Annual Report

January 2019 - December 2019

Sri Lanka Energies (Pvt) Ltd
11th Floor
Sethsiripaya stage II
Battaramulla,

Table of Contents

01. Corporate Information

Sri Lanka Energies Private Limited (SLE) was established in 2012 as a wholly owned subsidiary of the Ceylon Electricity Board (CEB). This corporation primarily focuses on renewable energy project building, operation, and maintenance, and serves as CEB's accessory manufacturing arm, representing the Sri Lankan government (GOSL). SLE has broadened its market segmentation to include both domestic and international markets, thanks to product diversification and the completion of relevant research and feasibility studies on sustainable energy projects in accordance with CEB standards.Two mini hydro power plants, a meter enclosure manufacturing facility, a manpower service division, and an ongoing aluminum project are all managed by SLE.

SLE has two minor hydro power plants: the Kumbalgamuwa mini hydro power plant in Belihuloya, Balangoda, and the Deduruoya mini hydro power plant in Deduruoya, Kurunegala. SLE is also working on a few additional mini hydro power projects.

SLE has created a new section to give support to its parent company (CEB) by supplying experienced people who are well-suited for the industrial sector through SLE's Manpower Service. SLE also serves as the CEB and Lanka Electricity Company (Pvt) Ltd's exclusive home energy meter enclosure manufacturer (LECO). SLE has earned a reputation for offering outstanding service to their clients thanks to the availability of a state-of-the-art factory with sophisticated Injection Molding Technologies and competent workers.

1.1 Engineering Division

Operation Division

Smooth, profitable and quality production is a successful achievement of the Operation Division which is in line with the level of contribution that it provides to SLE. It ensures that the production is completed from start to finish in a predetermined successful manner. Head of Operations in SLE is responsible for managing almost all the activities in the process of production as well as supplying of services. Operation process monitoring, designing and development of the operating systems for effective output, planning, control, performance improvement, asset management and effective finance management can be identified as the key segments of operation division.

When considering the Operation Division of SLE, four ongoing operations can be listed down as below.

1. Deduruoya Mini Hydro Power Plant -Energy Generation / Hydro Power
2. Kumbalgamuwa Mini Hydro Power Plant -Energy Generation / Hydro Power
3. Meter Enclosure Manufacturing Plant - Production using Injection Moulding
4. Manpower Services Division - Supplying of Manpower Service

Kumbalgamuwa Mini Hydro Power Plant

This is located in Kumbalgama Grama Niladhari Division of Imbulpe, Divisional Secretariat Division and Imbulpe Pradeshiya Sabha area in Ratnapura District, in the Sabaragamuwa Province. This project has been contributing to the economy since 2016 and this plant focuses on generation of 1.2Mw of electricity by utilizing the water that is leaking from Samanalawewa Reservoir.

Technical Details of Kumbalgamuwa Mini Hydro Power Plant

Capacity	1.276 MW
Annual Average Energy	6.0 GWh

The generated power will be added to the national electricity grid and finally to cater for the increasing power demand within the country. As mentioned above, hydro power is green energy and it contributes to reducing greenhouse gasses. This project has raised the country’s energy efficiency by using renewable generation.

Meter Enclosure Manufacturing Plant

Meter enclosure is a type of polycarbonate compartment that is fixed to a wall to cover the household electricity energy meters. According to CEB standards, the metering units must be enclosed safely using transparent meter enclosures. Further it should provide the required protection to the metering units from unfavorable environmental conditions and unauthorized human contact. MEMP is located in Galigamuwa Divisional Secretariat Division, Sabaragamuwa Province in Kegalle District.

With the above intention, a plant at Galigamuwa was established by SLE and as a Meter Enclosure Manufacturing Plant (MEMP) to supply polycarbonate meter enclosures as per the needs of CEB and LECO. This plant has been in operation since 2017. Additionally, this plant is located inside an industrial zone. Due to that reason all the basic requirements such as transportation, water and electricity were fulfilled easily.

Man Power Services Division

The main objective of setting up this division by SLE, is to provide suitable employees for the requirements of Parent Entity (CEB) and its subsidiaries.

Going deeper into this process, this service was started in 2015 and provides its contribution in the current context also in a considerable manner.

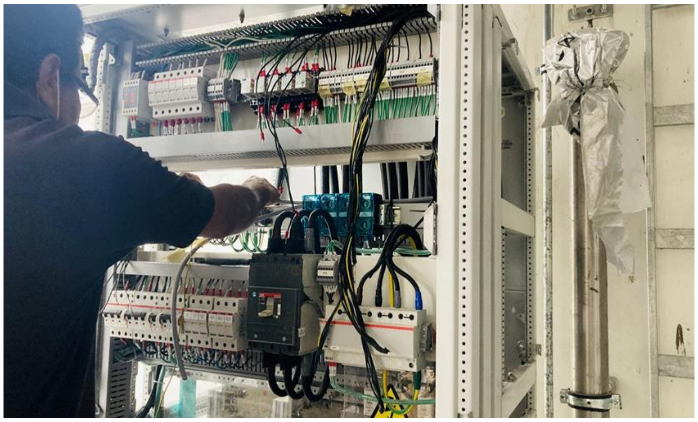
1.2 Projects Division

Projects division is responsible for defining and maintaining a standard for project management within the organization. When a new project is initiated from the new business development division, the responsibility of the project execution is conducted by the projects division. The main focus of the project division is given as follows; Manpower planning, Materials planning, Procurement planning, Designing, Project funds and petty cash management, Construction , Meeting the milestones, Reviewing the project focus, Stick to the project timeline, Installation and commissioning of equipment.

1.3 Electrical Engineering Division

Electrical Engineering division is responsible for all the electrical related design, installation, operation, maintenance and commissioning related works of SLE. Starting from procurement planning, specification preparation, supply chain management and coordination with local as well as foreign stakeholders as appropriate are performed by this department.

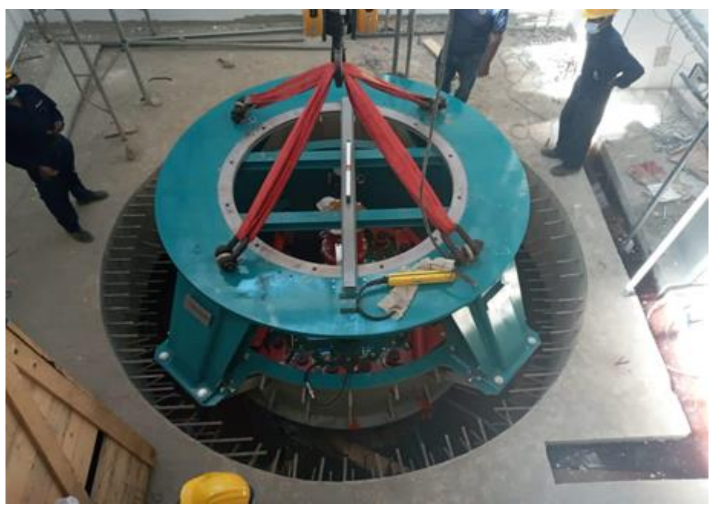
Through the experiences gathered from previous projects, SLE consisted with a competent team of electrical engineers where the commissioning of Deduru Oya Mini Hydro Power project was totally controlled as an in-house project including panel installation, cabling and commissioning. This resulted in considerable knowledge gaining for the team of engineers and avoided costs for the outsourced consultants.



