

Sri Lanka Energies (Private) Limited - 2023

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 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group 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 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 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 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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company and the Group.

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 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 the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Company and the Group ;
- Whether the Company and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Company and the Group 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 Sri Lanka Energies (Private) Limited

1.5.1.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>(a) As per the paragraph No.11 of Sri Lanka Accounting Standard No 02 – Inventories, the costs of purchase of inventories comprise the purchase price, import duties and other taxes and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. However, as per the financial statements of the Company, transport charges amounting to Rs.25,081,719 incurred in the year 2023 and 2022 for the carrying of stocks of aluminium scraps (which is used for the production of aluminium redraow rod) to the Galgamuwa factory of the Company had been recorded as expenses in 2023 and preceding year. As a result, profit for the year under review and retained earnings had been understated by Rs.20,547,164 and Rs.4,534,555 respectively.</p> <p>Further, the value of the collected 2,535,725 Kgs of Scrap Aluminium had not been taken in to the financial statement even up to the date of this report.</p>	<p>As per the agreement with the Ceylon Electricity Board SCARP aluminum is collected for free of charge. All the expenses related to the collection of SCRAP will be recovered from the formula that is to be established in the future</p>	<p>Should be complied with the provisions of the accounting standard.</p>
<p>(b) Medical leave encashment expense amounting to Rs.</p>	<p>Correct. Will be</p>	<p>Should be</p>

<p>2,866,660 related to the previous year had been recognized in the year under review without making prior year adjustments in the financial statements in terms of the provisions of the Paragraph 42 of LKAS 08 (Accounting Policies, Changes in Accounting Estimates and Errors). As a result, the profit for the year under review had been understated by the same amount.</p>	<p>adjusted accordingly.</p>	<p>complied with the provisions of the accounting standard.</p>
<p>(c) In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs. 49,875,241 relating to 7 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.</p>	<p>Not Cleared.</p>	<p>Should be complied with the provisions of the accounting standard.</p>
<p>(d) The Company had entered into lease agreement for Galigamuwa land (Extend Hectare 0.3726) for 35 years from 07 July 2017. However, the right of use assets and lease liability in relation to the said lease had not been recognized in the financial statements by the Company as per the SLFRS – 16- Leases.</p>	<p>Add here in the future with the accounting procedure.</p>	<p>Should be complied with the provisions of the accounting standard.</p>

1.5.1.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) According to the financial statements of the Company, income tax payable as at 31 December 2023 was Rs.88,715,153 and the provision for income tax expenses for the years of assessment 2022/2023 and 2023/2024 were Rs.3,457,708 and Rs.44,830,141 respectively. However, when calculating the assessable income for the said years of assessment, fully depreciated assets amounting to Rs.100,596,911 and Rs.20,584,015 had been considered in calculating the capital allowances on assets respectively. In addition, the rate of income tax 24 per cent had been applied instead of 30 per cent in contrary to the Section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022. As a result net aggregate difference amounting to Rs.13,642,820 was observed for the said years of assessment and the profit for the year under review had been overstated by Rs.13,642,820.</p>	<p>Please send us your Calculation.</p>	<p>Action should be taken to calculate accurate income tax provision and adjust the profit for the year.</p>

<p>(b) Income tax payable as per the Financial Statement as at 31 December 2020 was Rs. 30.77 million and as per the income tax returns submitted to the Department of Inland Revenue (up to the year of assessment 2020/2021), income tax payable related to that period was Rs. 15.2 million. Accordingly, a difference of Rs. 15.57 million was observed and relevant adjustment had not been made in the financial statements even as at the end of the year under review.</p>	<p>The back log of income tax return filing was completed after the submitting approved financial for the audit purposes. This will be adjusted in financial year 2024.</p>	<p>Action should be taken to reconcile the income tax payable.</p>
<p>(c) According to the financial statements of the Company, the balance payable to the Ceylon Electricity Board (CEB) as at 31 December 2023 was Rs.21,966,396. However, as per the financial statements of the CEB, the corresponding receivable balance was Rs.23,941,000 and a difference of Rs.1,974,604 was observed. No action had been taken to reconcile account balances as at the date of this report.</p>	<p>Action has taken for the settlement as early as possible.</p>	<p>The Company should reconcile the balance of payable with CEB</p>

1.5.1.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
<p>a) Credit balances of 3 stock items aggregating to Rs.6,884,969 was observed in inventories as at 31 December 2023. It was not identified even as at the date of this report.</p>	<p>System Error. Already informed to the ERP managing team and their working on it for the correction.</p>	<p>Action should be taken to reconcile the credit balances of stock items.</p>

