

## **Sri Lanka Energies HR (Private) Limited - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Energies HR (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of 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 reported 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 give a true and fair view of the financial position of the Company as at 31 December 2018, 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**

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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**

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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**

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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 skepticism 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 Financial Statements

### 1.5.1 Internal Control over the preparation of financial statements.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Journal Voucher had not been maintained and Journal entries had been passed through the accounting system. So no any supporting documents prepared.	Management comments had not been received	Journal vouchers should be maintained with relevant supporting documents

### 1.5.2 Non-Compliance with Sri Lanka Accounting Standard

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
Sri Lanka Accounting Standard(LKAS24) - Related Party Disclosures;	We will mention the values also in next time.	Should be adhered to the provision of the Accounting Standard.
As per the paragraph 17 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24) an entity shall disclose key management personal compensation in total and for each of the short-term employee benefits, post-employment benefits,		

other long-term benefits, termination benefits, share-based payments. However, entity had disclosed key management personal compensation without disclosing amount of key management personnel compensation.

### 1.5.3 Accounting Deficiencies

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) As per the Section No (3), (4) of Nation Building Tax Act, No. 9 of 2009 (duly amended), NBT is not payable if liable turnover is less than the liable threshold of Rs. 3 million per quarter. However, the Company had been filed NBT returns, though the Company's NBT liable turnover is less than 3 million for the year under review. As a result, the NBT payable had been overstated by Rs.152,055.	The total liability was not settled we can't seek the cancellation at the current context.	Should be adhered to the provision of the Nation Building Tax Act, No. 9 of 2009.
(ii) The Company had been received a Nation Building Tax (NBT) penalty notices amounting to Rs. 7,418,633 from Department of Inland Revenue with regard to previous year. However, the Company had not made any provision for contingent liability or disclosed in the financial statements.	We have made requests in writing to wave off the penalties and met the relevant commissioners also and will be able to wave off the said penalties.	Should be adhered to the provision of the Accounting Standards.
(iii) Staff of the Sri Lanka Energies Company had done administrative works of the subsidiaries also without charging any management fee. Hence Company's staff expenses had not been included in Financial Statement.	As the subsidiaries have not been generating adequate surplus during the year the principle of charging management fees have not been effected. From 2019 will adhere this concept.	Subsidiaries are separate entities and accounts should be kept accordingly.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had not called confirmations from debtors.	Management Comment had not been provided.	Actions should be taken to receive the confirmation to the audit.

### 1.6.2 Payables

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had not called confirmations from Creditors.	Management Comment had not been provided.	Actions should be taken to receive the confirmation to the audit.

## 1.7 Non -compliance with Tax Regulations

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i) Value Added Tax Act, No. 14 of 2002		
(a) Value Added Tax (VAT) amounting to Rs. 17,114,299 had not been paid by the Company as per the section 26.	Management Comment had not been provided	Should be adhered to the provision of the Value Added Tax Act, No. 14 of 2002
(b) VAT returns of the year under review had been submitted with 2 to 8 months delay.	Management Comment had not been provided	Should be adhered to the provision of the Value Added Tax Act, No. 14 of 2002
(ii) Nation Building Tax Act, No. 9 of 2009 (duly amended)		
Nation Building tax (NBT) returns of the year under review had been submitted with 2 to 8 months delay.	Management Comment had not been provided	Should be adhered to the provision of the Nation Building Tax Act, No. 9 of 2009

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2018 had resulted in a pre-tax net profit of Rs. 113,900 as compared with the corresponding pre-tax net Loss of Rs. 1,533,775 in the preceding year, thus indicating an improvement of Rs. 1,647,675 in the financial results for the year under review. Administration Expenses was decreased by Rs. 1,887,262 was the main reasons for this improvement.

### 2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are as follows.

Income/ Expenditure	2018	2017	Increase / Decrease	Percentage
Revenue	7,602,797	10,589,964	(2,987,167)	-28%
Cost of Sales	6,652,252	9,573,037	(2,920,785)	-31%
Administration Expenses	852,235	2,739,497	(1,887,262)	-69%
Finance income	16,035	50,998	(34,963)	-69%

Revenue had been decreased by Rs. 2,987,167 for the year under review compared with the preceding year and also Cost of sales had been decrease by 2,920,785. Further, Administration expenses had been decreased by 69 per cent due to decrease Surcharge and Insurance expenses.

Finance income had been decreased by 69 per cent due to decrease interest on savings.

## 3. Operational Review

### 3.1 Human Resources Management

Audit Issue	Management Comment	Recommendation
Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).	Management Comment had not been provided	Actions should be taken to prepared and obtain approval for Scheme of Recruitment (SOR) as per

**4. Accountability and Good Governance**  
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**4.1 Submission of Financial Statements**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
Although the approved Financial Statements along with the draft performance report should be rendered to the Auditor General within 60 days after the close of the financial year in accordance with the Public Enterprises Circular No. PED/12 of 02 June 2003 and further it should be accordance with Public Enterprises Circular No. PED/45 dated 02 October 2007; Group's financial statements for the year 2018 have been submitted to the Auditor General on 07 August 2019.	Group Financial Statements were forwarded earlier than this but due to the changes in Group directors and issues relating to authorized signatures delayed this process.	Should be adhered to the provisions of the Circular.

**4.2 Corporate Plan**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
A Corporate Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided.	Should be adhered to the provisions of the Circular.

**4.3 Annual Action Plan**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
The Company had not prepared Annual Action Plan according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided.	Should be adhered to the provisions of the Circular.

#### 4.4 Internal Audit

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
An internal audit division had not been established and Internal Audit Division of Ceylon Electricity Board had not carried out any audit in 2018.	Management Comment had not been provided.	Internal audit should be carried out as a proper internal control mechanism.

#### 4.5 Budgetary Control

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had not an approved budget for the year 2018. Therefore, performance and unusual variances could not be reviewed.	Management Comment had not been provided.	Budget should be prepared and obtain approval as per the Public Enterprises Circular No. PED/12 dated 02 June 2003.

#### 4.6 Sustainable Development Goals

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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. 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 had not been provided.	Company should adhere to the provisions of the “2030 Agenda” of the United Nations on the Sustainable Development Goals.