

Sri Lanka Energies HR (Private) Limited - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 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’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 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 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
a) According to the financial statements of the Company, credit balances in trade receivables aggregating to Rs. 323,493 and debit balances in trade and other payables aggregating to Rs.139,948 had been set off against trade receivables and trade and other payables respectively contrary to the paragraph 32 of LKAS 01-presentation of financial statements.	There are some balances which are remained unchanged may happened due to record keeping error and will proceed to write off with concurrence of Audit Committee Sri Lanka Energies (Pvt) Ltd.	Should be complied with the provisions of the Accounting Standards.
b) As per the Paragraph 46 of LKAS 07 - Statement of cash flows, an entity shall disclose the policy which it adopts in determining the composition of cash and cash equivalents. However, the Company had not disclosed the adopting policy in determining cash and cash equivalents in the financial statements.	This will be disclosed in next time, and for this time this has been missed.	-Do-
c) As per the Paragraph 29 of LKAS 16 – Property Plant and Equipment, an entity shall choose either the cost model or the revaluation model as its accounting policy for property plant and equipment. However, the Company had not disclosed their accounting policy accordingly.	It has clearly mentioned all the information regarding the Property Plant & Equipment.	-Do-
d) Information relating to the retirement benefit obligations had not been disclosed as per paragraph 140 of LKAS 19 – Employee Benefits.	These disclosures will be added in future 2023.	-Do-

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
An aggregate balance of Rs. 9.39 million had been recorded as trade receivables from the CEB in the financial statements of the Company and the said balance had not been shown in the books of the CEB.	Actions will be taken to write off the said balances with a support of Audit Committee SLE.	<ol style="list-style-type: none">1. The Company should reconcile the balance of trade receivables with CEB2. Before write off the balance, an in depth test should be done.

1.5.3 Un-reconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
According to the financial statements of the Company, VAT and NBT payables as at 31 December 2022 was Rs.11.91 million and Rs.10.74 million respectively. However, according to the information directly obtained from the Department of Inland Revenue, the total VAT and NBT liability as at that date were Rs.44.80 million and Rs.17.33 million respectively comprising with penalty. Accordingly, an aggregate difference of Rs.32.89 million and Rs.6.58 million respectively was observed in total VAT and NBT liability.	Sri Lanka Energies HR (Pvt) Ltd is not liable under NBT and VAT since 2019.12.01 and 2020.01.01 onwards respectively. The payable balances of NBT & VAT are relevant to the period which were prior to the above deregistration. Currently almost all the VAT payable balance was settled under monthly settlements. The Company will proceed with NBT settlement and IRD has already been agreed accordingly.	Relevant disclosures should be made in the financial statements.

1.6 Accounts Payable

Audit Issue	Management Comment	Recommendation
a) According to the financial statements, the balance of Sales tax payable to Ceylon Electricity Board (excess VAT collected from the CEB) as at 31 December 2022 was Rs. 11.79 million. However, this balance had not been recorded in the financial statements of CEB. Further, the Company had not provided the adequate relevant information to verify the said balance and it was observed that this payable balance had not been settled by the	This will be discussed with Board of Directors and hope takes the appropriate action.	Action should be taken to settle the due balance.

- Company for more than five years.
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| b) The audit fee payable amounting to Rs.220,000 under current liabilities had remained unsettled since 2017 due to not forwarding the invoice. | The indicated due balance is for the audit fee for the year 2017 and the company Earnest & Young had not forwarded invoice to settle the amount. | -Do- |
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1.7 Non -compliance with Tax Regulations
Audit Issue

Management Comment

Recommendation

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| a) As per the Section 126 of Inland Revenue Act No. 24 of 2017, the duly completed return along with the schedule and any other required documents should be submitted to the Department of Inland Revenue on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not filed returns for the year of assessment 2017/2018 complying with the said provisions of the Act. Furthermore, the balance of income tax payable as at 31 December 2022 was Rs. 16.96 million as per the financial statements and the Company had not paid income tax from its inception. | The company has cleared the backlog of income tax return filing and considering the company's cash position, settlement of due income taxes will be started. | Should be complied with the provisions in the Inland Revenue Act. |
| b) As per the section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022 and Paragraph 3 of notice to tax payers No. PN/IT/2022-03 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 should be applied. However, the Company had prepared the Income Tax Computation by applying the rate of 24 per cent for the year ended 31 December 2022. | This will be checked and rectified in next period. | -Do- |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.2.6 million and the corresponding profit in the preceding year amounted to Rs. 6.6 million. Therefore, a deterioration amounting to Rs. 4 million of the financial result was observed. The reason for the deterioration is increase in gratuity expense amounting to Rs. 5 million.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2022 Rs.	2021 Rs.	Increase/(Decrease) Rs.	Percentage (%)
Revenue	100,472,223	89,905,717	10,566,506	11.75
Cost of Sales	90,262,877	80,652,796	9,610,081	11.91
Administration Cost	7,737,426	2,675,216	5,062,210	189.23

3. Accountability and Good Governance

3.1 Annual Action Plan and Budget

Audit Issue	Management Comment	Recommendation
As per the Paragraph no. 2.3 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021, subsidiaries should submit the finalized strategic plan together with the action plan and annual budget to the Parent Company. However, the action plan and annual budget had not been prepared and submitted to Sri Lanka Energies (Private) Ltd.	Action Plan and the Annual Budget is in the process of completion.	Should be complied with the Guidelines on Corporate Governance for State Owned Enterprises.