1.4 Mechanical Engineering Division

The Mechanical Engineering division focuses on design, operation, maintenance and commissioning of mechanical related all aspects of SLE. Starting from the design stage, machine installation, smoothing the operational procedure, procurement planning and coordinating with local and foreign stakeholders as appropriate are performed by this department.

This department serves for each and every overhaul of power plants as well as all the maintenance work related to the machinery at MEMP. This resulted with periodic equipment service as an in-house method without proceeding with further maintenance agreements with the machinery suppliers and other outsource competencies.



1.5 Civil Engineering Division

The Civil Engineering division consists mainly of the design and construction related works of SLE and its subsidiaries. SLE has the experience of designing and constructing the civil structures by themselves without offering contracts to third parties. Even the Deduruoya Mini Hydro Power Plant was established with the knowledge and experience of the Civil Engineers team of SLE which avoided the cost of being outsourced.

For the development of Hydro Power Plants, SLE team of Civil Engineers have taken the lead of conducting the surveys with their own available technology and developing the feasibility reports with their own.

1.6 HR development Framework

Human Resource Development Unit performs a major role in SLE, by handling many functions regarding the company's human resource. These crucial functions can be classified as recruitment & selection, training the workforce, performance management and handling specific performance issues, learning & development, succession planning, compensation and benefits, HR information systems, HR data and analysis, employee safety and health and maintaining employee and labor relations.

Furthermore, the company has developed an HRIS system, which helps to perform HR activities electronically

1.7 HRIS System

A HRIS, which is also known as a human resource information system or human resource management system (HRMS), is basically an intersection of human resources and information technology through HR software. This allows HR activities and processes to conduct through the online platform.

To put it another way, a HRIS may be viewed as a way, through software, for businesses big and small to take care of a number of activities, including those related to human resources, accounting, management, and payroll. A HRIS allows a company to plan its HR costs more effectively, as well as to manage those costs and control them without needing to allocate too many resources toward it.

Performance Evaluation

SLE is following a format when evaluating the performance of the company employees. This evaluation is usually done once a year. Based on the results of these evaluations, the performance appraisals such as bonuses and increments are given. Further, when granting promotions, the results of this performance evaluation will also be taken into consideration.

Compensation and benefits

Offering compensations and other benefits to employees will be based on their performances. It will encourage the employees to bring the best at the workplace. In SLE, there are ways that SLE offers compensation benefits to our employees. Those methods can be mentioned as below,

- Insurance under NITF
- Annual bonuses
- Paying gratuities as performance appreciation
- Sponsoring employees in field training
- Medical scheme

Health and Safety

All workers are entitled to work in environments where risks to their health and safety are properly controlled. Under health and safety law the primary responsibility for this is down to employers. The decisions about the health and safety matters will be taken by SLE, by coordinating with the employees and their family members. As a highly reputed company, the employees are strongly protected by the labor law and regulations. Moreover, SLE has its own medical scheme, which will be beneficial for the employees.

Training and Development

SLE focuses on the training and development of its employees in many ways. Professional development and career guidance programs are encouraged and sponsored by the company, for the betterment of the employees and their self-development. These programs are concentrated for many aspects including engineering, management, law and safety.

Moreover, physical training for all the employees are arranged annually which covers firefighting, annual trips, leadership and team building events. Moreover, adhering to serve the society, SLE offers training opportunities for undergraduate students, students from technical colleges as well as clerical trainees in a wide variety of contexts.

Involvement in Legal matters

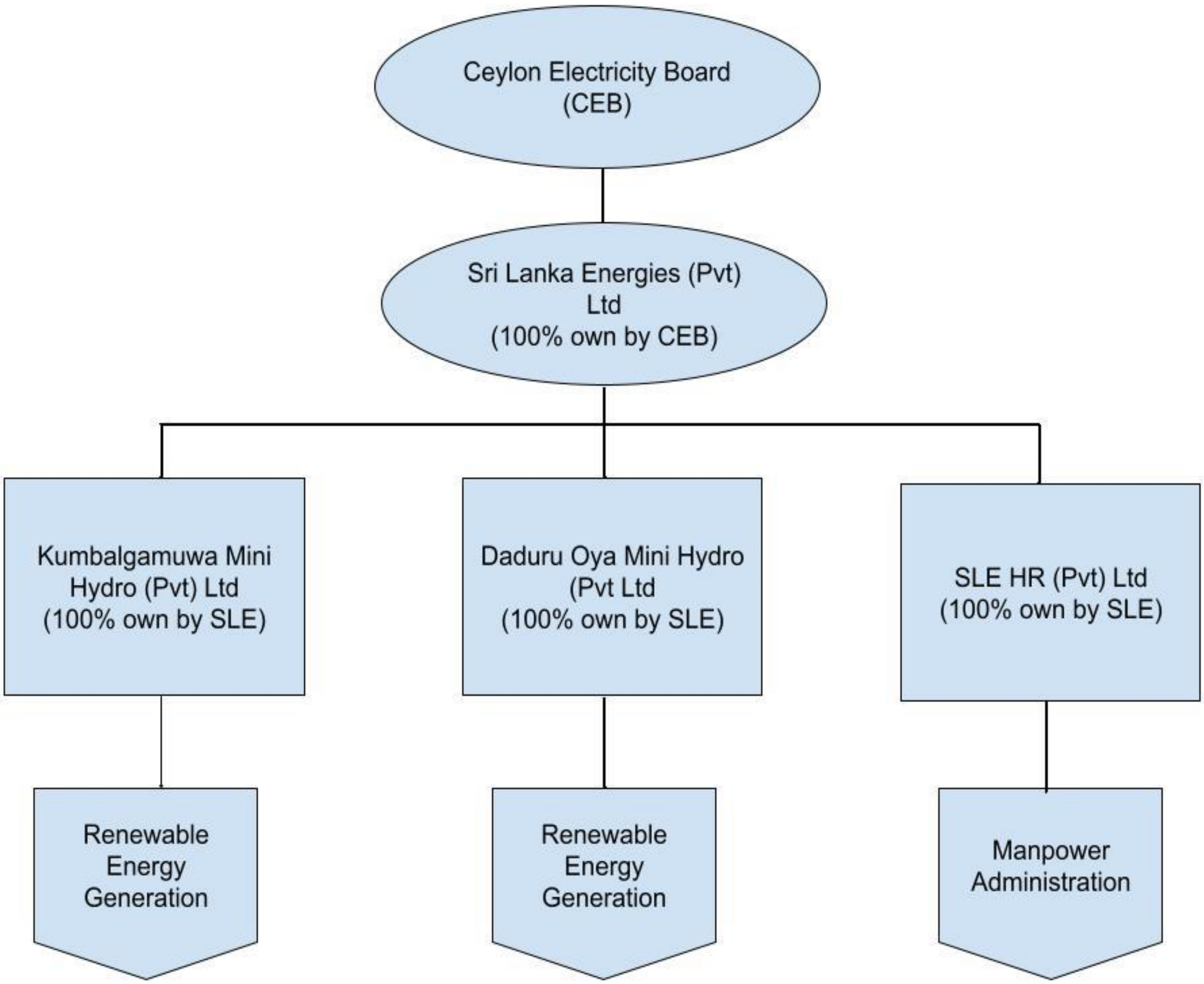
This division is responsible for the involvement of legal matters related to SLE. Any court cases related to the company are handled by this division. Moreover this includes, licensing activities, handling employee termination, handling contract agreements and dealing with intellectual property rights.