1.5.1.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
<p>a) As per the financial statements of the Company, Provision for impairment which was made before 2017 of Kumbalgamuwa Mini Hydro (Private) Limited was Rs.10,719,147. However, the board decision, valuation report and other relevant documents relating to the provision for impairment were not made available to audit.</p>	<p>As been detailed earlier this was entry suggested by the E&Y, the previous external audit team of the company, as a year ended audit completion journal entry. Cannot find any detail elaboration regarding this.</p>	<p>Sufficient documentary evidence need to be furnished to the audit.</p>

1.5.1.5 Accounts Receivable and Payable

(a) Receivables

Audit Issue

The Company had not claimed the long outstanding WHT receivable balance amounting to Rs. 2,126,687 against the income tax payable with the concurrence of the department of Inland Revenue even as at the end of the year under review.

Management Comment

This will be completed.

Recommendation

Action should be taken to recover the claimable balances as much as possible.

(b) Payables

Audit Issue

According to the financial statements of the Company, the balance of unidentified deposits as at 31 December 2023 was Rs.7,062,988 and this was accumulated from the year 2019. Even though the Company had identified the deposit sources of the said balance during the year under review, action had not been taken to adjust them into the relevant accounts.

Management Comment

This has already been identified in year 2024 and the workings has been shared with both internal and external audit teams. Will updated ERP system accordingly.

Recommendation

Action should be taken to recognize the unidentified deposits.

1.5.2 Preparation of Consolidated Financial Statements

The qualified opinion on the financial statements of the following companies for the year ended 31 December 2022 had been expressed by me based on the following observations.

1.5.2.1 Sri Lanka Energies HR (Private) Limited

Audit Issue

- (a) As per the Section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022, taxable income shall be taxed at the rate of 30 per cent with effect from 01 April 2023. However, Income Tax Computation had been made by applying the rate of 24 per cent for the year of assessment (Y/A) 2023/2024. Further, the fully depreciated assets amounting to Rs. 1,682,912 had been considered in calculating capital allowances on fixed assets for the same year of assessment. Therefore, the assessable income had been understated by Rs. 336,582. As a result of the said two matters, it was observed that the income tax provision had been understated by Rs.228,755 in the year under review.

Management Comment

Not commented

Recommendation

Action should be taken to reconcile the income tax provision.

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| (b) | As per the financial statements, the professional fees (consultancy fees) paid for 03 consultants during the year 2023 was Rs.2.96 million and it also included Rs.2.8 million paid to two consultants who were employed under Sri Lanka Energies (Pvt) Ltd, the parent Company. Accordingly, profit for the year under review had been understated by said amount. | Will be corrected as proposed. | Action should be taken to recognize relevant expenses relating to the Company. |
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1.5.2.2 Kumbalgamuwa Mini Hydro (Private) Limited

Audit Issue	Management Comment	Recommendation	
(a)	In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs. 385,881,787 relating to 6 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.	The company is in the process of revaluation has been mentioned in this query.	Should be complied with the provisions of the Accounting Standards.
(b)	The Company had entered into an agreement with the Department of Forest Conservation to lease a land for the purpose of building, owning and operating the mini hydro power plant for a period of 20 years from 18 February 2015. However, the right of use of asset and lease liability had not been recognized in the financial statements by the Company as per the SLFRS – 16- Leases. Furthermore, as per the letter sent by the Department of Forest to the Company on 17 December 2023, an annual permit fee of Rs.31,308,661 for the period from 2017 to 2023 had not been paid yet.	The error is identified and will satisfy the SLFRS -16 accordingly.	Should be complied with the provisions of the Accounting Standards
(c)	The Company had financed Rs.101,000,000 to Sri Lanka Energies (Private) Limited to acquire Bio Med Hydro Power (Private) Limited and amount financed had been recorded as amounts due from Bio Med Hydro Power (Private) Ltd instead of being recorded it as amounts due from Sri Lanka Energies (Private) Limited. Accordingly, the amounts due to related parties and amounts due from related parties had been overstated by Rs. 101,000,000 as at 31 December 2023.	Currently under the process of adjusting as been discussed in the audit committee.	Action should be taken to record the related party transactions in correct values in the financial statements.

