Sri Lanka Energies (Private) Limited and its Subsidiaries - 2022

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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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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
(a)	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 are 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. 672,891 under the working capital changes instead of being adjusted as a non-cash item.	This error is identified and will be rectified accordingly in next time.	Should be complied with the provisions of the accounting standard.
(b)	Some administrative and direct expenses amounting to Rs. 7.39 million related to the previous periods 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.	Already adjustment was made only to the direct expenses and there was no any adjustment had been made to the administrative expenses. Under the direct expenses, adjustment was done as detailed in note no.22.	1. Prior period errors should be identified and recorded as per the provisions of the accounting standard. 2. Management had commented on a matter other than the audit observation.

(c)	The fully depreciated assets amounting to Rs.100.08 million including the Injection Moulding Machinery of Rs.79.5 million were being used by the Company as at the end of the year under review without taking action to review the residual value and the useful life of those assets in terms of the paragraph 51 of LKAS 16 - Property Plant and Equipment.	Action has taken to proceed with revaluation.	Should be complied with the provisions of the accounting standard.
(d)	The Company had entered into lease agreement for Galigamuwa land 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.	This error is identified and will be rectified accordingly with SLFRS-16 in next year.	-Do-

1.5.1.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the rent agreement entered on 07 July 2017 for Galigamuwa land with a grace period of 5 years the Company had to pay the rent for the period from 07 July 2022 to 06 July 2023 on or before 07 July 2023. However, no provision had been made in financial statements regarding rent expenses amounting to Rs.118,000 relating to the six months period of the year under review.	This error is identified and further the 1st payment for year 2017 to 2022 has now been completed in 2023. Adjustment will be done accordingly.	All transactions should be recorded in the financial statements.
(b)	According to the financial statements of the Company, the inventory as at 31 December 2022 was Rs. 39.22 million. This balance had been arrived using the weighted average cost at the rates given by the system as at a date after the year end. Accordingly, audit was unable to ascertain the accuracy of the inventory balance shown in the financial statements as at 31 December 2022.	Inventory valuation under ERP Cloud system is followed by the Weighted Average Cost. Accordingly the unit Price of an inventory item is changes accordingly with the inventory movements.	Action should be taken to value the inventories more accurately.

1.5.1.3 Unreconciled Control Accounts or Records

	Audit Issue	Management Comment	Recommendation
a)	As per the financial statements of the Company, the total balance of 06 Term loans obtained from a private commercial bank as at 31 December 2022 was Rs. 80.86 million and as per the balance confirmation, the loan balance was Rs. 87.65 million. Accordingly, a difference of Rs. 6.78 million was observed between the financial statements and the balance confirmation.	This different was identified and currently under the reconciliation process.	Action should be taken to reconcile the balances with bank confirmations.
b)	Income tax payable 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 as at 31 December 2022.	Back log of Income Tax return filling was completed in April 2023 and previously only the provision was made. Now the financials will be adjusted according to the IT Returns.	Action should be taken to record the accurate values in the financial statements.

1.5.1.4 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. 2.12 million against the income tax payable even as at the end of the year under review. Further, the WHT certificates were not made available to audit.	WHT certificate was handed over to the audit.	Action should be taken to recover the claimable balances as much as possible and sufficient documentary evidence need to be furnished to the audit.
b)	As per the financial statements, the loan interest expense for the year under review was Rs. 18.46 million. However, as no comprehensive details of loan repayments had been provided to audit, it was unable to ascertain the accuracy and the completeness of the above interest expense.	Management comment had not been provided.	Sufficient documentary evidence need to be furnished to the audit.

1.5.1.5 Accounts Receivable and Payable

(a) Receivables

Audit Issue	Management Comment	Recommendation
According to the financial statements of the Company, the balance of trade receivables due from ultimate parent - Ceylon Electricity Board (CEB) as at 31 December 2022 was Rs.165.31 million. However, as per the financial statements of the CEB, the corresponding receivable balance was only Rs. 28.21 million and a difference of Rs. 137.1 million had been observed.	May be error in CEB book keepers. If provided we can confirm the receivable balances.	Action should be taken to reconcile the differences and solve the discrepancies in receivable balances with the related parties.

