

Lanka Electricity Company (Private) Limited and its Subsidiaries -2020

1. Financial Statements

1.1 Qualified 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 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss, statement of 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 2020, 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
There were differences between stock verification sheets and general ledger amounting to Rs. 841,799, Rs. 763,212, Rs.2,149,068, Rs.1,527,221, and Rs.547,038 in Ekala stores, Waskaduwa stores, Kotte branch, Nugegoda branch and Negombo branch respectively.	Inventories are valued at WACC. General ledger includes all cost incurred for the inventories. This might be the main reason for the difference occurred between balances as per the verification sheets and the balances as per the ledger.	Appropriate actions should be taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Meter testing charges collected from customers had been recognized as income at the point the payment made by the customers, and that amount had been included in other operating income. Further, if the meter has found errors in meter testing, the fee charged from the customer need to be refunded. However, it was observed that the revenue recognized as income from meter testing charges was not complied with the provisions stipulated in Paragraph 31 of SLFRS 15.	Agreed with the comment. Probability of finding the defect in the meter and make a refund to the customer is very low. However we will analyze this further and if the total refund amount is material, will arrange to do the adjustments in the General ledger from the year 2021.	Should comply with accounting standards.

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| (b) | As per the Section 9 of LKAS 2, Inventories shall be measured at lower of Cost or Net Realizable Value. However, the Company had not considered net realizable value for stock valuation. | All these inventory items were purchased from the open market and price information are readily available. These items are nonperishable and industrial nature. Hence Management is in confident that realizable value of these inventory items is higher than the cost. Further we have provided provision for slow moving items which will cover the loss of realizable value. | Should comply with accounting standards. |
| (c) | As per the letter No. LO/GEN/13, dated 29 April 2021 issued by Legal and Administration Manager regarding the Contingent Liability of LECO, it was observed that three legal cases filed against the Company with the value of Rs. 11,253,884 had less probability of the decision in favor of the Company. However, the Company had not made disclosure related to the contingent liability as per LKAS 37 in the financial statement for year under review. | Noted and agree with the comment. | Should comply with accounting standards. |
| (d) | As per the Paragraph 32 of LKAS 1- Presentation of Financial Statements, an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by a SLFRS. However, It was observed that delay charges from the suppliers amounting to Rs. 64,314,868 had been offset against operating expenses of the year under review. | As per the current practice the penalty charge imposing on the delay of suppliers on supply of goods is recording in Purchase Variance Account in Pronto ERP system. In future the captioned charge will be extracted periodically and will be presented as an Other Income instead of setting off against Cost of Purchases. | Should comply with accounting standards. |
| (e) | It was observed that the Company had offset credit balances of customers amounting to Rs. 9,174,474 against trade receivables for the year under review which was included in the billing system. Further, all these credit balances were not overpaid electricity bills and most of them were payments collected from Solar Loans | It is impracticable to show credit balances separately in the financial statements. Value of the credit balances not material with compare to the total value of the debtors.
Solar loans consumers pay the loan on different dates. | Should comply with accounting standards. |

Holders. Company transfers the collected solar loan installments to National Savings Bank based on loan settlement report which is generated from billing system. It was observed that the solar loan installments were not accurately updated in the billing system. As a result the aforesaid loan settlement report may not be accurate. Thus, there was a delay of transferring the collected installment to the Bank.

Therefore, Billing system is unable to recognize this. We will take steps to incorporate the payment mode after these specified dates. However, we have taken necessary steps time to time generate several reports from the billing system to identify the credit balances and make the payments to NSB.

(f) It was observed that advance payment amounting to Rs. 9,385,853 was offset against sundry creditors including accrued expenses for the year under review.

- Material Creditor - The respective LC value pertains to the subject balance has not been entered to the system as at 31.12.2020 and therefore showing a debit balance in creditors.
- Admin General Creditor and Maintains Creditor - The IT division is in the process of rectifying the revision of the subject system entry from their end.

Should comply with accounting standards.

1.5.3 Accounting Policies

Audit Issue

As per the Paragraph 51 of LKAS 16, the residual value and the useful life of an asset shall be reviewed at least at each financial year end and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, there were fully depreciated assets amounting to Rs. 9,206,401,000 as per the Fixed Assets Register of the Company as at 31 December 2020 and some of them were still in use.

