

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Energies (Private) Limited (“Company”) and its subsidiaries (“Group”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information, 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 2024, 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 Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process. As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group are 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 and the Group.

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 internal control of the Company and the Group.
- 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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Company and the Group ;
- Whether the Company and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Company and the Group 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 Sri Lanka Energies (Private) Limited

1.5.1.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per the paragraph 11 of LKAS 02 – Inventories, the costs of purchase of inventories comprise the purchase price, import duties and other taxes and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. However, the purchase cost of 3,510,914 Kg of scrap aluminium collected by the Company had not been recognized in the financial statement for the year ended 31 December 2024.	SCRAP aluminum of Ceylon Electricity Board was handed over to SLE without charging any cost for the material on the basis of handing over the same quantity back to CEB as aluminum re-draw roads (the processed product of the recycling project). The collected quantity will be identified to the financials once the proper base is identified for the value of SCRAP Aluminum.	Should be complied with the provisions of the accounting standard.
(b) Ten (10) categories of expenses amounting to Rs.2,051,756 related to the previous year had been recognized in the year 2024 without making prior year adjustments in the financial statements in terms of the provisions of the Paragraph 42 of LKAS 08 (Accounting Policies,	Accepted. Action will be taken to mitigate this in future.	Should be complied with the provisions of the accounting standard.

Changes in Accounting Estimates and Errors). As a result, profit for the year 2024 had been understated by Rs.2,051,756.

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| <p>(c) In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs. 56,231,603 relating to 7 categories as at 31 December 2024 had not been reviewed and accounted as required by the Standards.</p> | <p>Action will be taken to re-value the assets in future.</p> | <p>Should be complied with the provisions of the accounting standard.</p> |
| <p>(d) The Company had obtained the loan facility amounting to Rs. 135 million and it was secured amounting to cash balances of Rs.72 million and fixed deposits amounting to Rs.62 million on behalf of the above loan facility in the year 2024 and the Company had utilized Rs. 84 million from above loan facility to import machinery and equipment for the Scrap Alluminium Recycling Project. However, the security conditions of the above loan had not been comprehensively disclosed in the financial statement of the Company for the year under review in terms of paragraph 14 of the SLFRS 07 – Financial Instrument Disclosers.</p> | <p>This is further to the reply made in audit query.
Accordingly, to the offer letter of Sampath Bank PLC the facility of import loan is under the following security conditions and this will be disclosed accordingly in next time.
-“Lien over funds lying to the credit of Fixed Deposit No.206118600516 for Rs.72,126,259.34 and lien over funds lying to credit of saving account no.106114005271 for Rs.62,837,740.66”.</p> | <p>Should be complied with the provisions of the accounting standard.</p> |
| <p>(e) The Company had entered into lease agreement for Galigamuwa land for 35 years from 07 July 2017. However, the right of use assets and lease liability in relation to the said lease had not been recognized in the financial statements by the Company as per the SLFRS – 16- Leases.</p> | <p>Accepted. Action will be taken to correct this in future.</p> | <p>Should be complied with the provisions of the accounting standard.</p> |