(b) Payables

	Audit Issue	Management Comment	Recommendation
(i)	The Company had not taken proper action to recognize unidentified deposits totaling Rs. 7.06 million which had been accumulated since 2019 and shown under trade and other payables in the financial statements.	Half of this balance is already been cleared. ERP system will be updated accordingly.	Action should be taken to recognize the unidentified deposits.
(ii)	According to the financial statements, balance of Income Tax Payable as at 31 December 2022 was Rs. 43.88 million and the Company had not paid income tax since the year of assessment 2015/2016.	Back log of Income Tax return filling was completed in April 2023 and previously only the provision was made. Now the financials will be adjusted according to the IT Returns.	Action should be taken to settle the taxes without delay.
(iii)	As per the financial statements of the Company, the balance of NBT payable as at 31 December 2022 was Rs. 595,036 and this balance was related to the year of assessment 2015/2016. However, the Company had not settled the said balance even as at the balance sheet date.	This will be checked and settled.	-Do-

1.5.1.6 Additional capital provided by the Parent

Audit Issue	Management Comment	Recommendation
An additional capital from Ceylon Electricity Board (CEB) amounting to Rs. 20 million had been received in prior years and that amount had been included as "Share Application Money" under the equity in the statement of financial position. However, this balance had remained unchanged for a considerable time period without issuing shares.	This matter was addressed to the Board of Directors and advised to the board secretary to proceed with share issue for the share application money of Rs.20 million.	Action should be taken to issue shares to CEB.

1.5.2 Preparation of Consolidated Financial Statements

An unqualified audit opinion had been expressed on the financial statements of Daduru Oya Mini Hydro (Private) Limited and the qualified audit 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	Management Comment	Recommendation
(a)	According to the financial statements of the Company, VAT and NBT payables as at 31 December 2022 was Rs.11.91 million and Rs.10.74 million respectively. However, according to the information directly obtained from the Department of Inland Revenue, the total VAT and NBT liability as at that date were Rs.44.80 million and Rs.17.33 million respectively comprising with penalty. Accordingly, an aggregate difference of Rs.32.89 million and Rs.6.58 million respectively was observed in total VAT and NBT liability.	Sri Lanka Energies HR (Pvt) Ltd is not liable under NBT and VAT since 2019.12.01 and 2020.01.01 onwards respectively. The payable balances of NBT & VAT are relevant to the period which were prior to the above deregistration. Currently almost all the VAT payable balance was settled under monthly settlements. The Company will proceed with NBT settlement and IRD has already been agreed accordingly.	Relevant disclosures should be made in the financial statements.
(b)	According to the financial statements, the balance of Sales tax payable to Ceylon Electricity Board (excess VAT collected from the CEB) as at 31 December 2022 was Rs. 11.79 million. However, this balance had not been recorded in the financial	This will be discussed with Board of Directors and hope takes the appropriate action.	Action should be taken to settle the due balance.

	statements of CEB. Further, the Company had not provided the adequate relevant information to verify the said balance and it was observed that this payable balance had not been settled by the Company for more than five years.		
(c)	An aggregate balance of Rs. 9.39 million had been recorded as trade receivables from the CEB in the financial statements of the Company and the said balance had not been shown in the books of the CEB.	Actions will be taken to write off the said balances with a support of Audit Committee SLE.	1. The Company should reconcile the balance of trade receivables with CEB. 2. Before write off the balance, an in depth test should be done.

1.5.2.2 Kumbalgamuwa Mini Hydro (Private) Limited

	Audit Issue	Management Comment	Recommendation
(a)	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 assets, lease liability and lease payments on permit fees had not been recognized in the financial statements of the Company as per the SLFRS – 16- Leases.	As per the relief granted for all the Mini Hydro Energy Developers, the company will act to obtain the particular relief for land lease of the Department of Forest Conservation and amend the financials. Based on the SLFRS 16 company will adhere to the suggested amendments.	Should be complied with the provisions of the Accounting Standards.
(b)	According to the financial statements of the Company, the annual fee payable to the Department of Forest Conservation as at 31 December 2022 for the period from 2017 to 2022 was Rs.24.38 million. As per the computation of annual fee (with VAT) made by the audit based on the information provided by the Department of Forest Conservation, the said balance was approximately Rs.25.71 million. Therefore, a difference of Rs.1.31 million was observed in annual fee payable between the financial statements and the computation made by the audit.	This difference will be checked and adjusted accordingly.	Action should be taken to record the correct values in financial statements.