Management Comment

Agree with the comment as there are many useable assets which are fully depreciated. We will review/ study this matter further and will do the needful adjustments, if required.

Recommendation

Should comply with accounting standards.

1.5.4 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Depreciation of Right of Use Assets amounting to Rs. 48,719,696 had been included in inventory balance as at the end of the year under review.	Accounting entries relating to RoU Assets depreciation were posted to relevant G/L accounts correctly. However when preparing Financial Statements manually, these GL codes were erroneously mapped to the inventory balance. We will rectify this error in 2021.	
(b) According to the general ledger, balance of Capital Work in Progress in respect of head office and 07 branches as at 31 December 2020 was amounting to Rs. 743,219,454, and as per the schedule provided for capital jobs in progress that amount was Rs. 612,894,657. Accordingly, it was observed a difference of Rs. 130,324,797.	Nugegoda & Negombo branches – There were some entries migrated from previous version of the Pronto system in 2016. It found that certain job entries were duplicated in the job costing module. This might be the reason for this gap. Kalutara Building – Rs 751,837. – This building is completed and occupied. In the year 2020 this building was revalued and valuation adjustment also made. This is the remaining balance of the G/L account. Schedules are provided for Galle, H/O Building amounting to Rs. 20,460,697 and H/O Building amounting to Rs. 6,133,274.	Financial statements should be prepared and presented properly.
(c) Cash deposit at Nugegoda branch made on 31 December 2020 amounting to Rs. 5,997,445 had been recognized as bank overdraft in Financial Statements.	This is arose due to the inter branch transaction (cash collected through kiosk machine) were not updated properly. This was rectified in the books of account in March 2021.	Transactions should be recorded correctly.

- (d) Interest income in respect of nine term deposits at Peoples Bank and fixed deposit at National Savings Bank had not been recognized in the year under review. Accordingly, investment value had been understated approximately by Rs. 136,806,661 whilst interest income had been understated approximately by Rs. 67,972,005. Noted and we will do the necessary adjustments during the year 2021. Transactions should be recorded correctly.
- (e) The Company had incorrectly calculated the depreciation on right of use assets and as a result, one month depreciation from each right of use asset had been overstated. Noted and will rectify in the year 2021. Action should be taken to correct the depreciation on right of use assets.
- (f) Provision for gratuity which was deducted from income statement was equal to Rs.188,775,000. However, when preparing the cash flow statement the Company had adjusted Rs.378,219,000 as gratuity provision. Agreed with the comment. This was adjusted in reserves adjustment relating to property plant and equipment. This will be reinstate in the year 2021. Appropriate actions should be taken to prepare and present financial statements fairly.

1.5.1 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding records	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Debtor balance	7,188,825,245	7,175,276,672	13,548,574	Noted the comment. During the system migration this was happened in 2016 due to a technical issues in the PRONTO system. We will remove from the system if it is not actual debtors, and we will write off.	Actions need to be taken to reconcile the differences.

1.5.6 Preparation of Consolidated Financial Statements

Audit Issue	Management Comment	Recommendation
(a) Income tax expense of the Ante LECO Company amounting to Rs. 6,092,227 had not been adjusted in consolidated statement of profit and loss and other comprehensive income for the year under review. As a result, non-controlling interest and retained earnings had overstated by Rs. 1,827,668 and Rs. 4,264,559 respectively.	Agreed with the comment. We will reinstate this adjustment in the year 2021.	Adequate attention should be paid in preparing financial statements correctly.
(b) It was observed that the group income tax payment was lower than the income tax payment in the Lanka Electricity Company in the consolidated cash flow statement.	Noted. This was adjusted in Other payables account.	Action should be taken to prepare consolidated cash flow statement accurately.

1.5.7 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs.			
(a) Solar Loan Scheme		Loss adjustment proposal for purchasing electricity using net accounting and net plus method which should be submitted by the Company as agreed at the meeting with Public Utility Commission of Sri Lanka on 13 February 2017.	We have invoiced CEB transmission as per PUCSL and Ministry of Power instruction, we invoiced at the rate of Rs. 22 and shown as a receivable. But CEB in turn has to invoice the distribution licensee which we have not received and therefore we are unable to prepare the loss calculation report. But this problem was brought to the notice of the Board and we were instructed to notify the ministry.	Should comply with the requirements agreed at the meeting with Public Utility Commission. If unable to comply, need to get permission from relevant parties.

