Lanka Coal Company (Private) Limited - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Coal Company (Private) Limited for the year ended 31 December 2022 comprising the statement of financial positionas 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 paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Companyas 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 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'sability 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 Companyor to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'sfinancial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Companyis 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 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 documentshave been properly and adequately designed from the point of view of the presentationof 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 Companyhas 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 Companyhad 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 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	As per the details obtained from the Inland Revenue Department, the balance of VAT Payable as at 31 December 2022 was Rs.1,436.33 million and the penalty payable thereon for the years of assessment 2017/2018, 2018/2019 and 2019/2020 was Rs.1,436.33 million. However, the said amount of penalty payable had not been disclosed in the financial statements as per the paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12). Further, the Company had not recognized the aforesaid tax payable in the Financial Statements.	Since the Company disagreed with Department of Inland Revenue's output VAT computation and penalty imposed, the Company provided the apples for value-added tax assessments received and the issue is currently being discussed.	Action should be taken to comply with accounting standards.
(b)	The Company had not made provision according to the Paragraph 5.5.15 (a) of SLFRS 9 – Financial Instruments for the long outstanding trade receivables amounting to Rs. 1,095.6 million as at 31 December 2022.	As the receivables are backed by a corresponding payable and in the event of a default there is an opportunity of a set-off and there is no exposure at default requiring any charge for impairment.	-Do-

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
When importation of coal, a mark-up of 10 per cent had been added to the value at the point of the Customs as a notional adjustment in ascertainment of the value for the Custom purpose which had not been actually incurred. However, the Company had added a 10 per cent mark-up amounting to Rs.9,419.6million to the revenue for the year under review, and later, that amount had been recognized as discounts to the debtors and adjusted to the cost of sales. As a result, the cost of sales and revenue for the year under review had been overstated by similar amount.	Lanka Coal Company was given a directive by Inland Revenue Department (IRD) to include the 10% customs margin to cost in the issuance of VAT invoices to CEB. According to IRD officials, the base amount for VAT on invoices to CEB cannot be less than the value for customs purposes. Moreover, G.M. Ceylon Electricity Board requestedfrom the secretary of the Ministry of Finance for a VAT exemption for the import and supply of coal.	The Company should take action to obtain the IRD direction on the matter.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the information made available, it was observed that the Company had paid a sum of Rs. 205millionas penalty to the Sri Lanka Customs due to non-declaration of correct value of the Coal imported during the period from 19 September 2016 to 09 April 2018. The penalty payment made in 2019 had been accounted under the Sri Lanka Custom VAT account, VAT control account and Ceylon Shipping Corporation Limited (CSCL) liability account instead of being accounted for as expenditure in the respective year. As a result, the retained earnings had overstated by Rs. 205million and the Sri Lanka Custom VAT account, VAT control account and CSCL liability account had understated by Rs. 158.2 million, Rs. 39.97million and Rs. 6.8	LCC has recorded these sums as final VAT payable to Custom & receivable from CEB since S.L Customs investigation officials notified LCC officials that no final VAT payment was required after this payment. Further LCC has identified the actual penalty Rs. 6,843,417.00 due to above wrong declaration and debited against CSC liability.	Necessary action should be taken to resolve the issue. In addition, the Company should record this payment as penalty expenses.

	million respectively at the end of the year under review.		
(b)	As per financial statements of the Company, the balance payable to Ceylon Shipping Corporation Ltd as at 31 December 2022 amounted to Rs.547.7 million and as per the confirmation submitted by the Ceylon Shipping Corporation Ltd, it was Rs.1,271.9 million. Accordingly, a difference of Rs.724.2 million was observed.	We prepared a reconciliation statement by identifying items for the difference. The LCC and the CSC are currently in discussions to resolve the existing discrepancies.	Action should be taken to reconcile the differences.
(c)	The Difference of Rs. 31,074 million was observed in revenue of the year under review as per the financial statements of the Company and the revenue stated in the VAT Return for the year 2022.	The balance net overhead cost receivable from CEB for the years 2016, 2018, 2019, and 2020 is being contested. This is also under management discussion to resolve because all of the expenditures were made to the business transaction with CEB.	-Do-

1.5.4 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
The Company had paid a sum of Rs.136.2million in 2016 as Custom VAT for the Shipment No.123. However, according to the Cusdec, the actual VAT amount was only a sum of Rs.106.97 million. Accordingly, it was observed that the Company had overpaid a sum of Rs. 29.2 million and action had not been taken to recover that amount from IRD.	LCC found that IRD has recorded this overpayment VAT Rs.29,266,965.00 & it will take the appropriate formalities to set off this overpaid VAT against LCC's outstanding Customs due balances.	Action should be taken to recover overpaid VAT amount.

