137,883,574 had been paid as per load port demurrage.

Recommendation

Action should be taken to settle the advance payments in due dates and minimize the demurrage.

3.2 Procurement Management

Audit Issue

Even though the Company should prepare a detailed Procurement Plan and time schedule for procuring the annual coal requirement as per procurement guidelines and obtain the approval of the Secretary to the Ministry for the same as per guideline No. 4.2 of the National Procurement Guideline. However, a proper detailed Procurement Plan had not been prepared by the Company.

Management Comment

LCC is required to submit a detailed procurement plan and schedule to the secretary before each coal season begins. However, the plan for the 2022-23 seasons was unsuccessful. During that problematic period, an amended detailed procurement plan and schedule were not submitted to the secretary before the procurement began. However, going forward, this procedure will be strictly adhered to.

Recommendation

Should be complied with the provisions in the National Procurement Guideline.