(b) Investment in shares	5,000,000	The share certificate of ordinary shares invested in Lanka Broad Band Network (Private) Limited amounting to Rs.5 million.	Although we have made several requests from the company, we have not received share certificate for this investment. LECO is seeking legal advices from Attorney General's Department to recover this balance.	Share certificates should be maintained to verify the ownership of the investment.
(c) Investment		The board decisions relevant to the provisions for impairment on investments in Lanka Broad Band Network (Private) Limited and LECO Projects (Private) Limited made by the Company.	This was made to comply with relevant SLFRS and LKAS. We have not took separate approval for such provisions but at the time of Financial Statements are approved by the Board of Directors, these type of special adjustments were notified to the Board of Directors.	Relevant documents need to be made available to audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Out of total debtors indicated in the Billing Systems, a sum of Rs. 429,985,332 or 6 per cent was due for more than 2 years. A sum of Rs. 388,266,981 or 90 per cent of the outstanding for more than 2 years had comprised of receivables from Street Light Energy charges due from provincial councils.	Noted the comment. There were discussion with the line Ministry and the Treasury to recover these street light debtors from the Treasury. Necessary steps will be taken to write to the Ministry and do the needful, and to make bad debt provision for street light debtors, which are outstanding more than one year amounting to Rs. 416 Million has been made.	Actions should be taken to recover the debtor balances.
(b) VAT and GST refunds amounting to Rs. 12,020,077 relevant to the years of 1999, 2001 and 2002 had remained unrecovered even at the end of the year under review.	LECO Tax consultants are in the continuous following up to recover the captioned refund.	Appropriate actions to be taken to recover the dues from other parties.

1.6.2 Payables

----- Audit Issue -----	Management Comment -----	Recommendation -----
(a) There were unidentified deposits in rejected accounts amounting to Rs. 8,075,976 as at 31 December 2020.	These are rejected transactions that arose from text file transactions. But we have analyzed & sent relevant collection agents for rectification but we did not get any response or delayed response from collection agents. Therefore, we keep these balances in the rejected transaction account until a query arose from the consumer.	Appropriate actions need to be taken to clear the un-reconciled transactions in ledger accounts.
(b) The Company had not refunded the deposits of temporary connections amounting to Rs. 12,335,580 after the disconnection of the facility and these balances had remained for a long period.	<ul style="list-style-type: none">▪ Kelaniya Branch - We have drawn cheques to refund the temporary connection deposit balance time to time. But, the respective parties have not come to collect the cheques.▪ Kalutara Branch<ol style="list-style-type: none">1. Security deposits were not refund to certain consumers due to unavailability of proper documents.<ol style="list-style-type: none">a) Temporary connections had given to “Tsunami” camp as per the request of District Secretary.b) Connection were disconnected on due to the nonpayment2. Certain files/ consumers balances need to do system adjustments such as converted to permanent connections/ customer’s personal issues/ refunds already made etc.	Appropriate actions should be taken to refund the deposits or recognize as income.
(c) The Company had received an amount of Rs. 3,026,458 from Road Development Authority on 7 June 2012 for construction of the road from Kelaniya temple to LECO end. However, it was observed that the Company had not started this project as at the date of audit.	Still not started this job since the respective parties have not paid for the job.	Proper actions should be taken to complete capital projects without delay.

1.6.3 Advances

Audit Issue

A long outstanding balance regarding a VAT payment amounting to Rs.33,427,699 had been included under prepayments and the Company was unable to recover the above balance up to the date of audit.

Management Comment

LECO Tax consultants are in the continuous following up to recover the captioned refund Tax Consultants will send a further reminder by next week to update and follow-up the process.

Recommendation

Proper actions should be taken to recover the dues from other parties.

2 Financial Review

2.1 Financial Result

The operating result of the year under review a profit amounted to Rs. 1,618 million and the corresponding profit in the preceding year amounted to Rs. 2,621 million. Therefore, a deterioration amounting to Rs. 1,003 million of the financial result was observed. The reason for the deterioration was decrease in revenue with regard to the Hotel and commercial tariff category due to pandemic situation.

2.2 Trend Analysis of major Income and Expenditure items

- (a) The revenue for the year under review had decreased by 6 per cent compared to the previous year. Simultaneously the cost of sales had decreased by 10 per cent. Therefore the gross profit for the year under review had increased by 15 per cent.
- (b) Other operating income for the year under review had decreased by 66 per cent compared to the previous year. The main reason for the deterioration was decrease of dividend income.
- (c) Finance Income for the year under review had decreased by 44 per cent compared to the previous year. The main reason for the deterioration was decrease of interest on term deposits.

