

Lanka Electricity Company (Private) Limited and its Subsidiaries - 2019

1.1 Opinion

The audit of the financial statements of Lanka Electricity Company (Private) Limited (“Company”) and the consolidated financial statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, 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 2019 and of their financial performance and 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 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 Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

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 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.

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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
(a) The Company has not implemented any controls to verify the accuracy of units entered by the revenue officer in the system with the physical bill issued to the consumer. The Company identifies such variations, at the point where, consumer notify such variations. This could result in incorrect recognition of revenue.	If there is an issue relating to recorded numbers of units it will be observed by revenue officer in the next billing period or in certain cases customer will inform and if there any errors it will be rectified in the billing system. The Company is in the process of implementation of smart meters to the customers who pay high bill to achieve high accuracy on the record of their revenue.	Action should be taken to record revenue accurately.
(b) At the material issued from the stores, respective officers had not signed the material issued note. Further this will have an impact of fraudulent activities of inventory related items.	Agreed with the observation & understand that it is a mistake of Customer service Center (CSC) officers. Relevant instructions were given CSC officers to ensure such a mistakes occurred in the future and we will issue clear instructions to relevant officers.	Action should be taken to duly issue duly signed material issued notes.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed that capital work in progress account consist expenses of revenue nature jobs Rs.13,843,168 and labour cost related to revenue projects Rs.3,908,101 which need to be expensed at the time of incurring cost.	In the Pronto system relevant controls are already installed. Most of the above figures show values before implementing such control. We will review all these items during the year 2020 and rectify them in the relevant account.	Nature of the expenditure should be identified properly and account accordingly.

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| <p>(b) Although the Company has completed constructions and commenced operations of the Customer Service Centre (CSC) in Ja-Ela during the year under review, the construction cost amounting to Rs. 34,553,316 was not transferred to relevant asset account and kept in the advance payment account of the above CSC. Due to this current and non-current assets of the Company were misstated.</p> | <p>This contract is yet in the defect liability period and therefore the certificate completion not issued, until such time we cannot capitalize.</p> | <p>Action should be taken to capitalized when commenced the commercial operations.</p> |
| <p>(c) The management had not reviewed the useful lives of the assets on a regular basis. Due to this reason the Company has fully depreciated assets amounting to Rs.8.7 billion as at 31 December 2019.</p> | <p>We accept the comment and revaluing the assets distributed along our operational area as an extended activity and the specialized competency is a rare resource.</p> | <p>Management should review the useful lives of the assets on a regular basis and make necessary adjustment to the account accordingly.</p> |

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>(a) It was observed that, the company does not have formal agreement with CEB to establish a right to recover such payment to customers from the CEB since the company does not have formal agreement with CEB to establish a right to recover such payment (eg; Receivables from CEB for Solar based energy generation scheme) to customers from CEB.</p>	<p>From the inception of LECO in 1983, such agreement was not in place. We will take action to enter into an agreement with the assistance of the Ministry of Power.</p>	<p>Action should be taken to sign a formal agreement in respect of the payments between LECO and CEB.</p>
<p>(b) It was observed that, share certificate and share allotment is still pending for an investment of Rs.47.1 Mn, made 5 years ago by Ante Leco (Private) Limited.</p>	<p>This has been now resolved.</p>	<p>Share certificate should be existed regarding the ownership of the investment.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>It was observed that, Company recognizes Solar Net Metering and Net Plus consumer payments incurred from year 2017, as</p>	<p>This issue has been submitted to the Board and it has instructed to form a</p>	<p>Should be entered to a formal agreement between two entities</p>

receivable from Ceylon Electricity Board (CEB) and as at December 2019, it was amounting to Rs.591,047,864. committee comprising of regarding consumer officers from CEB, LECO and payments. the Ministry in order to resolve this issue.

1.7 IT General Controls

Audit Issue	Management Comment	Recommendation
It was observed that the billing system and the pronto system does not have the functionality to configure password setting in application level.	This is introduced as soon as possible.	Risk should be identified and planned to improve the systems.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 3,999,899,000 and the corresponding profit in the preceding year amounted to Rs. 3,173,831,000. Therefore an improvement amounting to Rs. 826,068,000 of the financial result was observed. Increase of other operating income by Rs. 850,888,000 was the main reason attributed for this improvement in the financial results.

2.2 Trend Analysis of major Income and Expenditure item

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	2019 Rs. '000	2018 Rs. '000	Increase/ Decrease Rs. '000	Percentage %
Revenue	33,710,930	31,827,090	1,883,840	6.0
Cost of Sales	28,330,701	26,897,850	1,432,851	5.3
Administration Cost	3,062,843	2,363,027	699,816	30.0

Revenue had been increased by Rs. 1,883,840,000 and Cost of sales also had been increased by Rs.1,432,851,000 for the year under review compared with the preceding year. Further administrative cost had been increased by Rs. 699,816,000 and the provision for bad debtors amounting to Rs.591,042,366 was the main reason affected to this increased.

3. Operational Review

3.1 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Ceylon Electricity (Pvt) Ltd purchased 73.85 perches of land from Narahenpita area in 2001 at a cost of Rs.53,541,250	The Cabinet at the meeting held on 14/12/2020 has approved the revised cost	Should expedite the construction works without further delay.

for the construction of a new office building and no construction had been carried out by 2019. However, more than Rs. 10 million has been spent over 18 years on the security of the land and Rs. 208 million has been spent on renting the building from September 1999 to June 2019, Due to the lack of space, Rs. 22.3 million had been paid as rent for the additional building which was rented in 2015 up to June 2019.

Rs.1,138.04 Million to construct of Head office building. Ministry has taken steps to appoint TEC at the initiation of this project.

3.2 Human Resources Management

Audit Issue

There is no comprehensive control and administrative procedures manual available within the Company.

Management Comment

We agree with this comment. We are taking steps to prepare the Administrative manual.

Recommendation

Administrative procedures manual should be prepared and implemented.

4. Accountability and Good Governance

4.1 Tabling the annual reports

Audit Issue

Annual reports for the year 2017, 2018 and 2019 had not been tabled in the parliament as per public Enterprises Circular No. PED/12 dated 02 June 2003.

Management Comment

2017 and 2018 annual Reports were submitted to the parliament, but the parliament has requested additional copies. After printing it will be submitted.

Recommendation

Should be complied with the circular instructions.

4.2 Sustainable Development Goals

Audit Issue

In accordance with the “2030 Agenda” of the United Nations of the sustainable Development Goals (SDG) all state institutions should contribute in implementation of goals and functions under its scope. But the Company was not aware of SDG and had not identified the targets to be achieved, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.

Management Comment

Management comments had not been received.

Recommendation

Should be complied with 2030 Agenda” of the United Nations of the sustainable Development Goals.