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| <p>(f) Although the actuarial valuation method is encouraged to apply in the measurement of all material post-employment benefit obligations as per the Paragraph 59 of LKAS 19 - Employee benefits, no such a practice had been applied in measuring its retirement benefit obligation.</p> | <p>Will adhere to the actuarial valuation accordingly.</p> | <p>Should be complied with the provisions of the accounting standard.</p> |
| <p>(g) As per the paragraph 23(a) of LKAS 21 – The effect of changes in foreign exchange rates, at the end of each reporting period foreign currency monetary items shall be translated using the closing exchange rate. However, according to the financial statements of the company, the balance of the trade creditor in USD value of 751,484 (Hayleys Aventura (Pvt) Ltd) as at 31 December 2024 had not been translated using the closing exchange rate. As a result of that ,the foreign exchange gain on above was understated by Rs.9,716,020 and trade creditors balance was overstated by the same amount.</p> <p>Further, the balance of above creditor as at 31st December 2023 had not been translated using the closing exchange rate. Therefore, the foreign exchange gain amounting to Rs.5,814,214 was not recorded in accordance with LKAS 8. Consequently, retained earnings was understated by the same amount.</p> | <p>Accepted. Will adhere with best practice accordance with LKAS 21 in future.</p> | <p>Should be complied with the provisions of the accounting standard.</p> |
| <p>(h) As per the paragraph 86 of LKAS 37 – Provisions contingent liabilities and contingent assets, unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable; an estimate of its financial effect, measured under paragraphs 36-52,an indication of the</p> | <p>The legal action (Case number: 42/KE/08/2022 - D M C Dissanayaka) is referred to the case filed by the Ex- employee of the company where currently continue under the labor court - Kegalle. Actions will be taken to disclosed under the contingent liabilities in</p> | <p>Should be complied with the provisions of the accounting standard.</p> |

uncertainties relating to the amount or the possibility of any reimbursement. However, the Company had not disclosed the legal case filed against to the Company.

future.

1.5.1.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) As per the financial statements, the balance of inventories (without scrap aluminium) was Rs.55,376,984 as at 31 December 2024. However, as per the physical stock verification held on 31 December 2024, the total balance of inventories was Rs.54,190,884. Accordingly, a difference of Rs.1,186,100 was observed at the end of the year under review. Further, Company had not taken action to reconcile the difference as at 31 December 2024.	Reconciliation of balance of inventories as per the financial statements and the verification conducted on 31.12.2024 (Date of Audit physical verification). Accordingly, has been informed to the audit previously, there was no any quantity difference between the two reports but only real time inventory valuation was changed caused the ERP System is followed by the weighted average cost (WAC) module.	Action should be taken to reconcile the closing inventories.
(b) As per the financial statements, income tax payable as at 31 December 2020 was Rs. 30.77 million and as per the income tax returns submitted to the Department of Inland Revenue (up to the year of assessment 2020/2021), income tax payable related to that period was Rs. 15.2 million. Accordingly, a difference of Rs. 15.57 million was observed and relevant adjustment had not been made in the financial statements even as at the end of the year under review.	The summary of annual return filling and payment status as follows; • 2015/2016- 2017/2018 Paid • 2019/2020- 2023/2024 Not Paid	Action should be taken to reconcile the income tax payable.
(c) According to the financial statements of the Company, income tax as at 31 December 2023 was Rs.88,715,153 and the provision for income tax for the year of assessment 2022/2023 and 2023/2024 were Rs.3,457,708 and Rs.44,830,141	Prior to the completion of the CIT return filling, The annual financial statements were finalized based on the provision of income tax by applying the TAX rate applicable to the particular period. Accordingly a difference	

respectively. However, in calculating the assessable income for the said years of assessment, fully depreciated assets amounting to Rs.100,596,911 and Rs.20,584,015 had been considered in calculating the capital allowances on assets respectively and applying the rate of 24 percent instead of 30 percent. Further, as per the computation made by audit, income tax payables for the year of assessment 2022/ 2023 and 2023/2024 were Rs.2,652,495 and Rs.59,278,174 respectively. Accordingly, an aggregate difference amounting to Rs.13,642,820 was observed for the said years of assessment and the profit for the year under review and income tax payable had been understated by Rs.13,642,820.

of is identified when the balance as per the financials is compared with accumulated CIT annual return value. This difference will be adjusted in next year.

Action has taken for the settlement as early as possible.

- (d) As per the financial statements, provision for income tax as at 31 December 2024 was Rs.8,788,579. However, as per the tax calculation sheet it was Rs.12,874,877 for the year of assessment 2024/2025. Accordingly, a difference of Rs.4,086,298 was observed. As a result, profit for the year was overstated by same amount in the year 2024.

Prior to the completion of the CIT return filling, The annual financial statements were finalized based on the provision of income tax by applying the TAX rate applicable to the particular period. Accordingly a difference of is identified when the balance as per the financials is compared with accumulated CIT annual return value. This difference will be adjusted in next year.