2.3 Ratio Analysis

- (a) Gross profit ratio of the company had increased from 16 per cent to 19 per cent when comparing with its preceding year. However the net profit margin had reduced from 8 per cent to 5 per cent when comparing with the preceding year.
- (b) Return on Equity (ROE) ratio had reduced from 8 per cent to 5 per cent compared to the preceding year.
- (c) Current ratio of the Company had increased from 3:1 to 4:1 compared to the previous year. The main reason for the variation was the increase of trade receivables with regard to electricity bills.

3 Operational Review

3.1 Identified Losses

Audit Issue

Building revaluation losses identified in Consumer Service Centers at Ambalangoda, Ja-Ela, and Kandana as at 31 December 2020 were Rs. 3,767,651, Rs. 234,975 and Rs. 26,916,683 respectively.

Management Comment

Regarding Ambalangoda and Jaela CSCs, building cost includes certain items like landscaping, parapet wall, water and septic tanks etc. were considered under land valuation. But, with regards to Kandana CSC the contractor payments are yet to be finalized, once complete we will analyze the account and identify the revaluation surplus or loss and do the accounting adjustments appropriately.

Recommendation

Actions need to be taken to recognize the cost of land and building correctly.

3.2 Management Inefficiencies

Audit Issue

- (a) There was no formal power purchase agreement between the Ceylon Electricity Board and the Company.

Management Comment

There is no power purchase agreement between the CEB and company. This was brought to the notice to our Board on 29th January 2016. LECO Management has highlighted 2 issues. The agreement should be between transmission licensee and distribution licensee LECO, but there is no separate entity as transmission licensee to sign a legal agreement. However the Public Utilities Commission of Sri Lanka is in the process of developing energy trading records between licensees and is expected that it will address this requirement.

Recommendation

Actions should be taken to enter into a formal agreement with CEB.

- (b) There was no an agreement between the Ceylon Electricity Board and the Company for purchasing electricity using net accounting and net plus method relevant to Solar Loan Scheme.

There is no formal agreement but we carried out this based on the letter No. PE/TECH/D/6/R1 dated 24/01/2017 sent from the Ministry of Power which was based on the Renewable Energy circular No. 2017/01 which specifies clearly the basis of calculation.

Actions should be taken to enter into a formal agreement with CEB.

(c) There was no an agreement between the Ceylon Electricity Board and the Company for Self Generation payments.	There is no formal agreement. As these were instruction from the regulatory authority who overlooks both CEB and LECO.	Steps should be taken to enter into a formal agreement with CEB.
(d) It was observed that 11 cheques amounting to Rs. 1,326,946 received from 9 customers in Kelaniya, Nugegoda and Moratuwa branches had been return and the Company was unable to take necessary action to recover those dues.	<p>Following actions were taken such as</p> <ul style="list-style-type: none"> ▪ Disconnected the power supply, removed the service connection in some accounts. <p>Letters posted requesting to settle.</p> <p>Issued letters of demand.</p> <p>Send files to Legal department for further actions.</p> <p>Complained to mediation board.</p> <p>Instituted a police entry.</p>	Proper actions should be taken to recover the dues from customers.
(e) Ceylon Electricity Board had built primary substations in a lands purchased by Lanka Electricity Company (Pvt) Ltd and the Company had incurred a cost of Rs. 206,610,712 as at 31 December 2020 regarding the said lands/buildings. The value of lands was recognized in Trade and Other Receivables. Further, there was no formal agreement between the Company and Ceylon Electricity Board regarding the above projects.	Land was acquired by LECO to construct substation. ADB was to grant a loan to construct this but the loans were given to CEB, & CEB did the constructions. Ownership of the land is with LECO. Constructions were done by CEB. Prior 2015 this was shown under our assets, as per the instructions of Auditors this was transferred as receivables, since these values need to recover from the CEB, it was presented as Trade & Other Receivables.	The value of the land should be properly accounted for and presented fairly in the financial statements.
(f) A case had been filed in the Colombo District Court against the company seeking ownership of 6 perches of land and 14.55 perches for right of road relating to the land of 52.5 perches (Lot W)	This was not disclosed in the Financial Statements. However, the financial loss is not accounted by LECO in its financial statements, since there is no proper authorized decision in this regard from the Board of Directors accepting the	Required disclosures should be made in the financial statements.