1.5.2.3 Bio-Med Hydro Power (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) Sri Lanka Energies (Private) Limited had acquired Bio Med Hydro Power (Private) Limited for a purchase consideration of Rs.259 million on 01 December 2023. However, the Company had accounted Rs.259 million as non-current assets and Rs.90 million had only been recognized as equity. Further, the Company had recorded Rs. 169 million as amounts due to related parties since funding arrangements made by the other two subsidiaries instead of recording under the equity.	Biomed Hydro Power (Pvt) Ltd was acquired by the Sri Lanka Energies (Pvt) Ltd on 01 st of December 2023 and this approved financials indicates the performance for the 01 month time period. The consideration for the acquisition was 259 Mn where it covers the value of the Power Plant, Building, Land, Other relevant Equipment and the value of the initial equity. Accordingly the share value of Rs.90Mn was transferred to the name of SLE under the form 15 filed for the change of ownership. Though the rest of the investment is recorded as the amount due to related party under the statement of financial position, the balance will be issued in par with the value with the approval of BOD in the current financial year to the respective companies. Accordingly the Equity value has not been understated.	Action should be taken to recognize the accurate equity value in the financial statements.

1.5.2.4 Daduruoya Mini Hydro (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs. 290,891,826 relating to 9 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.	Figures will be corrected accordingly.	Should be complied with the provisions of the Accounting Standards.
(b) The Company had financed Rs.97,000,000 to Sri Lanka Energies (Private) Limited to acquire Bio Med Hydro Power (Private) Limited and amount financed had been recorded as amounts due from Bio Med	There is no error in the activity, this action is correct.	Action should be taken to record all the transactions in the financial statements properly.

Hydro Power (Private) Ltd instead of being recorded it as amounts due from Sri Lanka Energies (Private) Limited. Accordingly, the amounts due to related parties and amounts due from related parties had been overstated by Rs. 97,000,000 as at 31 December 2023.

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| (c) | In calculating the assessable income from the business for the years of assessment 2022/2023 and 2023/2024, the rate of capital allowance of 5 per cent had been applied by the Company on Turbine and Water Wheels (categorized under the machinery) instead of applying 20 per cent. Therefore, income tax payable and income tax expense for the year were overstated by Rs. 8,302,984 and Rs.1,933,778 for the years of assessment 2022/2023 and 2023/2024 respectively. | Mistakenly done during the tax calculations will be corrected accordingly. | Should be complied with the provisions of the Inland Revenue Act. |
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1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Operational Manual for State Owned Enterprises dated 16 November 2021			
(i) Section 3.2 (i)	The Company had not prepared the Scheme of Recruitment (SOR) for their recruitments and compliance with the requirements of the above Manual.	Being Developed.	Should be complied with the Operational Manual for State Owned Enterprises.
(ii) Section 6.5	State Owned Enterprises (SOEs) are not allowed to incorporate or acquire subsidiaries without an approval of the General Treasury. However, such an approval had not been taken to the acquisition of Bio-	Done as per the articles of the association.	Should be complied with the Operational Manual for State Owned Enterprises

Med Hydro Power (Private)
Limited in 2023.

(b) Section 2.2.5 (a) of the Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021	It is mandatory to have a Board approved subsidiary policy that addresses issues including dividends, changes in equity and shareholding and major transaction. However, the Company had not established such a policy.	Being Developed.	Should be complied with Guidelines on Corporate Governance for State Owned Enterprises.
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1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
<p>(a) Inland Revenue Act No. 24 of 2017</p> <p>(i) As per section 86 (1), the company shall pay to the Commissioner-General within fifteen days after the end of each calendar month any tax that has been withheld during the month. However PAYE Tax withheld during last seven months of the year 2023 amounting to Rs.278,822 had not been remitted as required by the provision of the Act.</p> <p>(ii) As per section 90 (1), the Company had not paid the quarterly income tax instalments during the year under review as required by the provisions of the Act.</p> <p>(iii) As per section 126 (1), The Company had not filed Income Tax returns for the year of assessments 2017/2018 and 2022/2023 as required by the provisions of the Act.</p> <p>(b) As per 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 amounting to Rs.91,486,315 as required by the Act.</p>	<p>Immediate settlement will be done for this due balance.</p> <p>This will be added here with the immediate attention. And will be done in 2024.</p> <p>This will be added here with the immediate attention. And will be done in 2024.</p> <p>Cannot agree with this due balance. As of 31.12.2023, only Rs. 25,363,943.16 is payable, related to quarters 2210 and 2340</p>	<p>Should be complied with the provisions in Inland Revenue Act.</p> <p>Should be complied with the provisions in Inland Revenue Act.</p> <p>Should be complied with the provisions in Inland Revenue Act.</p> <p>Should be complied with the provisions in Value Add Tax Act.</p>

- (c) As per paragraph 17(1) of Social Security Contribution Levy Act No.25 of 2022, The Social Security Contribution Levy (SSCL) payable for the first month of the quarter shall be paid to IRD on or before the twentieth day of the second month of that quarter. However, the Company had not paid the Social Security Contribution Levy (SSCL) amounting to Rs.12,424,650 to the Inland Revenue Department as required by the Act.
- Balance will be settled early as possible.
- Should be complied with the provisions in Social Security Contribution Levy Act.