1.8 FINANCE DIVISION

Finance is one of the major pillars of any organization and an essential ingredient to a successful business. Nowadays, a finance department has a broad range of roles to carry out within or outside an organization. The performance and success of any company greatly depend on how well the finance is handled. Keeping a close watch on the financing function is very important for the smooth operation of a company.

The Finance Department is the part of an organization that is responsible for acquiring funds for the firm, managing funds within the organization and planning for the expenditure of funds on various assets. It is the part of an organization that ensures efficient financial management and financial control necessary to support all business activities.

02. Group Composition



Vision

To be a significant contributor to the sustainable energy development that cares for both people & planet for a better tomorrow

Mission

Encourage the growth of sustainable energy to tackle climatic changes and bring social and economic benefits to millions

04. Board of Directors

Mr. R.P.K. Gallage

Chairman

Mr. Pasan Hiripitiyage

Director

Mrs. Udeni Udugahapaththuwa

Director

Mr. Rajeew Selvaraja

Director

Mr. S.D.W. Gunawardhana

Director

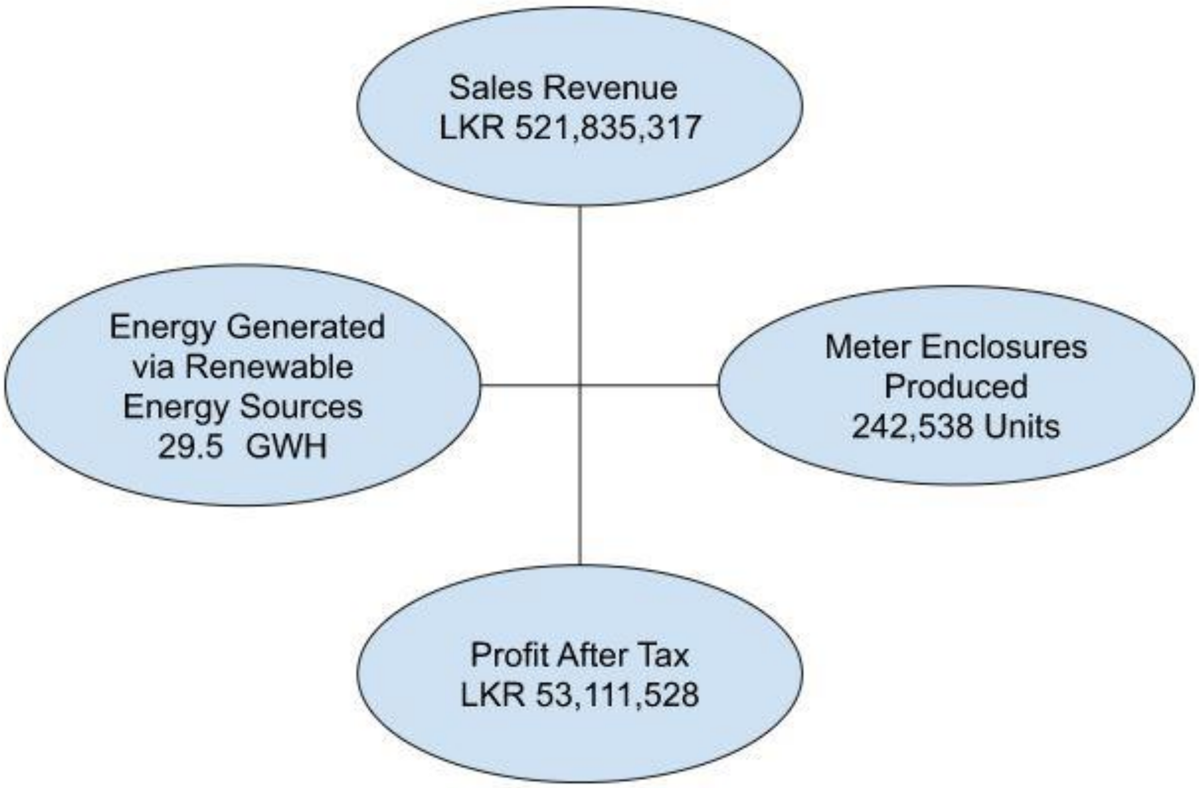
Mr. Rakitha Jayawardhana

Director

Mr. Rohan Jayasinghe

Director

05. Group Highlights



06. Annual Statement of Audited Financials

Sri Lanka Energies (Pvt) Ltd

Statement of Financial Statement

As at 31 December 2019

	Group			Company	
	2019	**2018**	**2018**	**2019**	**2018**
Assets	**Rs.**	**රු.**	**Rs.**	**Rs.**	**Rs.**
Non-current Assets		**Restated**			
Property, Plant & Equipment	593,604,954	631,642,475	631,642,475	93,028,012	110,048,144
Investments in subsidiaries	-	-	-	140,646,003	96,281,863
Intangible Assets	173,158	369,408	369,408	156,833	369,409
Defferd Tax Asset	55,621	55,621	55,621	28,999	28,999
Investment in Bric project	2,660,000	7,364,447	7,364,447	2,660,000	7,364,447
	596,493,733	639,431,948	639,431,948	236,519,847	214,092,862
Current Asets					
Fixed Deposit	49,618,109	45,646,359	45,646,359	49,618,109	45,646,359
Advance for Machinery	50,375,261	-	-	-	-
Inventory	106,987,473	4,021,270	4,021,270	106,987,473	4,021,270
Trade and Other Receivables	108,035,387	65,666,362	65,666,362	66,859,652	45,417,598
Amounts Due form Related Parties	-	-	-	11,392,225	10,700,980
Cas at Cash Equivalants	21,999,964	22,505,829	22,505,829	17,056,377	13,506,120
	337,016,195	137,839,820	137,839,820	251,913,837	119,292,328
Total Assets	933,509,929	777,271,768	777,271,768	488,433,684	333,385,190
Equity and Liabilities					
Stated Capital	154,910,010	154,910,010	154,910,010	154,910,010	154,910,010
Share Application Money Received	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Accumulated Profit/Loss	17,807,032	(35,304,496)	(27,588,488)	(128,682,689)	(169,383,635)
Total Equity	192,717,042	139,605,514	139,605,514	139,605,514	139,605,514
Non-current Liabilities					
Borrowings	427,696,900	470,876,582	470,876,582	84,546,900	97,416,564
Retirement Benefit Liability	2,448,961	1,486,388	1,486,388	2,448,961	1,486,388
	430,145,861	472,363,970	472,363,970	86,995,861	98,902,952
Current Liabilities					

Trade and other Payables	204,013,375	68,930,909	61,214,902	142,792,158	13,476,439
Income Tax Provision	22,155,829	15,840,132	15,840,132	9,126,591	3,091,942
Borrowings	70,430,400	59,524,296	59,524,296	42,830,400	31,927,296
Bank Overdraft	5,317,269	11,352,615	11,352,615	5,010,277	11,313,159
Amounts due to related party	8,730,162	9,655,332	9,655,332	155,451,076	169,150,026
	310,647,026	165,303,284	165,303,284	355,210,503	228,955,863
Total Equity and Liabilities	933,509,929	777,271,768	777,271,768	488,433,684	333,385,190