where the Primary Substation of Ceylon Electricity Board is located (at Nawala). A court order had been given on 04 March 2013 to deliver the said 6 perches of the land. The case filed by the Company in the Court of Appeal against the said decision, and the Attorney General had instructed the Company to withdraw the case, to deliver the 6 purchases land and to reach a settlement for right of the Road. Any disclosure or adjustment had not been made with regard to this case in the Financial Statement. In addition to that, the purchase price of the aforesaid 6 perches of land amounting to Rs. 11,664,122 [(102,061,068/52.50)*6] was a loss to the Company.

Attorney General's decision.

- (g) As per the financial statements, total value of fixed assets as at 31 December 2020 was Rs. 13,675 million. However, the Company had not insured those Property, Plant & Equipment. Insurance policy had been obtained only to cover the value of motor vehicles which had a book value approximately Rs. 243 million as at 31 December 2020. In addition to the fixed assets, there were inventories amounting to Rs. 2,805 million as at 31 December 2020 which had no insurance coverage.

The PPE are mostly comprised of distribution system assets, where the values are very high. But in practice it is not practical to have insurance cover for all the assets. The PPE are valued at approximately Rs. 13,675 million. These assets comprise of distribution system assets, vehicle, land & buildings, furniture & fittings etc which are geographically spread over 395.77km and the loss is minimal when compared to assets in one area. It is not feasible and not practical to obtain insurance cover for PPE other than the stocks and buildings.

Proper actions should be taken to protect the fixed assets.

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| <p>(h) Even though a plot of land of 73.7 perches situated at No. 508, Alwitigala Road, Narahenpita had been purchased at a cost of Rs. 53,432,500 in the year 2001 in order to construct the head office building, construction works had not been commenced even up to the end of the year under review. Expenditure incurred in this regard including consultancy fees had been included in Capital Work In Progress Account.</p> | <p>The Cabinet of Ministers has approved the procurement of the construction of Head office building. Now the procurement process is completed and awaiting award. It is planned to commence construction within this year.</p> | <p>Actions should be taken to complete construction works without further delay.</p> |
| <p>(i) Although the lands had been purchased for constructing the branch offices at Kelaniya, Kotte, customer service centers in Dalugama, Wattala, Negombo Nugegoda, and quarters of customer service centers in Payagala and Panaduara even in the years of 2001, 2000, 2015, 1994, 2018, 2001, and 2019 respectively, construction works had not been commenced as at the date of audit.</p> | <p>Dalugama, Negombo and Nugegoda CSC are under procurement and construction will be initiated in this year. Kelaniya and Kotte branch office construction will be initiated next year.</p> | <p>Actions should be taken to complete construction works without further delay.</p> |
| <p>(j) The land obtained from the Urban Development Authority in 1994 on 99 years lease basis with the cabinet approval for the construction of Customer Service Center at Wattala, had been taken back by the Urban Development Authority on 20 August 2003, as the Company was unable to build the said building and to commence any relevant development activity in the said land. Further, the</p> | <p>Our records concur with the audit observation. The Company has used the land for various operational purposes such as pole storage. During this period company has not engaged in any construction works due to unknown reasons. Economic benefit of Rs. 3,099,000 has been obtained by this land during this period cannot be confirmed by any records available. All responsible officers for the prompt construction of the CSC are not available to derive any information. Actions will</p> | <p>Resources of the organization should be utilized for the maximum benefits of the organization.</p> |

Company had incurred a sum of Rs. 3,099,000 by the Company for this land in 1997, and recorded as a sundry debtor. However, no any financial or other benefit had been received on this investment, and no sufficient actions had been taken to recover it. Further, the respective office was being operated in a building obtained on a rent basis as the Company had failed to construct the CSC as planned.

be taken to write off the cost of Rs. 3,099,000.

(k) Since appropriate actions had not been taken to construct office buildings as planned, most of the offices were maintained in rented buildings on long term basis. As a result, the Company had to incur more expenses for office rental, and accordingly, the office rent incurred during the year under review was Rs. 71,429,500.

All rentals are extended either annually or bi-annually. Once the construction is completed the operations will duly be moved to new premises. Kandana CSC was constructed and already moved.