Action should be taken to reconcile the income tax payable.

1.5.1.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
As per the financial statements of the Company, Provision for impairment (which was made before 2017) -in relation to investment in subsidiaries Kumbalgamuwa Mini Hydro (Private) Limited was Rs.10,719,147. However, journal voucher, valuation report and other relevant documents relating to the provision for	This provision for impairment worth of Rs.10,719,147.00 was derived through the journal entry suggested by the external auditor (Ernst & Young) at the time of year end audit for	Should be maintain sufficient documentary evidences to support each journal entries.

impairment were not made available to audit.

the year 2017 and evidences can't be identified other than the list of journal entries received for the finalization of annual audit.

1.5.1.5 Accounts Receivable and Payable

(a) Receivables

Audit Issue	Management Comment	Recommendation
(i) The Company had not claimed the WHT receivable balance amounting to Rs. 10,152,100 more than nine years against the income tax payable even as at the end of the year under review. Therefore, the recoverability of WHT balance is uncertain.	Requested the WHT certificates from the bank and planning to get this completed early.	Action should be taken to recover the balances as much as possible and clear the long outstanding.

(b) Payables

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements of the Company, the balance of unidentified deposits as at 31 December 2024 was Rs. 2,425,643 and this was accumulated from the year 2019 without clear.	As presented to the audit, the most of the unidentified deposits balances were resolved and corrected accordingly in year 2024 and only this single entry is pending. Action will be taken to identify this.	Action should be taken to clear the balance.
(ii) Accrued expenses of Rs. 490,144 in relation to six categories of expenses were not accounted. As a result, profit for the year was overstated and accrued expenses were understated by the same amount.	These expenses were identified accordance with the reimbursement of project funds after the finalization of annual financials for year 2024 and the actions have taken to mitigate these mis records.	Action should be taken to recognize the accrued expenses and strengthen the reporting process to ensure completeness of the financial figures.

1.5.2 Preparation of Consolidated Financial Statements

The qualified opinion on the financial statements of the following companies for the year ended 31 December 2024 had been expressed by me based on the following observations.

1.5.2.1 Sri Lanka Energies HR (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) In terms of the Paragraph 42 (a) and (b) of LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors states that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. However, the Company had accrued Rs 749,275 for consultancy service not taken for the period from August to December 2023. Subsequently, the Company had recognized the above amount as other income in the year 2024 without making prior year adjustments in the financial statements contrary to the provisions of the Standard. As a result, profit for the year under review had been overstated by same amount.	Monthly salary of the contract employee was recognized under the accrual basis based on the contract employment provided for the particular period. Accordingly, there was no any error for such recognition in year 2024, the reversal was made based on the confirmation for the non-provision of service	Action should be taken to comply with accounting standards.
(b) As per the Financial Statements, the company recognize the salary and allowances of out sourced employees in the cost of sale account. However, the APIT payable on the above salary amounting to Rs 875,835 had not been recognized in the books of accounts. As a result, profit for the year was overstated and the APIT payable as at end of the year was understated by the same amount.	This will be adjusted accordingly.	APIT Payable Should be recognized in the financial statements.