Statement of Comprehensive Income

Year ended 31 December 2019

	Group			Company	
	2019 Rs.	2018 Rs. Restated	2018 Rs.	2019 Rs.	2018 Rs.
Revenue	521,835,317	155,281,100	155,281,100	395,291,314	52,548,039
Cost of Sales	(282,892,769)	(86,385,977)	(86,385,977)	229,796,632)	(44,793,570)
Gross Profit	238,942,548	68,912,123	68,912,123	165,494,682	7,754,469
Direct Project Expenses	(40,422,175)	(35,429,538)	(35,429,538)	(40,401,480)	(27,692,833)
Administrative Expenses	(67,466,871)	(40,377,325)	(40,377,325)	(60,566,424)	(35,131,737)
Finance Expenses	(78,170,371)	(69,941,307)	(69,941,307)	(23,807,722)	(15,744,485)
Finance Income	5,222,480	4,663,616	4,663,616	4,694,933	4,608,973
Other Income	1,321,555	54,277	54,277	1,321,555	53,741
Profit/(Loss) before Tax	59,427,166	(72,118,154)	(72,118,154)	46,735,544	(66,151,871)
Income Tax Provision	(6,315,638)	(875,214)	(875,214)	(6,034,599)	(838,833)
Profit/(Loss) After Tax for the year	53,111,528	(72,993,368)	(72,993,368)	40,700,945	(66,990,704)
Other Comprehensice Income		-	-	-	-
Total Comprehensive Income	53,111,528	(72,993,368)	(72,993,368)	40,700,945	(66,990,704)

Statement of Changes in Equity

Year ended 31 December 2019

Group	**Stated Capital** Rs.	**Share Application Money** Rs.	**Accumulated Losses** Rs.	**Total** Rs.
Balance as at 31 December 2017	154,910,010	20,000,000	(37,688,872)	(37,688,872)
Profit/(Loss) for the year	-	-	(65,277,358)	(65,277,358)
Adjustment made (Note 18)			(7,716,010)	(7,716,010)
Balance as at 31 December 2018	154,910,010	20,000,000	(35,304,496)	(35,304,496)
Profit/(Loss) for the year	-	-	53,111,528	53,111,528
Balance as at 31 December 2019	154,910,010	20,000,000	17,807,032	192,717,042

Company	**Stated Capital** Rs.	**Share Application Money** Rs.	**Accumulated Losses** Rs.	**Total** Rs.
Balance as at 31 December 2017	154,910,010	20,000,000	(102,392,920)	72,517,080
Profit/(Loss) for the year	-	-	(66,990,704)	(66,990,704)
Balance as at 31 December 2018	154,910,010	20,000,000	(169,383,634)	5,526,376
Profit/(Loss) for the year	-	-	40,700,945	40,700,945
Balance as at 31 December 2019	154,910,010	20,000,000	(128,682,689)	46,227,321

Statement of Cash Flows

Year ended 31 December 2019

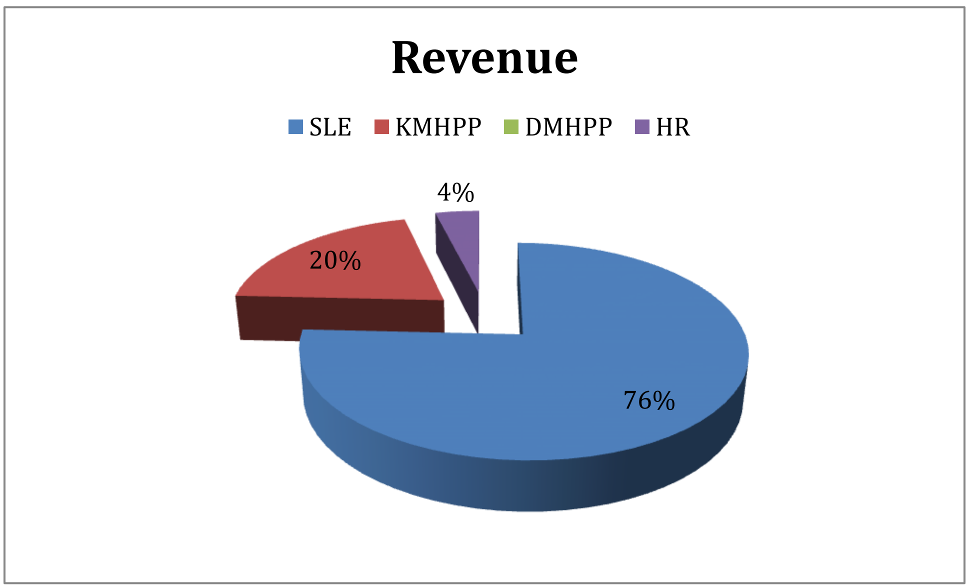
	Group			Company	
	Period from 01 January 2019 to	Period from 01 January 2018 to 31 December	Period from 01 January 2018 to	Period from 01 January 2019 to 31 December	Period from 01 January 2018 to 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash Flows from /(Used in) Operating Activities		Restated			
Profit/(Loss) Before Tax	53,427,166	(72,118,154)	(64,402,144)	46,735,544	(66,151,871)
Adjustment for					
Adjustment for prior reporting period			-	-	-
Finance Cost	78,170,371	69,941,307	69,941,307	23,807,722	15,744,485
Depreciation	50,175,929	49,802,019	49,802,019	19,691,543	19,548,686
Amortization	215,941	604,779	604,779	212,575	237,284
Adjustment for impairment	4,704,447			4,704,447	
Operating Profit Before Working Capital Changes	192,693,854	55,945,961	55,945,961	95,151,831	(30,621,416)
Increase / (Decrease) in Trade and Other Receivables	(42,369,025)	(543,146)	(543,146)	(21,442,054)	(23,264,448)
Increase / (Decrease) in Amount Due from Related Party	-	-	-	(691,245)	(76,400)
Increase / (Decrease) in inventory/Fixed Deposit/Advance	(157,313,215)	(410,323)	(410,323)	(106,937,953)	(410,324)
Increase / (Decrease) in Retirement Benefit	962,573	466,223	466,223	962,573	466,223
Increase / (Decrease) in Amount Due to Related Party	(925,170)	8,811,034	8,811,034	(13,698,950)	39,595,718
Increase / (Decrease) in Trade and Other Payables	135,082,467	11,036,801	11,036,801	129,315,720	(2,045,353)
Net Cash Flows from Operating Activities	128,131,484	67,590,540	67,590,540	82,659,992	(16,366,000)
Casg Flows Used in Investing Activities					
Acquisition of Property,Plant & Equipment	(12,138,413)	(3,095,739)	(3,095,739)	(2,671,411)	(1,660,126)
Acquisitons of Intangible Assets	(19,691)	(100,000)	(100,000)	-	(100,000)
Investment in Subsidiaries	-	-	-	(44,364,140)	-
Net Cash Flow Used in Investing Activities	(12,158,104)	(3,195,739)	(3,195,739)	(47,035,551)	(1,760,126)
Cash Flows from Financing Activities					