Actions need to be taken to manage the expenditure effectively.

(l) The Company had granted a loan amounting to Rs. 2,000,000,000 to Ceylon Electricity Board on 02 March 2020 without being entered into a formal agreement with Ceylon Electricity Board. Further, any installment of the above loan had not been received to the Company up to the date of audit.

This loan was granted with the approval of the board of directors to overcome the liquidity problem of the CEB at that time. Draft agreement was prepared based on the terms and conditions approved by the board of directors of the LECO. However CEB requests to change certain terms and conditions. Therefore it is required to the concurrence and approval from the board. It will be submitted for board's review and approval in the next board meeting which will be held in end of the May 2021.

Proper actions should be taken to enter into a formal agreement with CEB.

3.3 Operational Inefficiencies

Audit Issue

It was observed that the date of interest payment and the amount which should be based to compute interest was not clearly mention in the agreement of solar loans between National Saving Bank and the Company.

Management Comment

Agreed. As per the agreement it is not clear but we had a meeting with the NSB official and they agreed to amend the agreement including the specific date of payment.

Recommendation

Adequate attention need to be paid to include necessary terms and conditions clearly in all agreements.

3.4 Procurement Management

Audit Issue

(a) The Master Procurement Plan had not regularly been updated and reviewed the progress.

Management Comment

Reorder quantities are checked monthly and procurements are initiated accordingly. Noting the auditors' observations, MPP will be updated in six months as observed by the auditors.

Recommendation

According to the provisions in procurement guideline, master procurement plan need to be regularly updated at intervals not exceeding six months.

(b) The Master Procurement Plan was included only standard stock items and stationeries. Procurements for works, services including consultancy services had not been included in the plan.

The annual budget for the year 2020 was not approved by the time, the procurement plan was approved. Therefore, some items were not included the procurement plan. Auditor's observation is noted for the preparation of future procurement plans.

All procurement activities need to be included in master procurement plan.

(c) There was no a proper mechanism to update the progress of the plan, and as a result, it was difficult to identify the progress of the procurements separately as at a specific date.

A new progress monitoring system (a web based application) has been developed and implemented as a pilot project.

Regular review of progress in procurement activities required to be done.

(d) As per the Master Procurement Plan, only 6 procurements in the Action plan of 2020 had been included. Hence there was no proper link between the

Not all the items in the action plan are linked with the procurement plan, as there are items in the action plan incorporate with internal

There should be a proper link between the action plan and the procurement plan.

procurement plan and the action plan.

developments using available resources as well. The auditors' observation is noted for the future preparation of MPP.

3.5 Human Resources Management

Audit Issue -----	Management Comment -----	Recommendation -----
(a) The Company had not had established a scheme of recruitment and promotion for each post in terms of the Section 9.3 of the Circular No. PED/12 - Public Enterprise Guidelines for Good Governance.	The company is having board approved scheme of Recruitments for Non executive staffs and scheme of recruitment for each category of executive staffs. But company has not obtained the approval from Management Services Department of Treasury (MSD) as the Department of Public Enterprise is still preparing guidelines for state owned companies. They have already instructed us to prepare all the scheme of Recruitment after issuing said guidelines.	Should comply with relevant guidelines and circulars.
(b) The Company had not prepared and maintained an Organization chart and approved cadre registered with the Department of Public enterprise, General Treasury as per the Section 9.2 of the Circular No. PED/12.	The company has board approved organization chart and cadre. But approval has not been taken from the Management Services Department as per the instruction given by their letter dated on 17 October 2019.	Should comply with relevant guidelines and circulars.
(c) The Company had not prepared a manual of procedure in term of the Section 9.14 of the Circular No. PED/12, Manual of procedures (Matters relating to Management of Human Resources).	The company has a personnel policy guidelines approved by the board of directors in the year 1990 but it has to be reviewed and up dated, therefore this activity has already been included in the action plan of HR and admin	Should comply with relevant guidelines and circulars.

division for the year 2021 and procurement process to select a suitable consultant has already been initiated. This activity will be completed within the year 2021.