1.5.5 Documentary Evidences not made available for Audit

	Audit Issue	Management Comment	Recommendation
(a)	Four receivable balances due from CEB as at the end of the year under review was amounted to Rs.273.3 million and the corresponding payable balances had not been recorded in the financial statements of CEB as at 31 December 2022. As such, the audit was unable to ascertain the accuracy and the existence of said receivable balances.	LCC requested confirmation from CEB for year-end account balances, but they did not confirm some balances as of the Financial Statements' finalization.	Action should be taken to reconcile the difference.
(b)	Relevant documentary evidences relating to the receivable balances of SGS Charges 50 per cent receivable from Liberty Commodities Ltd and Miscellaneous Debtors amounting to Rs.8million and Rs.9.8million respectively and the payable balances of Trade Creditors and SGS Lanka (Pvt) Ltd amounting to Rs.87.9 million and Rs.12.2 million respectively as at the end of the year under review were not made available to audit.	**SGS Charges 50% receivable from Liberty Commodities Ltd. – Rs. 8,048,531.00** Draft Survey Charges at discharge port for 17 nos of vessels in the season 2015/16 are included. Arbitration process is going on this matter. **Miscellaneous Debtors – Rs. 9,808,968.00** Initial investigations revealed that the amount comprises of irrecoverable NBT &PAL. **Rs. 84,771,789.21- Payable to Noble Resources International** The balance consists primarily of an underdrawn amount to Nobel Recourses Intl. Pvt. Ltd as a result of the LC validity period expiring. **SGS Lanka (Pvt) Ltd – Rs.12,161,313.00** Herewith attached the schedule.)	Relevant documentary evidence should be submitted to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Out of the total Trade and Other Receivables of Rs 1,125 million as at 31 December 2022, a sum of Rs. 589.9 million and Rs. 244.8 million which were due for more than 2 years from Ceylon Shipping Corporation Ltd (CSCL) and Liberty Commodities Ltd respectively had not been recovered even as at 31 December 2022.	**Liberty Commodities Ltd** The Company received an order or award from arbitration on 31 December 2021 to pay the claimant (Company) US$ 1,575,142 and this case will be called on 22 May 2023 **Ceylon Shipping Corporation** The settlement proposal has been submitted to the cabinet for consideration. The cabinet has advised to cabinet appointed committee to submit their recommendations to the cabinet via Ministry of port and Shipping.	Action should be taken to recover the long outstanding dues.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Two payable balances amounting to Rs.216.5 million and Rs.714.96 million payable to CSCL and Liberty Commodities Ltd &Taurian Iron & Steel Company (Pvt) Ltd respectively had remained outstanding for more than 2 years and had not been settled even as at the end of the year under review.	Ongoing management discussions are held with CEB and other parties to resolve long-overdue receivables that have corresponding payables that need to be paid.	Action should be taken to settle the outstanding dues.

1.7 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per the section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022 and paragraph 3 of Notice to Tax Payers dated 15 December 2022, Income Tax Computation shall be prepared according to the pro rata basis and the rate of 24 per cent for the first 6 months and 30 per cent for the balance 6 months. However, the Company had prepared	At the time of filing the Income Tax return, the adjusted income tax computation will be done in accordance with Section No.33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022.	The Company should prepare the income tax computation as per the provisions in the inland revenue act and notices to tax payers.

the Income Tax Computation by applying the rate of 30 per cent for the year ended 31 December 2022.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2022 had resulted neither pretax net profit nor loss as per the preceding year, due to entering into an agreement with the Ceylon Electricity Board to reimburse the net overhead cost incurred by the Company since the year 2014.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease is given below.

Income/Expenditure	2022 Rs. million	2021 Rs. million	Increase/(Decrease) Rs. million	Percentage (%) million
Revenue	117,406	59,046	58,360	98.84
Cost of Sales	117,337	58,991	58,347	98.91
Registration and Other Income	8	1	7	708.91
Administrative Cost	79	61	18	29.33
Finance Income	1	4	(3)	(69.50)

3. Operational Review

3.1 Procurement Management

Audit Issue	Management Comment	Recommendation
The Company had not prepared a proper Procurement Plan including the procurement stages and the time schedule relating thereto for procuring the annual Coal requirement as per the guideline 4.2 of the Government Procurement Guidelines – 2006.	The LCC prepares the master procurement plan annually and obtains the approval of the board of directors and forwarded to the line ministry for approval. Before starting the coal procurement process, LCC sent the procurement time schedule to the secretary of the ministry of power. After that, the Secretary met with LCC and CEB to begin the procurement process. As a result, the Ministry and CEB are officially informed with the procurement time schedule before each season begins.	Procurement plan should be prepared according to the provisions of the Government Procurement Guidelines.

3.2 Contract Administration

Audit Issue	Management Comment	Recommendation
Even though the Company had not entered in to a Collective Agreement with relevant parties to pay the remunerations, the salary revision was made and arrears amounting to Rs. 11.8 million were paid during the year under review according to the Draft Collective Agreement of CEB.	Since there was not a regularized salary scales from the inceptions of the company in 2013, Therefore, LCC Board has directed to follow the relevant CEB basic salary scales based on the basic salaries of Supporting Staff Accordingly, the records indicate that as far back from 2015 & 2018, that the LCC salary scales (Salary Increased by 25%) for all staff members have been in commensurate with the salary scale of CEB.	The Company should take action to enter into the collective agreement with relevant parties.