Proceeds from Loans	10,906,153	47,528,840	47,528,840	10,906,155	47,528,839
Repayments of Loans	(43,179,682)	(25,339,982)	(25,339,982)	(12,869,155)	-
Finance Cost	(78,170,371)	(69,941,307)	(69,941,307)	(23,807,722)	(15,744,485)
Net Cash Flows From Financing Activites	(110,443,900)	(47,752,449)	(47,752,449)	(25,771,231)	31,784,354
Net Increase in Cash and Cash Equivalents	5,529,480	16,642,352	16,642,352	9,853,140	13,658,228
Cash and Cash Equivalents at the Beginning of the Period	11,153,215	(5,489,737)	(5,489,737)	2,192,961	(11,465,267)
Cash and Cash Equivalents at the end	16,682	11,153,215	11,153,215	12,046,100	3,192,961

07. Segmental Analysis of Sri Lanka Energies (Pvt) Ltd Group Revenue

Revenue	SLE	%	KMHPP	%	DMHPP	%	HR	%	Total	%
Year Ended	395,291	75.75%	106,274	20.37%	-	0%	20,269	3.88	521,834	100%

*SLE – Sri Lanka Energies (Pvt) Ltd – Parent Entity
*KMHPP – Kumbalgamuwa Mini Hydro Power Plant – Subsidiary
*DMHPP – Daduru Oya Mini Hydro (Pvt) Ltd – Subsidiary
*HR – SLE HR (Pvt) Ltd – Subsidiary



08. Auditor General Opinion on the Financial Statement

ජාතික විගණන කාර්යාලය
தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

මගේ අංකය எனது இல. My No.	POE/E/SLE/FS/2019/40	ඔබේ අංකය உமது இல. Your No.		දිනය திகதி Date	09 December 2020

POE/E/SLE/FS/2019/40 December 2020

Chairman
Sri Lanka Energies (Private) Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Sri Lanka Energies (Private) Limited and its Subsidiaries for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

---

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Energies (Private) Limited ("Company") and the consolidated financial statements of the Company and its Subsidiaries ("Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my 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 2019, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

(a) As per paragraph 08 of the Sri Lanka Financial Reporting Standard on Financial Instruments Disclosures (SLFRS 07), the carrying amount of each category of financial assets and liabilities shall be disclosed in the statement of financial position or in notes and as per paragraph 31 and 33 of the Standard, required information to evaluate the nature and extent of risk arisen from the financial instrument to which the Company is exposed at the end of the reporting period shall be disclosed. However, entity had not provided required disclosures.

(b) According to paragraph 01 of the Sri Lanka Financial Reporting Standard on Revenue for Contracts with Customers (SLFRS 15), Company shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, the Company had not recognized revenue according to this standard.

(c) According to paragraph 79 of the Sri Lanka Accounting Standard on Preparation of Financial Statements (LKAS 01), the Company had not disclosed the nature and the purpose of the reserves in the financial statements.

(d) According to paragraph 113 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the company shall note cross reference each item in the statement of financial position and in the statement of profit or loss and other comprehensive income, and in the statement of changes in equity and statement of cash flows to any related information in the notes. However, items in the statement of financial position such as fixed deposit, deferred tax assets, retirement benefit liability and income tax provision are not given cross reference.

(e) According to paragraph 117 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the Company shall disclose the significant accounting policies that are relevant to understand the financial statement**.** Even though LKAS 39 replaced by SLFRS 9, the policy of financial assets are not in accordance with the SLFRS 9 and entity had not disclosed accounting policies for intangible assets and work in progress of meter enclosure factory.

(f) According to paragraph 37 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), the company had not disclosed the information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users.

(g) As per the paragraph no 80 (a) of LKAS 12 Income Tax, disclosures of Income tax expenses in the note to the financial statement had not been made.

(h) As per Paragraph 57 of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19) defined benefit obligation should be measured in projected unit credit method. However, defined benefit obligation had been calculated based on half month's salary of the last month of the financial year of all employees monthly which is contrary to the standard.

(i) According to paragraph 140 and 141of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19), the company shall disclose a reconciliation of opening and closing balances of the present value showing the interest cost, current service cost, past service cost etc. and total expense recognized in profit and loss for current service cost, interest cost, actuarial gain or loss, past service cost etc. However, the Company had not presented the required disclosures in the financial statements. Further, there is no any indication that the Company has any plan asset to mitigate the risk of future obligation.

(j) As per the paragraph 17 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24) the Company shall disclose key management personal compensation in total and for each of the short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, share-based payments. However, the Company has not disclosed the key management personal compensation. Further, detailed disclosures had not been made regarding the related parties in the financial statements of the year under review.

(k) Section 2(2) of Economic Service Charge Act, No. 13 of 2006, the Company's turnover has exceeded 12.5 Million per quarter are liable for Economic Service charges. However, the Company had not paid Economic Service Charges for the year 2019 though the total turnover of the Company was Rs. 396 Million. Hence, ESC liability had been understated by Rs. 1,983,064.

(l) Staff of the Company had engaged in administrative works of the subsidiary Companies without charging any management fee. Hence Group's staff expenses amounting to Rs.24,847,325 had been charged in the Company expenses erroneously.

(m) Composition of cash and cash equivalents had not been shown in the financial statement. Hence, I was unable to identify the cash balance and bank balances separately.

(n) Sufficient appropriate evidence had not been submitted in respect of other advance, prepayment and receivables amounting to Rs. 2,114,005. Hence, I was unable to verify the accuracy of the above balances.

(o) Original WHT certificate were not made available for audit to ensure the accuracy of WHT receivable amounting to Rs. 2,120,524 shown in the financial statements.

(p) The Company had not provided sufficient appropriate evidence for accrued expenses of Rs. 1,170,279 and retirement benefit obligation of Rs. 962,573. Therefore, I was unable to verify the accuracy of the above balances in the financial statements.

(q) The Company had not provide sufficient appropriate evidence for Income tax provision of Rs. 9,126,591, Input VAT on purchase in year 2018 amounting to Rs. 18,164,500 , NBT payable of Rs. 2,995,358, Output VAT on sales of Rs. 1,541,658, deferred tax asset Rs. 28,999 etc. Further NBT and VAT returns, Schedules and payments slips were not submitted for audit. Hence, I was unable to verify the accuracy of above balances shown in the financial statements.

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 intends 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 Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 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 ofusers 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 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. We remain solely responsible for our audit opinion.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

- The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

	Reference to Laws, Rules and Regulations etc.	Non-compliance
	---------------------------------------	----------------------
(a)	Section 126 of the Inland Revenue Act, No.24 of 2017	The duly completed return along with the schedules and any other required documents should be submitted to the Inland Revenue Department on or before the 30th of November subsequent to the end of the year of assessment. However, the Company had not submitted any Income tax return to the Department of Inland Revenue since the date of incorporation (year 2011 up to the year 2019).
(b)	Section 08 of Nation Building Tax Act No.09 of 2009, duly amended	Even though NBT tax returns should be submitted on due dates, NBT tax returns had submitted with 02 to 09 months delays.
(c)	Section 4 of National Building Tax Act No.09 of 2009, (duly amended)	Even though NBT should be paid on or before 20th day of the subsequent month at the end of each month, NBT payment had been made with 03 to 09 months delays on quarterly basis.
(d)	Section 21 of Value Added Tax Act No 14 of 2002, (duly amended)	Even though VAT returns should be submitted on due dates, VAT returns had been submitted with 03 to 08 months delays.
(e)	Section 7of Stamp Duty Act, No. 43 of 1982 (as amended)	(i) Even though Statement of stamp duty compounded should be furnished on or before fifteenth day of following month after ending quarter, statement of stamp duty compounded had been furnished with 42 to 72 days delay.

