

Sri Lanka Energies (Private) Limited – 2016

The audit of the financial statements of the Sri Lanka Energies (Private) Limited (“the company”) and the consolidated financial statements of the Company and its Subsidiaries (“the Group”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 a summary of significant accounting policies and other explanatory 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. My comments and observations on the performance of the Company which I consider should be furnished to the parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants of public practice. This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

The Group had entered into a joint agreement with Amtrad Holdings (Private) Limited on 27 July 2012 to establish a Joint Venture in Sri Lanka for the manufacture and sale of cement base products using fly ash and bottom slag. An investment of Rs. 7,364,447 has been made by the Group as at 31 December 2014. However the Board decided to terminate the agreement on 27 March 2014. We are unable to obtain sufficient appropriate evidence on the recoverability of the costs incurred in this regard. Consequently, we are unable to determine whether any impairment loss needs to be recognized in relation to the investment made.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the possible effects of the matters described basis for qualified opinion paragraph of this report, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion :
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company,
 - Except for the possible effects of the matters described in paragraph 2.2 of this report, the financial statements of the Company give a true and fair view of its financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards and
 - The financial statements of the Company comply with the requirements of Section 151 and 153 of the Companies Act No. 07 of 2007.

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

Although VAT payable balance of Sri Lanka Energies HR (Private) Limited was Rs. 28,682,944 according to the financial statements of the year 2016, the actual VAT payable balance was only Rs.16,904,819 Because, the Company had already collected excess VAT of Rs. 11,791,191 due to fact that the changes in VAT rates. However, the Company had paid

only Rs. 1,000,000 out of Rs. 16,904,819 and the balance of Rs 15,904,819 had been retained even by 30 September 2018 contrary to the Value Added Tax Act, No. 14 of 2002.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company and its subsidiaries for the year ended 31 December 2016 had resulted in a pre-tax net profit of Rs. 93,216,780 as compared with the corresponding pre-tax net profit of Rs. 27,315,567 in the preceding year, thus indicating an improvement of Rs. 65,901,213 in the financial results for the year under review. Increase of gross profit of subsidiaries by Rs.86,856,448 had mainly affected to this improvement.

4. Operational Review

4.1 Performance

4.1.1 Planning

A Corporate Plan and Annual Action Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.

4.1.2 Operating and Review

- (a) The Company had been incorporated on 09 January 2011 to engage in the business of constructing transmission lines and grid sub stations, constructing, maintaining and operating renewable energy projects and the works necessary for generating electrical energy, engaging in the activities which are necessary for development of renewable energy and recruitment and supply of Manpower for the services of Ceylon Electricity Board.

By end of the year 2016, the Company has constructed and successfully operated a mini hydro power plant at Samanawewa which is owned by its subsidiary, Kumbalagamuwa Mini Hydro (Private) Limited. Further it was incorporated another subsidiary namely Deduruoya Mini Hydro (Private) Limited to construct another hydro power plant. During the year the Company has engaged in a new project for producing meter boards. However, its commercial operations had not been commenced even up to the end of the year under review.

- (b) The principal activity of the Sri Lanka Energies HR (Private) Ltd is recruitment and supply of manpower for the services of Ceylon Electricity Board. Company served nearly 2,800 manpower and almost all of the employees have been absorbed to the Ceylon Electricity Board by the end of October 2016 and only 11 employees remained with the Company by the end of August 2018. However, any written acknowledgment received or a list of manpower absorbed to Ceylon Electricity Board was not presented upon our request.

4.2 Management Activities

The following observations are made.

- (a) Annual Boards of Survey had not been appointed to carry out verification of fixed assets and stores.
- (b) A sum of Rs.1, 040,692 had been charged by the Department of Inland Revenue as a penalty because this cheque drawn for payment of Value Added Tax had been rejected due to absence of required signatures.

4.3 Human Resources Management

The following observations are made.

- (a) Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).
- (b) Seven employees had been recruited by the Company without obtaining the approval of the Department of the Management Service as per the paragraph (b) of the Management Service Department Circular No.28 dated 10 April 2006.

4.4 Idle and Underutilized Assets

The Group has invested Rs.7,364,447 as at 31 December 2014 to build a factory for manufacturing and selling of cement based products using fly ash and bottom slag with co-venturer, Amtrad Holdings (Private) Limited. However, the joint venture agreement had been terminated due to non-availability of a methodology for marketing. According to the valuation report of Department of Valuation, the assessment of the property as at 30 June 2016 was Rs. 3,200,000 and the said assets had been remained idle since the year 2014. However the Board of Directors of the Company had decided to hand over the asset to Ceylon Electricity Board and made a written request to the General Manager on 10 November 2016, Nevertheless the asset had not been taken over by Ceylon Electricity Board as at 31 December 2018.

5 Accountability and Good Governance

5.1 Annual Report

Annual Reports had not been prepared by the Company from the inception.

5.2 Procurement Plan

A Procurement Plan had not been prepared by the Company for the year under review.

5.3 Internal Audit

An internal audit division had not been established and Internal Audit Divisions of the Ministry of Power and Renewable Energy and Ceylon Electricity Board also had not carried out any audit in 2016.

5.4 Audit Committee

According to the paragraph 7.4.1 of the public Enterprises circular No PED/12 dated 02 June 2003, audit committees should meet regular basis at least once in three months. However Audit Committees had not been established by the Company.

5.5 Budgetary Control

According to the paragraph 5.2 of the public Enterprises Circular No PED/12 dated 02 June 2003 an annual budget had not been prepared by the Company for the year under review.

6. Systems and Controls

Written procedure manual was not available showing the controls that are in place to prevent and detect internal control weakness or any possible errors and irregularities that could occur.