(c)	As per the letter dated 10 January 2022 of the Department of Forest Conservation, an overdue interest on annual fee for the period from 2017 to 2021 amounting to Rs.1.78 million had been charged by the Department due to the non-payment of annual fee. However, it had been neither accounted for nor disclosed in the financial statements of the Company.	Action will be taken accrued that as it is.	Action should be taken to record all the transactions in the financial statements properly.
(d)	The Company had recognized the annual fee payable to Board of Investment of Sri Lanka (BOI) amounting to Rs.4.6 million for the period from 2019 to 2021 in the year 2022 without making prior year adjustments to the financial statements complying with the Paragraph 42(a) and (b) of LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the profit for the year under review had been under stated by that amount.	The annual fee for Board of Investment Sri Lanka was recognized as an expense in particular year wise and this adjustments was recorded based on the notice communicated on 05 October 2022 and the year wise expense that already being identified.	Should be complied with the provisions of the Accounting Standards.
(e)	According to the financial statements of the Company, the annual fee payable to the (BOI) as at 31 December 2022 was Rs.10.52 million and the Company had not taken action to settle this balance even as at the end of the year under review. Further, as per the information provided in the letter dated 05 October 2022 of BOI regarding the outstanding dues, the overdue interest for the period from 2018 to 2022 was approximately Rs.11.73 million. However, the Company had not recognized or disclosed this overdue interest in the financial statements.	As the company is suffering due to lack of funds to be received from CEB for the energy supply, company does not have any cash position to settle the BOI fees. Currently the company is under negotiations with BOI to mitigate these penal interest charges and the said interest will be accrued to the account till the matter solved fully.	Action should be taken to settle the due balances and record all the transactions in the financial statements properly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 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 transactions. However, the Company had not established such a policy.	This will be taken to the consideration of the Board of Directors.	Should be complied with the guidelines on Corporate Governance for State Owned Enterprises.

1.7 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022 and Paragraph 3 of notice to tax payers No. PN/IT/2022-03 dated 15 December 2022, Income tax computation shall be prepared according to the pro rata basis and the rate of 24 per cent for the first 6 months and 30 per cent for the balance 6 months should be applied. However, the Company had prepared the Income Tax Computation by applying the rate of 24 per cent for the year ended 31 December 2022.	This will be checked and adjusted accordingly.	Should be complied with the provisions of the Inland Revenue 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. 64.34 million and the corresponding profit in the preceding year amounted to Rs. 119.78 million. Therefore, a deterioration amounting to Rs. 55.44 million of the financial result was observed. The reasons for the deterioration are increase of finance expenses due to foreign exchange loss and increase of administrative expenses and direct project expenses (re-cycling of aluminum).

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	2022 Rs. million	2021 Rs. million	Increase/(Decrease) Rs. million	Percentage (%)
Revenue	757.87	711.01	46.86	6.59
Cost of Sales	444.72	462.91	(18.20)	(3.93)
Direct Project Expenses	5.35	0.72	4.63	638.21
Administrative Cost	101.11	81.17	19.94	24.57
Finance Expenses	150.24	49.56	100.68	203.15
Finance Income	6.86	2.51	4.36	173.94

2.3 Ratio Analysis

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

Ratio		2022	2021
Return on capital employed	(%)	19.32	20.13
Gross profit ratio	(%)	41.32	34.89
Net profit ratio	(%)	8.49	16.84
Current ratio	(No. of times)	1: 1	1: 0.87
Quick Ratio	(No. of times)	1: 0.92	1: 0.65

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
a)	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, according to the information made available to audit, there were no business agreement or MOU entered in to between 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 entered into between the Company and the respective parties regarding business activities.
b)	As per the financial statements, the balance of output VAT on sales payable account as at 31 December 2022 was Rs. 55.08 million. However, the Company had not remitted VAT to the Department of Inland Revenue since 2018. Further, some VAT returns were not made available to audit. Accordingly, the audit was unable to ascertain the accuracy of the said amount of VAT satisfactorily.	By now LKR 4 Mn was settled by the company out of the above mentioned VAT Payable value based on the company current cash availability from 2023 onwards.	Action should be taken to settle the taxes without delay.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
The Company had entered into a joint venture with Amtrad Holdings (Private) Limited on 27 July 2012 to build a factory for manufacturing and selling of cement based products using fly ash and bottom slag. As per the financial statements, the Company had invested a sum of Rs. 7.36 million as at 31 December 2014. 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 Board of Directors of Sri Lanka Energies (Private) Limited had decided to hand over the said assets to CEB in 2016. However, it was unable to obtain sufficient and appropriate evidence on the progress of handing over process of the assets to the CEB. Further, according to the valuation report of the Department of Valuation, the assessment of the property was shown as Rs. 2.66 million by 31 May 2019 and the value of the investment had been impaired in the financial statements for the year ended 31 December 2019 based on the said valuation. However, the board approval for the impairment was not made available to audit.	The SLE internal Audit team has conducted a detail evaluation on this Ash – Brick Investment based on the requirement imposed by ACM Committee of Ministry of Power and Energy.	Recommendations of internal audit report should be considered and remedial action should be taken in this regard.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
As per the Paragraph no. 2.3 of Guidelines on Corporate Governance for State Owned Enterprises, Subsidiaries should submit the finalized strategic plan together with the action plan and annual budget to the Parent Company. However, the action plan and annual budget for the year under review had not been prepared and submitted to Ceylon Electricity Board (Parent Company).	Action Plan is in progress of Completion. Budget for year 2022 was prepared for Sri Lanka Energies (Pvt) Ltd.	Should be complied with the Corporate Governance Guidelines.

4.2 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
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.	Will adhere with this best practice.	The Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.