		(ii) The Company had not paid the Stamp Duty Payments on or before 15 days of following month.
(f)	Section 86 and 87 of Inland Revenue Act No 24 of 2017	PAYE monthly payments should be made on or before the 15th day of the following month. However the Company had not paid PAYE payments on due dates.
(g)	Public Enterprises Circulars No. PED 3/2015 dated 17 June 2015	The Company had paid a sum of Rs. 1,662,500 as per-sitting allowances during the year under review without a formal approval.

- to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

3. Other Audit Issues

(a) 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 and further it should be in accordance with the Public Enterprises Circular No. PED/45 dated 02 October 2007. However, Group's financial statements of the year 2019 had been submitted to the Auditor General on 13 July 2020.

(b) The Principle activities of the Company are to engage in the business of constructing transmission lines and grid stations, constructing, maintaining and operating renewable energy projects and the works necessary for generation electrical energy, engaging in the activities as are necessary for development of renewable energy. However, the Company had not engaged in any activities to develop renewable energies.

(c) As at 31 December 2014, the Group has invested Rs. 7,364,447 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag in a joint venture with Amtrad Holdings (Private) Limited. However, the joint venture agreement has been terminated and the asset of the project has remained idle.

(d) The Company had engaged in producing of meter enclosures and supply the product to Ceylon Electricity Board and Lanka Electricity (Pvt) Limited. However, any agreement or MOU had not been submitted to audit relating to the production of meter enclosures.

(e) A sum of Rs.1,060,279 shown in the financial statements as accrued expenditure as at end of the year under review which had been brought forward from the year 2017 had remained without been settled.

(f) Physical verifications of assets had not been carried out by the Company for the year under review.

09. Replies to the Report of Auditor General

Annexure 01

Reply for the Audit Observations Based on the Report of the Auditor General on the Consolidated Financial Statements of Sri Lanka Energies (Pvt) Ltd for the year ended 31 December 2019.

1.2 Basis for the Opinion

(a) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(b) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(C) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(d) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(e) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(f) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards.

(g) Financial Statements were preceded with draft income tax calculation and will attend to the needful to Proceeded with final tax calculations and return filling

(h) Will adhere to this best practice in future

(i) Will adhere to this best practice in future.

(j) We will attend to the necessary arrangements to adhere these best practices of adding the relevant disclosures according to the Sri Lanka Accounting standards from 2020 onwards

(k) Sri Lanka Energies (pvt) Ltd has not registered under the Economic Service Charge and will comply as required in future

(l) Hence subsidiaries have not been generating adequate surplus during the year and the principle of charging management fees have not been effected. From 2020 will adhere this concept of charging the management fee from subsidiaries for the administration work done by SLE Staff.

(m) Actions will be taken to rectify this immediately

(n) Each and every payment was proceeded with properly approved documents and if the each payments dates and values can be provided in detail, we will be able to sought out this doubt.

(o) Actions will be taken to rectify this immediately

(p) Each and every payment was proceeded with properly approved documents and if the each payments dates and values can be provided in detail, we will be able to sought out this doubt.

(q) Actions will be taken to rectify this immediately

2. Reference to Laws, Rules and Regulations etc.

(a) Financial Statements were preceded with draft income tax calculation and will attend to the needful to Proceeded with final tax calculations and return filling

(b) Actions will be taken to rectify this immediately

(c) Actions will be taken to rectify this immediately

(d) Actions will be taken to rectify this immediately

(e) Actions will be taken to rectify this immediately

(f) Actions will be taken to rectify this immediately

(g) It is questionable to see this audit observation. Formal approval available.

3 Other Audit Issues

(a) Will adhere to this best practice in future

(b) It is questionable to see this audit observation of “company had not engaged any renewable energy project until now “.

This is because as auditors are well aware that Sri Lanka Energies (Pvt) Ltd is consisted with three subsidiary companies and among them Kubalgamuwa Mini Hydro (Pvt) Ltd and the Deduru Oya Mini Hydro (Pvt) Ltd are engaged with hydro power generation. Kubalgamuwa Mini Hydro (pvt) Ltd is under operation since February 2016 which operates with more than 50% plant factor and contributed 27GWH to national system. Further Deduru Oya Mini Hydro (pvt) ltd is under construction which will be commissioned in December 2020.

(c) Basically this investment was completed in year 2014 to construct few buildings to initiate the Ash Brick Project in Norochcholai . Based on the decision by SLE Board of Directors at meeting held on 31 Oct 2016, a request letter was communicated to CEB to handover the said buildings for the purpose of CEB. (Copy of the request letter is attached.). Hence there was no any response, SLE- Board of Directors decided in 2019 to conduct another valuation through department of valuation and to proceed with re-request for the same.

(d) By now Sri Lanka Energies (Pvt) Ltd is able to satisfy the Meter Enclosure requirement of CEB and LECO completely by producing more than 50,000 units of Meter Enclosures per month. Within the Year 2019 total of 342,000 Meter Enclosure Units were supplied to both CEB and LECO and satisfied the requirement. Hence Sri Lanka Energies (pvt) Ltd is a 100% owned subsidiary of CEB, this Meter Enclosure production is one of a in house business.

(e) There were some payable balances which were long outstanding and necessary actions will be taken to write off the said balances.

(f) Actions will be taken to rectify this immediately

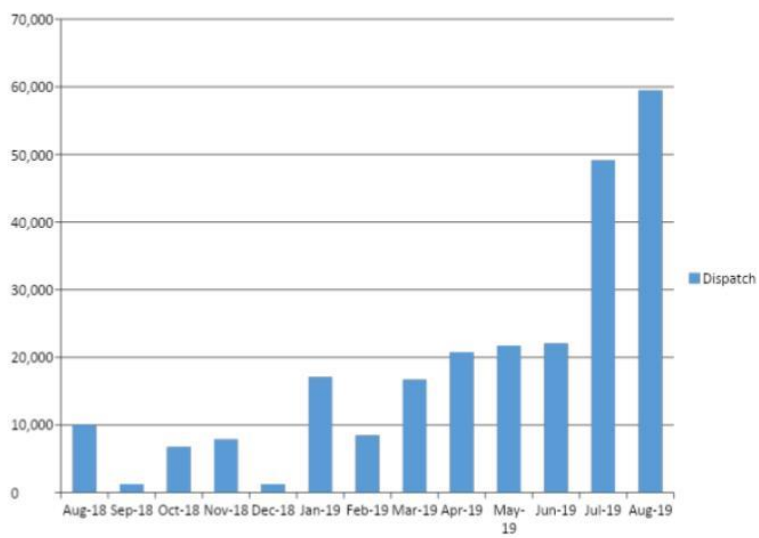
.