2. Financial Review

2.1 Financial Result

The operating result of the Group for the year under review amounted to a profit of Rs. 209.80 million and the corresponding profit in the preceding year amounted to Rs. 64.34 million. Therefore, an improvement amounting to Rs. 145.46 million of the financial result was observed. The reasons for the improvement are increase of revenue and decrease of finance expenses.

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 is as follows.

Income/Expenditure	2023	2022	Increase/ (Decrease)	Percentage
	Rs.	Rs.	Rs.	(%)
	million	million	Million	
Revenue	1,116.86	757.87	358.99	47.36
Cost of Sales	681.96	444.72	237.24	53.34
Direct Project Expenses	22.80	5.35	17.45	326.17
Administrative Cost	104.12	115.80	(11.68)	(10)
Finance Expenses	108.20	160.50	(52.3)	(32.58)
Finance Income	9.83	6.86	2.97	43.29

2.3 Ratio Analysis

Key ratios of the Group for the year under review as compared with the preceding year are as follows.

Ratio	2023	2022
Return on capital employed (%)	27.13	5.18
Gross profit ratio (%)	38.94	41.32
Net profit ratio (%)	18.78	5.20
Current ratio (Times)	0.72	0.96
Quick Ratio (Times)	0.65	0.88

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a) The board of Directors had given approval to acquire the Biomed Hydro Power (Pvt) Ltd amounting to Rs.259 million by utilizing the Company's own funds on 16 May 2023. However, The Company had utilized the subsidiaries funds other than its own funds to acquire the above Company. Accordingly, two subsidiaries of Kumbalgamuwa Mini Hydro (Private) Limited and Deduruoya Mini Hydro (Private) Limited had directly provided funds amounting to Rs. 101 million and Rs. 97 million respectively to acquire the said Company without obtaining the separate board decisions from each subsidiaries. As a result, the Company was unable to account the investment in subsidiaries equivalent to the purchase consideration as at the end of the year under review.	Will be corrected accordingly as per the board of director's advice.	Action should be taken to record the investment in subsidiaries equivalent to the purchase consideration.
b) The Company had entered into a joint venture agreement with Amtrad Holding (Private) Limited on 27 July 2012 to engage in a business for manufacturing and selling of cement-based products using fly ash and bottom slag. However, the joint venture agreement had been terminated by the management on 27 March 2014 and the assets had been remained idle due to non-availability of a business partner. The Company had invested a sum of Rs.7,364,447 for this project by the end of the year 2014, and pursuant to a valuation made by the Valuation Department	For the progress, this need to be refer to the committee chairman who is appointed to this inquiry through the MOPE. Also this has been written off based on the approval of the BOD subject to the report by the internal auditor.	Progress of implementation of the direction given by the committee need to be furnished to the audit.

in 2019, the balance of the investment had been impaired Rs. 2,660,000 in the books of Accounts for the year 2019.

Subsequently, the board of directors of the Company had granted approval to write off the said Investment balance on 31 January 2024 based on the recommendations made by the Special Audit Report dated on 20 October 2023 done by the Internal Audit division of Ceylon Electricity Board (CEB) and recommendation given by the Audit and Management Committee of the Company. Accordingly, the said investment balance had been written off from the books in the year under review. Therefore, the audit revealed that the total investment of this project amounting to Rs.7,364,447 had been made without identifying the necessity of the project due to poor decision making of the management.

Further, the Audit and Management Committee of the Ministry of Power and Energy, at its meeting held on 18 April 2024, had directed to appoint a committee to conduct an inquiry to identify the responsible persons. However, the progress of the implementation of the said direction was not presented to audit.