1.5.2.2 Kumbalgamuwa Mini Hydro (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) Interest income on delayed payment for power purchased by Ceylon Electricity Board (CEB) amounting to Rs.40,336,568 in accordance with the paragraph No.5 of the agreement for the previous period of 2021 to 2023 had been recognized in the year under review without making prior year adjustment in the financial statements in terms of the provisions of paragraph 42 of LKAS - 8 (Accounting Policies, Changes in Accounting Estimates and Errors).As a result, the profit for the year had been over stated by the same amount.	Agreed	Should be complied with the provisions of the Accounting Standards.
(b) As per the paragraph 37 of LKAS 16 – Property, Plant & Equipment, a class of property, plant and equipment is a grouping of assets of a similar nature and use in entities operations. However, as presented in the financial statements, the value of the power plant amounting to Rs.599,158,493 had been comprised of the building together with the plant value. However, action had not been taken by the Company to separate the value of building and carry out a proper valuation to obtain a separate value for building as at 31 December 2024.Further, useful life time of each items mentioned above had not been assessed by the company.	Agreed. This need to be done by a proper valuation through Department of Valuations and will attend for it.	Should be complied with the provisions of the Accounting Standards.
(c) The Company had entered into an agreement with the Department of Forest Conservation to lease a land for the purpose of building, owning and operating the mini hydro power plant for a period of 20 years from 18 February 2015 with the annual permit fee of Rs.5,000 (current rate is Rs.5,750) per perch. Accordingly, land	Agreed. Will be corrected accordingly.	Should be complied with the provisions of the Accounting Standards.

should be identified as right to use asset and lease liability as per the SLFRS – 16- Leases. However, the Company had identified the above right of use asset as operating lease. Accordingly, lease amount Rs.4,910,847 for the period had been charged to the statement of profit and loss and other comprehensive income & accrued expenses had been credited, instead of recognized as right of use asset and lease liability in compliance with the recognition and measurement criteria of the SLFRS – 16- Leases.

Further, as per the financial statements for the year ended 31 December 2024, an annual permit fee of Rs. 32,829,237 had not been paid to the Department of Forest Conservation for the period from 2017 to 2024. Accordingly, as per the letter dated 09 October 2024 Department of Forest Conservation had informed to the Company that the permit is to be cancelled in future. However, the Company had not disclosed the above matter in the financial statements for the year ended 31 December 2024.

The company has made requests from the Department of Forest Conservation the correct amount which to be settled by the company by agreeing to settle the priority. Accordingly, the cancellation will not be proceeded.

Should be complied with the provisions of the Accounting Standards.

- (d) The Company had obtained bank overdraft amounting to Rs.14,957,456 on 22 November 2024 on behalf of the Scrap Aluminum Recycling project of Sri Lanka Energies (Private) Limited (SLE) and it was settled on 31 December 2024. However, the Finance Expenses charged on overdraft facility and commission on bank guarantee for LC amounting Rs.1,212,405 had been accounted as expenses in the financial statements of the Company, instead of accounting in the amounts due from SLE. As a result, profit for the year and amounts due from SLE were understated by same amount.

Agreed. Will be corrected accordingly.

Action should be taken to rectify the error.

1.5.2.3 Bio-Med Hydro Power (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) As per the paragraph 37 of LKAS 16 – Property Plant & Equipment, a class of property, plant and equipment is a grouping of assets of a similar nature and use in entities operations. However, as presented in the financial statements, the value of the power plant amounting to Rs.259 million had been comprised of the land & building together with the plant value. However, the Company had accounted separate values for land & building and power plant without obtaining separate valuation report for each asset as at 31 December 2024. Further, depreciation on land value also had been made by the Company in contrary to the provision in paragraph 58 of the standard.	Agreed. The consideration for the acquisition was 259 Mn where it covers the value of the Power Plant, Building, Land, Other relevant Equipment and the value of the initial equity. Accordingly the share value of Rs.90Mn was transferred to the name of SLE under the form 15 filed for the change of ownership. Though the rest of the investment is recorded as the amount due to related party under the statement of financial position, the balance will be issued in par with the value with the approval of BOD in the current financial year to the respective companies.	Should be complied with the provisions of the accounting standard.
(b) As per the financial statements, share application money was Rs.169 million as at 31 December 2024. However, approvals from the board of directors had not been taken for obtaining of share application money and the sufficient documentary evidences were not made available to the audit in relation to the balance of share application money.	Completely disagreed. This particular acquisition was completely upon the approval of the Board Of Directors. The value of Rs.259 was approved as the purchase consideration and acquire accordingly by paying the 259 Mn .Out of the total purchase consideration, 90 Mn was recorded as the share transfer to the name of Sri Lanka Energies (Pvt) Ltd and rest is recorded as share application money till the shares are issued.	Sufficient and appropriate documentary evidences such as Board Memorandum and decision should be furnished to the audit.