10. Performance Update – SLE

10.2 Performance of Meter Enclosure Manufacturing Plant - MEMP

Month	Dispatch
Aug-18	10,000
Sep-18	1,250
Oct-18	6,750
Nov-18	7,850
Dec-18	1,250
Jan-19	17,088
Feb-19	8,450
Mar-19	16,710
Apr-19	20,750
May-19	21,731
Jun-19	22,076
Jul-19	49,133
Aug-19	59,500
Total	242,538

Monthly Dispatch



10.2 Kumbalgamuwa Mini Hydro Power Plant – KMHPP

Kumbalgamuwa Mini Hydro Plant

Capacity = 1.2 MW
Plant Head = 40 m
Annual Average Energy = 4.5 GWH
Planned Energy = 7.2 GWH
Channel Length = 3.5 km

Summary of December 2019

Description	Value
Net Energy Production kWh	426,259
Plant Shutdown Hours	2.93
Plant Running Hours	741.07
Plant Factor	44.90%
Plant Availability	99.61%
Month Income LKR	7,519,208.76

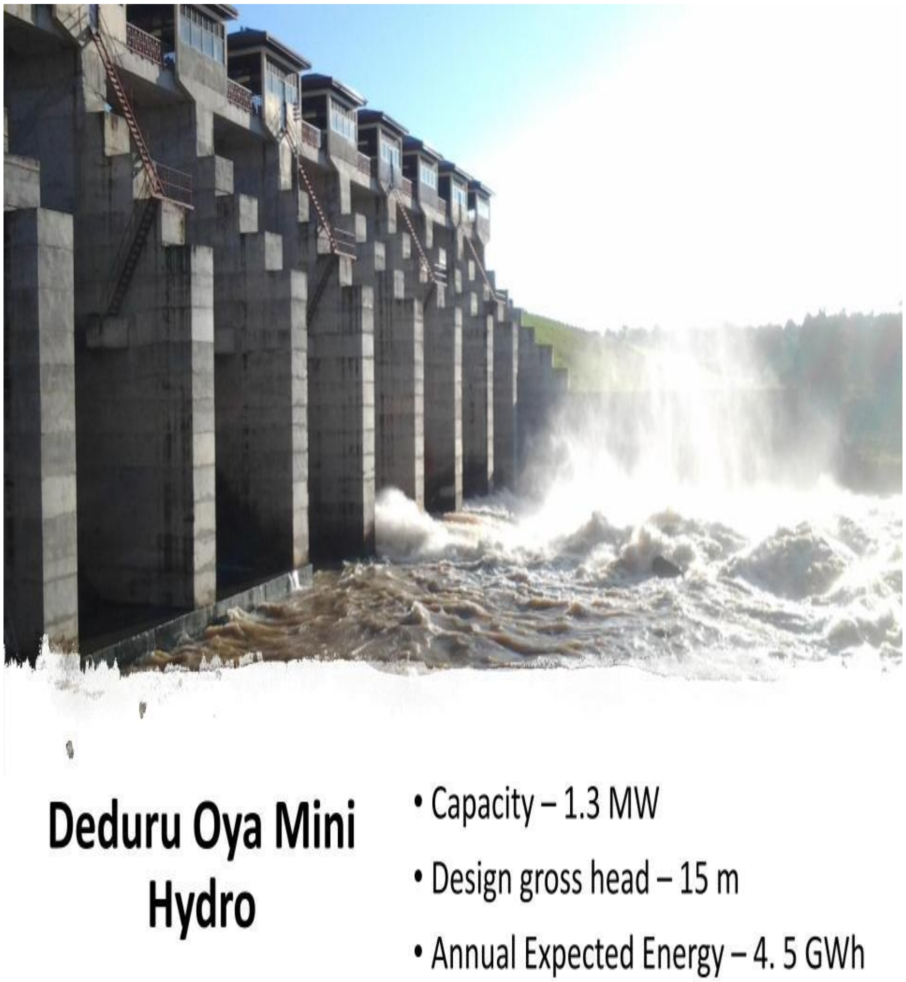
11. Forecasted plans for Project Segmentation Expansions for 2020-2021

11.1 Scarp Aluminium Recycling Project

With the concerns to mitigate the damage to the environment and also to make these Scrap Aluminum in a manner that will worthwhile to the Ceylon Electricity Board, Sri Lanka Energies (Pvt) Ltd is in a process of establishing a plant for Scrap Aluminum Recycling and manufacturing Redraw Rods for the future use of Ceylon Electricity Board. This will facilitate the Sri Lankan economy also by mitigating the burden against the Dollar requirement to import the Aluminum.

11.2 Daduru Oya Mini Hydro Power Project

Deduruoya Reservoir project was implemented with the purpose of multiple functions as irrigation, water supply and electricity generation. Once this potential availability of hydro power energy was identified, SLE collaborated with the Department of Irrigation to make this course of work success. This Project is located at Katuwannawa Grama Niladhari Division of Maho in Kurunegala District in North Western Province. The main intention of this project is to provide green energy to the national electricity grid, reducing the fossil fuel energy generation in the country.



11.3 Issuance of Safety Certificate for Elevator and Excavator

11.4 Re-Installation of Hambantota Wind Farm Project

- Total Capacity – 3 MW
- Number of turbines – 5 (600kW x 5)
- Expected Annual Energy – 5

Steering Committee study is finalizing and for next board meeting the proposal will be submitted to the Board.

මගේ අංකය
எனது இல.
My No. POE/E/SLE/FS/2019/40

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date 09 December 2020

Chairman

Sri Lanka Energies (Private) Limited

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Sri Lanka Energies (Private) Limited and its Subsidiaries for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

---

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Energies (Private) Limited ("Company") and the consolidated financial statements of the Company and its Subsidiaries ("Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my 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 2019, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව   இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை.   No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
+94 11 2 88 70 28 - 34   +94 11 2 88 72 23   ag@auditorgeneral.gov.lk   www.naosl.gov.lk

1.2 Basis for Qualified Opinion

(a) As per paragraph 08 of the Sri Lanka Financial Reporting Standard on Financial Instruments Disclosures (SLFRS 07), the carrying amount of each category of financial assets and liabilities shall be disclosed in the statement of financial position or in notes and as per paragraph 31 and 33 of the Standard, required information to evaluate the nature and extent of risk arisen from the financial instrument to which the Company is exposed at the end of the reporting period shall be disclosed. However, entity had not provided required disclosures.

Same 2019 1.2.2

(b) According to paragraph 01 of the Sri Lanka Financial Reporting Standard on Revenue for Contracts with Customers (SLFRS 15), Company shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, the Company had not recognized revenue according to this standard.

Same 2019 1.2.2

(c) According to paragraph 79 of the Sri Lanka Accounting Standard on Preparation of Financial Statements (LKAS 01), the Company had not disclosed the nature and the purpose of the reserves in the financial statements.

(d) According to paragraph 113 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the company shall note cross reference each item in the statement of financial position and in the statement of profit or loss and other comprehensive income, and in the statement of changes in equity and statement of cash flows to any related information in the notes. However, items in the statement of financial position such as fixed deposit, deferred tax assets, retirement benefit liability and income tax provision are not given cross reference.

