

Ante LECO Metering Company (Private) Limited - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ante LECO Metering Company (Private) Limited (“Company”) 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 the basis for Qualified Opinion section of my report, accompanying financial statements give a true and fair view of the financial position of the Company 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 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 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 Audit Observations on the preparation of Financial Statements.

1.5.1 Internal control over the preparation of Financial Statements

Audit Issue	Management Comment	Recommendation
(a) According to the reports of the Inland Revenue Department, the Company is liable to pay tax and penalty for previous years amounting to Rs 23.4 million as at 31 December 2022. However the Company had not recognized the liability. As a result of this, liability had been understated and retained earnings had been overstated by same amount as at 31 December 2022.	From the amount of Rs 23,436,731 mentioned only Rs 10,205,157 is due as taxes and Rs 13,231,574 mentioned as penalties. The amounts due for VAT are also not payable and we will write to the IRD to sort out the taxes and penalty indicated in the assessment report.	Appropriate action need be taken to clear the disagreement with the Inland Revenue Department and to make required adjustments or disclosures to the financial statements.
(b) The Company had paid a Surcharge Tax expense of Rs 7.1 million in the year under review. However, surcharge tax expense had not been properly recorded as per the Addendum to Statement of Alternative Treatment (SoAT) on Accounting for Surcharge	The company has correctly paid the surcharge tax amounting to Rs 7.1 million, but not accounted in the books correctly. This is already adjusted in the books by passing a journal entry.	Financial statements should be prepared accurately.

Tax issued by the Institute of Chartered Accountants of Sri Lanka on 10 August 2022. Instead of, surcharge tax payment has been debited to income tax liability account.

- (c) As per the Section 79 and 80 (b) of LKAS - 12 Income Taxes, any adjustments recognized in the period for current tax of prior periods shall be disclosed separately. However, the Company had not recognized accordingly previous year's income tax under /over provision in the financial statements. The previous year's income tax over provision should be considered and will be corrected. Should be complied with Accounting Standards.
- (d) According to the section 51 of LKAS 16-Property, Plant and Equipment, The residual value and the useful life of an asset shall be reviewed at least each financial year end and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with LKAS 8. However, Fully depreciated assets which are being used by the Company amounted to Rs.95.6 million had not been reviewed accordingly. The company was planning to replace certain machinery during the years 2021 and 2022, but capital expenses were curtailed due to the economic conditions that prevailed. The company will take steps to revalue the fully depreciated assets that still in use. -Do -

2. Financial Review

2.1 Financial Result

The Operating result of the year under review amounted to a loss of Rs.146.8 million and the corresponding profit in the preceding year amounted to Rs.76.1 million. Therefore, a deterioration amounting to Rs.222.9 million was observed. The main reason for the decline was increase in unit cost of energy meters due to drastic depreciation of the rupee value against the US Dollar during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

- (a) The revenue for the year under review had decreased by 24 per cent and cost of sales decreased by 5 per cent compared to the preceding year.
- (b) Other operating income for the year under review has increased by 107 per cent compared to the preceding year. The main reason for the improvement is increase of scrap sales.
- (c) Finance Income of the Company had increased by 555 per cent and Finance Cost of the Company had decreased by 28 per cent compared to the preceding year.

2.3 Ratio Analysis

- (a) Net profit / (Loss) ratio of the Company had decreased from 5 per cent to (13) per cent compared to the preceding year. The Current ratio had decreased from 1 : 0.62 to 1 : 0.72 when comparing with the preceding year.
- (b) Return on Equity had decreased from 12 per cent to (25) per cent when compared to preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

Officials of the Company had prepared Goods dispatch Notes and other documents for 7,000 no. of Communication Modules amounting Rs.28.6 million which were not sent to the Lanka Electricity Company (Pvt) Ltd (LECO). Further, LECO had made payment of Rs.20.3 million upon invoice and other documents presented by the Company for above communication modules.

Management Comment

In dealing with the release of those goods to Lanka Electricity Company, the officials responsible for the same have considered that the trust reposed in you by the anti-company has been undermined. Accordingly, the management has been ordered to take appropriate disciplinary action due to the serious misconduct of violating the company's rules.

Recommendation

Internal Control system should be strengthened to prevent fraud and misuse of resource of the organization.

4. Accountability and Good Governance
4.1 Sustainable Development Goals

Audit Issue

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 Sustainable Development Goals and targets to be achieved and the suitable indicators for measuring the progress as well.

Management Comment

During the year 2022, ALMC had to face many problems due to the foreign exchange crisis and difficulties to open Letters of Credit to import raw materials. Therefore, the company was not in a position to contribute towards the functions listed in the Sustainable Development Goals.

Recommendation

Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.