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| <p>c) The Company had engaged the business to build up an Aluminium Redraw Rod manufacturing facility and operate it with the collaboration of CEB as per the Board approval granted on 23 February 2022. Accordingly, the construction of the Scrap Aluminium Recycling project had been started in September 2022. As per the decision taken by board of directors of CEB and the DCC circular 2021/DCC/com-14 dated 23 September 2021, the Scrap Aluminium would be provided by CEB to SLE at free of charge and SLE produced the Aluminium Redraw Rods by recycling the Scrap Aluminium with adding the optimal amount of Virgin Aluminium and deliver the redraw rods back to CEB to a negotiated price which covers the raw materials and production expenses with SLE margin.</p> <p>However, no business agreement, buy back agreement or Memorandum of Understanding (MOU) entered between two parties regarding the said business engagement even up to the date of this report. Further, The construction works had been commenced in September 2022 at Galgamuwa site and the balance of Work in Progress (WIP) of SCALP project as at 31 December 2023 was Rs. 27,416,630. Further, the legal clearance for the land of the project site had not been obtained from the relevant authorities even as at the end of the year under review.</p> | <p>Management comment had not given</p> | <p>An agreement should be entered into between the Company and the respective parties regarding aluminium Redraw Rod manufacturing activities.</p> |
| <p>d) The Company had engaged in a business to produce and supply of meter enclosures to the Ceylon Electricity Board and Lanka Electricity Company (Pvt) Limited. However, there were no business agreements or MOU entered in to between two parties.</p> | <p>Agreement has been drafted and approved by the BOD SLE on the board meeting held on 24th July 2024 to proceed further.</p> | <p>An agreement should be entered into between the Company and the respective parties regarding business activities.</p> |
| <p>e) The balance of current account in People’s Bank amounting to Rs.736,930 had been remained dormant even as at the end of the year under review. However, an action had not been taken to activate or close the said account yet.</p> | <p>BOD has approved the board paper to re-activate this account and board secretary has been advised to issue decision via board resolution to the Peoples bank foreign branch.</p> | <p>Action should be taken to activate or close the said current account.</p> |

3.2 Delays in Projects or Capital Work

Audit Issue

The Seethawaka Ganga Hydro Power Project had been initially recognized as a Hydro power source by the CEB and they had engaged with this project from 2015 to 2021 and spent Rs. 301 million for the project. However, due to the financial difficulties and changes in government policies, the CEB had transferred the project to Sri Lanka Energies (Private) Limited in 2021. Accordingly, the Company had done a feasibility study regarding this project and planned to build 2 hydro power plants of 7 MW each at a cost of Rs. 3,500 million. Initial activities of the project had been commenced by the Company in 2021 and foundation stone had been placed on 01 April 2024. In addition to the expenditure made by CEB, the Company had spent Rs. 6,386,066 on this project by 31 December 2023. However, the project was still under initial stage without generating expected benefits to the National Grid.

Management Comment

Project is at the final stage of the clearing. Only NARA clearances is pending.

Recommendation

Action should be taken to speed up the project.

3.3 Procurement Management

Audit Issue

National Procurement Guideline

(a) Guideline 2.14.1 and Supplement – 35

(i) In purchase of the virgin polycarbonate amounting to USD 1,306,080 equal to Rs.408,803,040 approximately, the procurement had been carried out by the Department Procurement Committee instead of a Ministry appointed procurement committee.

(ii) When shopping procedure is followed, Head or Chief Accounting Officer has the authority up to Rs. 1 million for works and Rs.500,000 for goods and services other than Consultancy services. However, the Board of Directors of the Company had given authority limits to GM for Rs. 4 million and Rs.800,000 to Head of Engineering and Head of HR contrary to the provisions of the guideline

Management Comment

These are the decision of the board of director of SLE (Pvt) Ltd.

These are the decision of the board of director of SLE (Pvt) Ltd

Recommendation

Should be complied with the provisions of the guideline.

Should be complied with the provisions of the guideline.

<p>(b) Guideline 3.1.1 (a) International Competitive Bidding (ICB) shall be used when the capacity of the domestic contractors, suppliers and service providers are limited. However, the Company had called bids using National Competitive bidding method without considering the International Competitive Bidding ICB method in purchase of the virgin polycarbonate.</p>	<p>Anybody can bid the tender.</p>	<p>Should be complied with the provisions of the guideline.</p>
<p>(c) Guideline 4.2.1 and 4.2.2 The Company had not prepared a master procurement plan, a detailed procurement plan and procurement time schedules from the inception of the Company.</p>	<p>Being Prepared</p>	<p>Should be complied with the provisions of the guideline.</p>

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
<p>In accordance with the “2030 Agenda” of the United Nation 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 targets to be achieved, the gap in achieving those goals and the suitable indicator for measuring the progress as well.</p>	<p>Will adhere with this best practice.</p>	<p>The Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.</p>