(e) According to paragraph 117 on Sri Lanka Accounting Standard of Preparation of Financial Statements (LKAS 01), the Company shall disclose the significant accounting policies that are relevant to understand the financial statement. Even though LKAS 39 replaced by SLFRS 9, the policy of financial assets are not in accordance with the SLFRS 9 and entity had not disclosed accounting policies for intangible assets and work in progress of meter enclosure factory.

(f) According to paragraph 37 of the Sri Lanka Accounting Standard on Inventories (LKAS 02), the company had not disclosed the information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users.

Same 2019. (1.2.2)

(g) As per the paragraph no 80 (a) of LKAS 12 Income Tax, disclosures of Income tax expenses in the note to the financial statement had not been made.

2020 Ans 2.2.2 (a)

(h) As per Paragraph 57 of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19) defined benefit obligation should be measured in projected unit credit method. However, defined benefit obligation had been calculated based on half month's salary of the last month of the financial year of all employees monthly which is contrary to the standard.

2020 Ans (1.2.(b))

(i) According to paragraph 140 and 141of the Sri Lanka Accounting Standard on Employment Benefits (LKAS 19), the company shall disclose a reconciliation of opening and closing balances of the present value showing the interest cost, current service cost, past service cost etc. and total expense recognized in profit and loss for current service cost, interest cost, actuarial gain or loss, past service cost etc. However, the Company had not presented the required disclosures in the financial statements. Further, there is no any indication that the Company has any plan asset to mitigate the risk of future obligation.

2020 Ans 1.2 (b).

(j) As per the paragraph 17 of the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24) the Company shall disclose key management personal compensation in total and for each of the short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits, share-based payments. However, the Company has not disclosed the key management personal compensation. Further, detailed disclosures had not been made regarding the related parties in the financial statements of the year under review.

Same 2019 1.2.2

(k) Section 2(2) of Economic Service Charge Act, No. 13 of 2006, the Company's turnover has exceeded 12.5 Million per quarter are liable for Economic Service charges. However, the Company had not paid Economic Service Charges for the year 2019

 Same. 1.2.3 (I)

though the total turnover of the Company was Rs. 396 Million. Hence, ESC liability had been understated by Rs. 1,983,064.

(l) Staff of the Company had engaged in administrative works of the subsidiary Companies without charging any management fee. Hence Group's staff expenses amounting to Rs.24,847,325 had been charged in the Company expenses erroneously.

Same 1.2.3 (II)

(m) Composition of cash and cash equivalents had not been shown in the financial statement. Hence, I was unable to identify the cash balance and bank balances separately. 2020 Ans 1.2(b)

(n) Sufficient appropriate evidence had not been submitted in respect of other advance, prepayment and receivables amounting to Rs. 2,114,005. Hence, I was unable to verify the accuracy of the above balances.

2020 Ans (1.2d) (d)

(o) Original WHT certificate were not made available for audit to ensure the accuracy of WHT receivable amounting to Rs. 2,120,524 shown in the financial statements.

2020 Ans 1.2(b)

(p) The Company had not provided sufficient appropriate evidence for accrued expenses of Rs. 1,170,279 and retirement benefit obligation of Rs. 962,573. Therefore, I was unable to verify the accuracy of the above balances in the financial statements.

2020 Ans 1.2(d)

(q) The Company had not provide sufficient appropriate evidence for Income tax provision of Rs. 9,126,591, Input VAT on purchase in year 2018 amounting to Rs. 18,164,500 , NBT payable of Rs. 2,995,358, Output VAT on sales of Rs. 1,541,658, deferred tax asset Rs. 28,999 etc. Further NBT and VAT returns, Schedules and payments slips were not submitted for audit. Hence, I was unable to verify the accuracy of above balances shown in the financial statements. 2020 Ans 1.2(b)

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 intends 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 Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 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 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. We remain solely responsible for our audit opinion.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- Except for the effect of the matters described in the Basis for Qualified Opinion paragraph, I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and section 12 (a) of the National Audit Act, No. 19 of 2018.

- The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

- The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained which limited to matters that are material, nothing has come to my attention;

- to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

- to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

Reference to Laws, Rules and Regulations etc.		Non-compliance
(a)	Section 126 of the Inland Revenue Act, No.24 of 2017	The duly completed return along with the schedules and any other required documents should be submitted to the Inland Revenue Department on or before the 30th of November subsequent to the end of the year of assessment. However, the Company had not submitted any Income tax return to the Department of Inland Revenue since the date of incorporation (year 2011 up to the year 2019).
(b)	Section 08 of Nation Building Tax Act No.09 of 2009, duly amended	Even though NBT tax returns should be submitted on due dates, NBT tax returns had submitted with 02 to 09 months delays.
(c)	Section 4 of National Building Tax Act No.09 of 2009, (duly amended)	Even though NBT should be paid on or before 20th day of the subsequent month at the end of each month, NBT payment had been made with 03 to 09 months delays on quarterly basis.
(d)	Section 21 of Value Added Tax Act No 14 of 2002, (duly amended)	Even though VAT returns should be submitted on due dates, VAT returns had been submitted with 03 to 08 months delays.
(e)	Section 7of Stamp Duty Act, No. 43 of 1982 (as amended)	(i) Even though Statement of stamp duty compounded should be furnished on or before fifteenth day of following month after ending quarter, statement of stamp duty compounded had been furnished with 42 to 72 days delay.

		(ii) The Company had not paid the Stamp Duty Payments on or before 15 days of following month.
(f)	Section 86 and 87 of Inland Revenue Act No 24 of 2017	PAYE monthly payments should be made on or before the 15th day of the following month. However the Company had not paid PAYE payments on due dates.
(g)	Public Enterprises Circulars No. PED 3/2015 dated 17 June 2015	The Company had paid a sum of Rs. 1,662,500 as per-sitting allowances during the year under review without a formal approval.

- to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

- to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

3. Other Audit Issues

(a) 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 and further it should be in accordance with the Public Enterprises Circular No. PED/45 dated 02 October 2007. However, Group's financial statements of the year 2019 had been submitted to the Auditor General on 13 July 2020.

2020 (AUS) 1.2(b)

(b) The Principle activities of the Company are to engage in the business of constructing transmission lines and grid stations, constructing, maintaining and operating renewable energy projects and the works necessary for generation electrical energy, engaging in

Same 2.2 (i)

the activities as are necessary for development of renewable energy. However, the Company had not engaged in any activities to develop renewable energies.

(c) As at 31 December 2014, the Group has invested Rs. 7,364,447 to build a factory for manufacture and sale of cement based products using fly ash and bottom slag in a joint venture with Amtrad Holdings (Private) Limited. However, the joint venture agreement has been terminated and the asset of the project has remained idle.

Same 2.2 (II)

(d) The Company had engaged in producing of meter enclosures and supply the product to Ceylon Electricity Board and Lanka Electricity (Pvt) Limited. However, any agreement or MOU had not been submitted to audit relating to the production of meter enclosures.

Same 2.2 (III)

(e) A sum of Rs.1,060,279 shown in the financial statements as accrued expenditure as at end of the year under review which had been brought forward from the year 2017 had remained without been settled. Same 2.2 (V)

(f) Physical verifications of assets had not been carried out by the Company for the year under review. 2020 Ans 1.2 (f)

W.P.C Wickramaratne

Auditor General