1.5.2.4 Daduruoya Mini Hydro (Private) Limited

Audit Issue	Management Comment	Recommendation
(a) In terms of the Paragraph 42 (a) and (b) of LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors states that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. However, interest income on delayed payments from CEB amounting to Rs.37,573,582 in accordance with the paragraph No.5.2(b) of the agreement for the previous period of 2021 to 2023 had been recognized in the year under review without making prior year adjustment in the financial statements in terms of the provisions of paragraph 42 LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. As a result, the profit for the year had been overstated by the same amount.	Agreed	Should be complied with the provisions of the Accounting Standards.
(b) In terms of paragraph 51 of LKAS 16 - Property, Plant and Equipment, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the changes shall be accounted for in accordance with LKAS 8. However, the assets with carrying value of Rs.273,786,978 relating to 9 categories as at 31 December 2024 had not been reviewed and accounted as required by the standard.	Agreed	Should be complied with the provisions of the Accounting Standards.

(c)	Even though the income tax return for the year of assessment 2021/2022 which had been finalized the over provision of income tax for the year 2021/2022 amounting to Rs.2,731,300 had not been accounted in the financial statements. As a result, profit for the year was understated and Income tax payable as at end of the year was overstated by same amount.	Agreed	Action should be taken to record all the transactions in the financial statements properly.
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1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 3.2 of the Operational Manual for State Owned Enterprises dated 16 November 2021	The Company had not prepared the Scheme of Recruitment (SOR) for their recruitments and compliance with the requirements of the above Manual.	Operational Manual is not currently available. Action will be taken for the preparation at the earliest.	Should be complied with the said section of Operational Manual for State Owned Enterprises.
(b) Section 2.2.5 (a) of the Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021	It is mandatory to have a Board approved subsidiary policy that addresses issues including dividends, changes in equity and shareholding and major transaction. However, the Company had not established such a policy.	Guidelines on schedule on Corporate Governance are currently not available. Action will be taken for the preparation at the earliest.	Should be complied with the said section of Guidelines on Corporate Governance for State Owned Enterprises.
(c) Section 2.4 of Guideline on Corporate Governance dated 16 November 2021	The Board of Directors should individually declare their relationship; annually to the Secretary to the Board using the format given in the Annexure II of Guideline on Corporate Governance. However, the Company had not obtained	Company will adhere to this in future.	Should be complied with the said section of Guidelines on Corporate Governance for State Owned Enterprises.

the declarations of directors in the board of directors for the year 2024.

(d) Section 4.2 of Guideline on Corporate Governance dated 16 November 2021	The Audit Committee (AC) should meet at least once in three months. However, only two audit committee had been held in the year under review.	Due to the unavailability of the members of Audit Committee, the quarterly meetings could not be held as planned.	Should be complied with Guidelines on Corporate Governance for State Owned Enterprises.
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1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) Inland Revenue Act No. 24 of 2017		
(i) As per the section 90 (1), the Company had not paid the quarterly income tax instalments during the year under review as required by the provisions of the Act.	The income tax return filings for the years of assessment 2022/2023 and 2023/2024 are currently in progress. The necessary calculations have been completed and submitted for audit review. Dues of taxes will be settled with immediate effect.	Should be complied with the provisions in Inland Revenue Act.
(ii) As per the section 126 (1), The Company had not filed Income Tax returns for the year of assessments 2017/2018 and 2022/2023 as required by the provisions of the Act.		

2. Financial Review

2.1 Financial Result

The operating result of the Group for the year under review amounted to a profit (Before Tax) of Rs. 149.68 million and the corresponding profit in the preceding year amounted to Rs. 230.2 million. Therefore, an deterioration amounting to Rs. 80.52 million of the financial result was observed. The reasons for the deterioration are decrease of revenue and increase of direct project expenses.

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 as follows.

