

## **Sri Lanka Energies HR (Private) Limited - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Energies HR (Private) Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit and 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 give a true and fair view of the financial position of the Company as at 31 December 2021, 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 (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 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 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(a) The accuracy of the VAT payable amounting to Rs. 15,911,944, NBT payable amounting to Rs.10,744,888 and income tax payable amounting to Rs. 16,393,016 could not be ascertained in audit due to information such as tax assessment schedules, payments slips, etc. were not made available to audit.	Sri Lanka Energies HR (Pvt) Ltd has been de-registered under Value Added Tax since January 2020. VAT payable balance of Rs.15,911,944 can be verified through the VAT returns and the summary prepared for the purpose of requesting the payment plans from the Department of Inland Revenue .	Sufficient documentary evidence need to be furnished to the audit.
(b) The accuracy of the NBT receivable from the CEB amounting to Rs.715,802, and sales tax payable to CEB amounting to Rs.11,791,191 could not be ascertained in audit due to, balance confirmations were not made available to audit.	Though it is called a balance confirmation CEB is not providing any.	-Do-
(c) Original certificates in respect of withholding Tax (WHT) amounting to Rs. 84,949 were not made available to audit. Hence, it was unable to ascertain the accuracy of the balance in audit and also, the Company had not taken action to settle it.	Actions will be taken to claim the WHT receivable balance of Rs.84,949 against the income taxes from next year onwards.	-Do-

## 1.6 Accounts Receivable and Payable

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A receivable balance of Rs.715,802 due from CEB and the VAT collected in excess from the CEB amounting to Rs. 11,791,191 had been remained unsettled for over five years.	This NBT receivable balance of Rs.715,802 was a long outstanding receivable from CEB Projects branch where the several reminders have communicated verbally as well as via e-mails. CEB has much higher balance to Sri Lanka Energies (Pvt) Ltd than this.	Company should take action to recover the receivables and settle the payable balance to CEB.

## 1.7 Non -compliance with Tax Regulations

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to the Inland Revenue Act No. 24 of 2017, The Company had not submitted Income tax returns and paid income tax to the Department of Inland Revenue since the Company incorporate in year 2015. Accordingly, the payable balances as at the end of the year under review was amounting Rs.16,393,016.	The financial statements of Sri Lanka Energies HR(Pvt) Ltd was finalized with an income tax provision of 24% from the profit before tax and this provision was made for the purpose of finalizing the annual financial statements till the proper income tax computation is conducted from the inception of the company. Currently under the process of finalizing the income tax computation from the inception and to file the income tax returns parallel to this.	Should be complied with the provisions in Inland Revenue Act.
(b) According to the Nation Building Tax Act, No. 9 of 2009 (duly amended), NBT amounting to Rs. 10,744,888 payable to the Department of Inland Revenue had not been settled by the Company since 2017.	The Payments have been started based on the company cash flow with the agreement of Department of Inland Revenue.	Payment had not been made as per the comment and tax payable balance should be settled.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 6,669,090, and the corresponding profit in the preceding year amounted to Rs. 4,822,328. Accordingly, an improvement amounting to Rs. 1,846,762 of the financial result was observed. The reason for that improvement was the increase in man power rendering service income by Rs. 16,163,451.

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

Analysis of 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.

<b>Income/ Expenditure</b>	<b>2021</b>	<b>2020</b>	<b>Increase / (Decrease)</b>	<b>Percentage</b>
	Rs.	Rs.	Rs.	%
Revenue	89,905,717	73,742,266	16,163,451	22
Cost of Sales	80,652,796	65,722,430	14,930,366	23
Administrative Expenses	2,675,216	3,223,491	(548,275)	(17)

## 3. Operational Review

### 3.1 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A Scheme of Recruitment (SOR) had not been prepared by the Company for staff recruitments and promotions.	Currently under the review.	A Scheme of Recruitment (SOR) should be prepared and approved as per the Public Enterprises Circular No. PED/12 dated 02 June 2003.

## 4. Accountability and Good Governance

### 4.1 Submission of Financial Statements

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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. However, the financial statements for the year 2021 had been submitted to the Auditor General on 05 April 2022.	Financial statements for the period ended 31 December 2021 was prepared and submitted for the approval of the Board of Director Meeting held on 23 February 2022.	Should be complied with the provisions in the Circular.

#### 4.2 Annual Report, Annual Action Plan and Budget

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Annual Reports had not been prepared and tabled in the Parliament since 2016.	Annual reports have prepared for Sri Lanka Energies (Pvt) Ltd group as a whole since 2017 and currently under the process of translation.	Should be complied with the provisions in Public Enterprises Circular No. PED/12 dated 02 June 2003.
(b) The Company had not prepared and approved Annual Action Plan and Budget for the year 2021.	Management comments had not been received.	-Do-

#### 4.3 Sustainable Development Goals

<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. However, the Company had not identified the relevant goals and the targets to be achieved, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.	This practice will be adhere accordingly.	Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.