Ante Leco Metering Company (Pvt) Limited - 2024

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Ante Leco Metering Company (Pvt) Limited ("Company") for the year ended 31 December 2024 comprising the statement of financial position at 31 December 2024 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, 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 Opinion

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 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

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 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 (SOEs)" dated 16 November 2021, issued under Public Enterprises Circular No. 01/2021			
(i) Paragraph 3.1 (i)	All state-owned enterprises (SOE) must seek the approvals of the General Treasury for their cadres and remuneration. However, Company had not complied with the requirement	ALMC has approved the cadre positions and remunerations from the board of directors of ALMC which comprises of directors of LECO and Ante Meter Group Co., Ltd. However, the subject mentioned under Section 3.1 and Section 3.2 (i) are noted for further action.	Action should be taken to seek the approvals of the General Treasury for cadres and remuneration.
(ii) Paragraph 3.2 (ii)	All SOEs must submit their requests pertaining to carders including cadre positions, scheme of recruitments (SOR), pay structure and allowances with a board approval and recommendations of the line ministry, for the approval of the Director General of the department of Management Services. However, it was observed that Company had not complied with above requirement.	ALMC has approved the cadre positions and remunerations from the board of directors of ALMC which comprises of directors of LECO and Ante Meter Group Company, Ltd. However, the subject mentioned under Section 3.1 and Section 3.2 (i) are noted for further action.	Action should be taken to submit all requests pertaining to cadres including cadre positions, Schemes of Recruitment (SOR), pay structure, and allowances with a Board approval and recommendations of the Line Ministry for necessary approval.

(iii)	Section 6.6	Annual Report should be tabled in Parliament within five (5) months after the close of the financial year. However, the Company had not tabled the annual report from its inception.	ALMC has not prepared an annual report separately since the financial accounts of ALMC are consolidated with LECO, which is the holding company and included in the LECO annual report. We will consider your opinion regarding the preparation of an annual report for Ante Leco Metering Company separately.	Action should be taken to ensure that the Annual Report is tabled in Parliament within five (5) months from the close of the financial year, in compliance with the statutory requirement.
(iv)	Section 7.1, 7.2 and Section 7.3	Key Performance indicators (KPIs) must have identified and Board of Directors should periodically review KPIs including against the action plan and the budget to ensure that actual performance is in line with the expected KPIs. However, that the Company had not complied with said requirements.	Since ALMC engages in manufacturing, and the number of executive staff in factory is 6 persons, a separate KPI scheme has not been introduced. Nevertheless, for each department an action plan is made annually, and the responsibility of actions are bestowed upon responsible executive level personnel and the progress of the action plan is reviewed annually as well as intermediately during management review meetings. For all employees, annual appraisal is done based on a predefined set of criteria. In future, for executive staff, performance evaluation will be done by aligning the actions set for each department in the annual action plan and value their contribution similar to a KPI scheme.	Action should be taken to identify Key Performance Indicators (KPIs), and the Board of Directors should periodically review these KPIs, comparing them with the approved action plan and budget, to ensure that actual performance aligns with expected outcomes.
(v)	Section 7.5	SOE should forward monthly, quarterly and annual performance reports to the Line Ministry and General	Performance of the company can be measured by the production quantities which are maintained digitally. If required, the monthly	Action should be taken to forward monthly, quarterly, and

		Treasury. However, the Company had not complied with said requirement	production records can be published to relevant institutions as required	annual performance reports to the Line Ministry and the General Treasury in a timely manner.
(b)	Section 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises issued under Public Enterprises Circular No. 01/2021dated 16 November 2021.	Subsidiaries are required to submit finalized strategic plan, action plan and annual budget to the parent Company. However, sufficient documentary evidence were not made available to the audit in relation to the preparation and submission of action plan and annual budget to the parent Company	Currently the corporate plan, action plan and annual budget are prepared and have been approved by the board of directors of ALMC. Since ALMC is a subsidiary of LECO there has not been a procedure to submit these to the Public Enterprises Department.	Action should be taken to forward the finalized strategic plan, together with the action plan and annual budget, through the Secretary of the Line Ministry to the Director General of the Department of Public Enterprises or the Director General of the Department of National Budget, as applicable.
(c)	Section 4 of the National Building Tax Act No 9 of 2009,	The NBT payables of amounting to Rs. 12,431,380 had not been paid to the Inland Revenue Department for more than five years.	The amount payable as NBT amounting to Rs 12,431,380 was not paid since there were negotiations carried out by us and the tax consultant with the department of Inland Revenue to reduce this liability. We expect to obtain the final amount payable with respect to NBT from the IRD in writing and will arrange the settlement before 30th August 2025.	Action should be taken to settle the outstanding NBT payable with the Inland Revenue Department without further delay, and to implement effective measures to prevent such prolonged delays in future payments.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 499.4 million and the corresponding profit in the preceding year amounted to Rs. 470.1 million, therefore an improvement amounting to Rs. 29.3 million or 6.23 percent of the financial result was observed. The main reason for the improvement was the decrease in Selling and Distribution Expenses by Rs. 93.1 million during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

(a) The revenue for the year under review had increased by 26.8 per cent and cost of sales increased by 35.2 per cent compared to the preceding year.

(b) Other operating income for the year under review had decreased by 7.9 per cent compared to the preceding year. The main reason for the deterioration was decrease of scrap sales.

(c) Finance Income of the Company had decreased by 56.4 per cent with the decrease of interest rate and Net Finance Income of the Company had decreased by 67.1 per cent compared to the preceding year.

2.3 Ratio Analysis

(a) Net profit ratio of the Company had decreased from 11.8 per cent to 10.2 per cent compared to the preceding year. The Current ratio had increased from 1.7: 1 to 2.2:1 when comparing with the preceding year.

(b) Return on Equity had decreased from 43.7 per cent to 32.1 per cent when compared to preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The company had not carried out Board of survey for the physical verification of the Property Plant and Equipment amounting to Rs.349,104,413 as at 31 December 2024.	We have not carried out a survey of property, plant and equipment for the year 2024. We have discussed this with our holding company LECO and will conduct a survey for the year 2025.	Action should be taken to carry out annual assets verification for Property, Plant, and Equipment as at the end of the financial year.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
As per the Section 4.4 of the Guidelines on Corporate Governance for State owned Enterprises dated 16 November 2021, SOEs should have internal auditor who report only to the Board through Audit committee. However, it was observed that, the Company had not appointed an internal Auditor.	Currently LECO internal audit team is acting as the internal auditor of ALMC and they directly report to the Board of Directors since 2023 Q4. Audit is being carried out in a quarterly manner	Action should be taken to ensure that the State-Owned Enterprise (SOE) appoints an internal auditor who reports solely to the Board through the Audit Committee.

4.2 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. However, the Company had not identified the Sustainable Development Goals and targets to be achieved and the suitable indicators for measuring the progress as well.	We have taken action to comply with 3 SDGs • SDG 5 – Gender Equality and Empower and women and girls. • SDG 7 - Affordable and Clean Energy • SDG 12 - Ensure sustainable consumption and production patterns	Company should comply with "2030 Agenda" of the United Nations on the Sustainable Development Goals.