Income/Expenditure	2024 Rs. Million	2023 Rs. Million	Increase/(Decrease) Rs. Million	Percentage (%)
Revenue	783.4	1116.86	(333.5)	(29.86)
Cost of Sales	597.85	683.24	(85.39)	(12.50)
Direct Project Expenses	4.9	1.25	3.65	292.00
Finance Expenses	38.18	108.05	(69.87)	(64.66)
Finance Income	28.55	9.83	18.72	190.43

2.3 Ratio Analysis

Key ratios of the Group for the year under review as compared with the preceding year are as follows.

- (a) Return on capital employed had decreased from 28.3 percent to 15.24 percent with compared to the preceding year.
- (b) Gross profit ratio had decreased from 38.82 percent to 23.69 percent with compared to the preceding year.
- (c) Net profit ratio had decreased from 16.38 percent to 13.85 percent with compared to the preceding year.
- (d) Current ratio had decreased from 0.75 times to 0.60 times with compared to the preceding year.
- (e) Quick ratio had decreased from 0.65 times to 0.47 times with compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company had engaged in a business to produce and supply of meter enclosures to the Ceylon Electricity Board and Lanka Electricity Company (Pvt) Limited. However, no business agreements or MOU were entered between two parties.	The agreement was prepared and approved by the Board of Directors of SLE and submitted to the CEB to proceed further.	Should be finalized the agreement soon.
(b) Though the Company had engaged the business of recycling scrap aluminium collected from CEB and sell the Aluminium Redraw Rods to the CEB, there was no any business agreement, buy back agreement or Memorandum of Understanding (MOU) entered between two parties regarding the said	The agreement was prepared and approved by the Board of Directors of SLE and submitted to the CEB to proceed further.	Should be finalized the agreement soon.

business engagement even up to the date of audit.

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| <p>(c) According to the resolution passed at the Board Meeting held on 02 January 2024, it had been decided by SLE to open a Letter of Credit (LC) for the balance value of USD 315,199.20 (approximately LKR 94 million) under the LC facility by securing the land as a mortgage to import machinery equipment. However, it was observed that the required machinery and equipment needed for factory operations could not be imported, as legal clearance for the land of the project site had not been obtained from the relevant authorities as at the end of the year 2024.</p> | <p>Accepted. The Land Release Agreement was signed by two directors on 17th July 2025 and subsequently submitted to the President's Office to proceed further and it is expected now the land clearance will be completed accordingly.</p> | <p>Action should be taken to obtain a legal clearance for the land.</p> |
| <p>(d) Although the amounts due to the Ceylon Electricity Board (CEB) as at 31 December 2024 was Rs. 25,848,726 as per the financial statements of the Company. the CEB records indicated the balance of Rs.28,290,000. Accordingly, difference of Rs.2,441,274 was observed.</p> | <p>The detail summaries have already been shared with CEB regarding the receivable and Payable balances and the reconciliation will also be completed.</p> | <p>Action should be taken to reconcile differences between both parties and clear the dues as soon.</p> |
| <p>(e) The amount of Rs.21, 966,396 relevant to the salary of Company's General Manager for more than five years which was paid by the CEB is in outstanding without settle.</p> | <p>The detail summaries have already been shared with CEB regarding the receivable and Payable balances and the reconciliation will also be completed. Further out of the payable balance of GM SLE salary, Rs. 8,339,763.67 in past six months.</p> | <p>Action should be taken to settle the overdue.</p> |
| <p>(f) As per the records of the Inland Revenue Department (18 March 2025) VAT payable for the period of third quarter 2015 was Rs. 1,596,821. However, the Company had not taken action to settle the said amount up to the date of audit on 26 June 2025.</p> | <p>This was not communicated previously. will follow it up with IRD</p> | <p>Action should be taken to settle the VAT payable dues.</p> |