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| (d) | Eight employees had been recruited for the posts of Administrative Officer, Accounts Assistant, Transport Executive and Training Executive during the year under review. However, proper actions had not been taken to verify the accuracy and reliability of the documents submitted by the candidates regarding qualifications and work experience from the respective institutions. | Observation is noted for taking necessary steps to forward all the service certificates and other relevant documents to respective workplaces and to verify their accuracy prior to confirming the appointment. Also noted to confirm the trueness of the copies of other documents certified by the applicant by observing the originals at the time of recruitment. | Accuracy of the documents should be verified. |
| (e) | When recruiting the for the post of Administrative Officer, the selected officer had been working at a Finance Company as a management assistant for a period of 5 years from 26 November 2009 to 08 May 2015. However, according to the information provided by the relevant finance company, it was revealed that the above mentioned person had no experience in the relevant field. In that period, she was an undergraduate in the faculty of law in the University of Colombo. Accordingly, it was further observed that the service certificate submitted by her might be a forged document. | A preliminary investigation has been commenced in this regard. | Accuracy of the documents should be verified. |

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| (f) | With regard to recruitment of Accounts Assistant, 1,382 applications had been received to the company up to 21 September 2020, and out of which the first 325 applications only had been considered for selection. Further, without any other reasonable reasons, the other remaining 1057 applications had not been evaluated for recruitment process. | As nearly 1,350 applications have been received for the post of Accounts Assistant, considerable time has spent on that shortlisting and actions are also taken to shortlist the remaining applications. | Most suitable persons should be recruited for the relevant posts. |
| (g) | Even though vacancy of Accounts Assistant was scheduled to be filled on a permanent basis under the restructuring of Finance division with the approval of the Board of Directors, three candidates had been recruited on casual basis on 09 December 2020 and 12 January 2021 for this post despite that a large number of eligible candidates had applied for that post. However, no action had been taken to fill that posts on permanent basis as at the date of audit. | As an alternative solution for the prevailed severe crisis in the finance division due to shortage of required employees, management decided to recruit employees for the post of accounts assistant on casual basis. Interviews for recruiting candidates on permanent basis are scheduled to hold soon as the shortlisting is finished. | Action should be taken to fill that posts on permanent basis. |
| (h) | Further, the applications of the above mentioned persons had been submitted directly to the Chairman of the Company, and he had instructed the Head of Human Resources to consider them for recruiting the posts of Accounts Assistant on casual basis. Accordingly, the Chief Financial Officer had carried out interviews as per the existing procedure of recruitment of the Company, and recommended that the applicants to be recruited on casual basis with immediate effect. However, documentary evidence relating to the recruitment process was not made available to audit. | As this is a temporary recruitment, a formal interview has not been held and recommendations are submitted after directing the applicant to the relevant division and assessing her ability in working the respective post. | Need to develop a proper system in recruiting suitable employees for the Company. |

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| <p>(i) Out of the above mentioned 3 recruited candidates, the applicant No. 103 had directly submitted the application (second time) to Chairman, on 01 December 2020 in addition to the application (first application) submitted by her on 16 September 2020 as per the newspaper advertisement. However, it was revealed that there was a difference between the first time submitted application and the second time submitted application relating to the working experience of the candidate. According to the second application the candidate had not possessed the required working experience in the field of General Ledger and Credit Control activities with a computer based accounting system, and she had only one year experience as a Customer Service Officer in a private company. However, despite of the said ineligibilities, she had been recruited on casual basis.</p> | <p>Verification of the accuracy of the certificates provided by the applicants is not done regarding temporary recruitments. But appointments are confirmed only after the verification of accuracy of the certificates in recruitments made on permanent basis.</p> | <p>Need to develop a proper recruitment procedure for recruiting suitable employees to the Company.</p> |
| <p>(j) The job description and the duty list approved for the post of Transport Executive and Training Executive were not made available to audit.</p> | <p>Observation is noted for taking necessary actions.</p> | <p>Should prepare job descriptions and the duty lists.</p> |

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
<p>(a) The Company was unable to complete some activities such as LBS automation, feeder end voltage monitoring, street light controls as planned in annual action plan due to procurement delays.</p>	<p>With the Covid-19 situation, all procurements and supplies were delayed even though the procurement activities were initiated in 2020. These activities were carried forwarded for the year 2021 with the receipt of the goods ordered.</p>	<p>Appropriate actions should be taken to achieve targets as planned.</p>

(b) Some activities included in action plan such as Covered Conductor-Pilot Project, ISO 9000 implementation had to be suspended or canceled due to mismatch with the technical feasibility, status and requirements of the Company.

Observation is noted.

Achievable targets should be set according to the objectives of the Company.