(g) As per the financial statements of the Company, NBT payable balance Rs.1,089,334 remained more than 06 years without settle.	Settlement of outstanding VAT is prioritized and this due balance of NBT will settled accordingly.	Action should be taken to clear the outstanding balances.
(h) The SSCL payable balance (net) as at 31 December 2024 was Rs.8,951,263. Further, this include NBT receivable balance of Rs.494,298 which remain from 2020.	Not Accepted. The NBT receivable balance is identified separately which is to be received from CEB where the details have been shared to the audit.	Action should be taken to settle the dues.
(i) The amount of Rs.97,503,731 relevant to the income tax payable as per the financial statements had been remained in more than seven years without settle.	Kindly refer to the reply made to the same audit query in 1.2.1.2 (o)	Action should be taken to settle the dues.

3.2 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
The Seethawaka Ganga Hydro Power Project had been initially recognized as a Hydro power source by the CEB and they had engaged with this project from 2015 to 2021 and spent Rs. 301 million for the project. However, due to the financial difficulties and changes in government policies, the CEB had transferred the project to Sri Lanka Energies (Private) Limited in 2021. Accordingly, the Company had done a feasibility study regarding this project and planned to build 2 hydro power plants of 7 MW each at a cost of Rs. 3,500 million. Initial activities of the project had been commenced by the Company in 2021 and foundation stone had been placed on 01 April 2024. In addition to the expenditure made by CEB, the Company had spent Rs. 18,830,072 on this project by 31 December 2024. However, the project construction was still under initial stage without generating expected benefits to the National Grid.	Current status for the approval process is as follows. Once the approval from the CEA is obtained, SPPA can be processed with CEB. All approvals were obtained from agencies except Central Environmental Authority and submitted a drafted IEE report to the authority. Expecting their comments on that.	Action should be taken to follow up the relevant clearances & expedite the project.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
Procurement guideline and Manual 2006		
An agreement had been signed by the Company on 24 November 2023 with Hayleys Aventura (Pvt) Ltd to procure 360MT of polycarbonate at the rate of 3860 USD per MT. Following observation were made.		
(i) Paragraph 4.2.1 (a), (b) and (c) procurement guideline, the PE Shall prepare the MPP, procurement activities envisaged at least for a period of three years shall be listed in the MPP and procurement activities for the immediately succeeding year shall be prepared in detail. However, the Company had not prepared the master procurement plan (MPP) even as at the date of audit.	i, ii. The main procurement of the company is relates to the procurement of following items for the Meter Enclosure Manufacturing Plant. 1.Polycarbonate 2.Materbatch 3.Corrugated Cardboard Boxes 4.Rubber Beading 5.Torrison Springs	Should be complied with the provisions of the guideline.
(ii) Paragraph 4.2.2 procurement guideline, Procurement Time Schedule (PTS) shall be prepared by the Company. However, the Company had not prepared the PTS even as at the date of audit.	At the current context, the above material requirements are procured under competitive tender proceedings and generally tender for each item is to satisfy the annual requirement based on the production plan. Accordingly, once the materials have reached to minimum order level and upon the request the plant manager, tender is published. Other than the above procedure no any structured MPP and PTS available with the company and will adhere to prepare the earliest.	

(iii) Paragraph 4.3.1 procurement guideline, total cost estimate (TEC) including all associated costs shall be prepared by the PE. However, the total cost estimate had not been prepared by the Company.	Not Accepted. Total cost estimate is prepared for each and every procurement. Kindly refer to the TEC reports of the tenders.	Should be complied with the provisions of the guideline.
(iv) Paragraph 2.12 procurement manual, All members of PCs and TECs are required to sign declaration in the prescribed format at its first meeting. However, declaration forms had not been signed by the members who are in the PC and TEC.	Will adhere to this best practice.	Should be complied with the provisions of the guideline.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue

In accordance with the “2030 Agenda” of the United Nation on the Sustainable Development Goals (SDG), all state institutions should contribute in implementation of goals and functions under its scope. But, the Company had not identified the targets to be achieved, the gap in achieving those goals and the suitable indicator for measuring the progress as well.

Management Comment

Will adhere with this best practice.

Recommendation

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