Lanka Coal Company (Private) Ltd - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Coal Company (Private) Ltd ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Following observations are made.

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful life of the fully depreciated motor vehicles still in use had not been reviewed and accounted accordingly.	In accordance with the LKAS 08, we will get the citified valuation for all fully depreciated 3 vehicles belongs to LCC and pass the necessary adjustment in 2020 accounts.	Action should be taken in accordance with the Sri Lanka Accounting Standards.
(b)	As per paragraph 88 of the Sri Lanka Accounting Standard on Income Tax (LKAS 12), no disclosure had been made regarding the assessment of Rs.159,549,619 relating to the Economic Service Charge (ESC) for the year of assessment 2017/2018 and the penalties imposed of amounting to Rs. 75,461,644 thereon in the financial statements of the year under review and total ESC payable as at the end of the year under review was Rs.579,179,232. As per section 6 of the Economic Service Charge Act No 13 of 2006 duly amended, ESC liability should be paid on or before twentieth day of following month after quarter ending. However, the Company had not paid ESC payable even up to the date of this report.	We wrote a letter to Department of Inland Revenue requesting for an extension of the settlement of ESC as we are currently in discussion with CEB to make the settlement.	Action should be taken in accordance with the Sri Lanka Accounting Standard when preparing the financial statements. .

(c)	As per paragraph 14 of the Sri Lanka Accounting Standard on Revenue (LKAS 18), revenue from the sale of goods had not been recognized. When importation of coal, a mark-up of 10 per cent added to the value for the customs as a notional adjustment in ascertaining the value for the custom purpose. However, the Company had been added notional 10 per cent mark-up amounting to Rs.3,804,035,310 to the revenue and later the Company had given such amount as discount to the debtors and charged to the cost of sale. As a result, the cost of sales and revenue had been overstated by similar amount and additional ESC had to be paid thereon.	This pricing mechanism was adopted following a meeting held in the Ministry on 28th June, 2018 with the attendance of an official from Department of Inland Revenue (Deputy Commissioner). These officials have told that LCC's base value for VAT on invoices to CEB cannot be less than the value for customs purposes. The 10% is, therefore, added solely on the directive and written to Department of Inland Revenue by letter dated 07/09/2018. We await IR's response to CEB's letter.	Action should be taken in accordance with the Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

The following observations are made.

	Audit Issue	Management Comment	Recommendation
(a)	A forfeiture (penalty) of Rs. 205,000,000 had been imposed to the Company by Sri Lanka Customs on non-declaration of correct transaction value of the coal imported during 19 September 2016 to 09 April 2018. The Company had debited this penalty payment to the Sri Lanka Custom VAT account amounting to Rs.155, 426,118, VAT control account amounting to Rs.39,970,418 and CSCL liability account amounting to Rs.9,603,464 erroneously. As a result, the expenses had been understated by Rs.205,000,000 and assets had been overstated by Rs.195, 396,536 and liabilities had been understated by Rs. 9,603,464. Further, the Company had recorded a sum of Rs.126, 956,898 as receivable from CEB and payable of Custom VAT in relating to VAT in the ledger. However, supporting documents and clear reasons were not given to verify this value.	During that time the custom declaration part totally handled by Ceylon Shipping Corporation for a charge of Rs.1,000,000 per shipment. Base the working done by both LCC & Ceylon Electricity Board using correct transaction values of above related shipments, LCC had accounted as a Custom Vat payment. LCC had done the payment using the given funds by CEB since S.L. Customs hold the clearance of coal shipments. This matter is under investigation by a special committee (Nemmawatta Committee) appointed by two secretaries of CEB & CSC.	Action should be taken to record this payment as penalty expenses and approval from Board of Directors should be obtained for this payment.

	The Company had used the funds, which received from Ceylon Electricity Board (CEB) for settlement of shipment bills, to pay above penalty even without obtained board approval and had not been done a formal investigation to identify the persons who are responsible for the losses.		
(b)	The Company had not taken necessary actions to recover the receivable balance amounting to Rs.539,192,079 from Taurian Iron and Steel Company Ltd (TISCL) through Ceylon Shipping Corporation Ltd (CSCL) with regard to short delivery of coal. TISCL/CSCL had not confirmed this balance and no provision had been made for impairment, even though the receivable balance outstanding over seven years.	.This was referred to the Cabinet of Ministers and the Cabinet appointed a four-member Committee to negotiate with the Taurian Iron and Steel Company. Further, Cabinet has advised to submit the above recommendations through Ministry of Ports and Shipping back to the Cabinet.	Action should be taken to recover this balance immediately.
(c)	Brought forwarded Economic Service Charges (ESC) receivable amounting to Rs.894,151, Withholding Tax (WHT) receivable amounting to Rs. 77,719, Income Tax payable amounting to Rs. 65,474,540, Nation Building Tax (NBT) receivable amounting to Rs. 3,371,326 and Value Added Tax (VAT) receivable amounting to Rs.12,758,801 which could not be verified in previous year audit been charged against retained earnings in 2018 as prior year adjustment. The Company had failed to correct these adjustments even as at the end of the year under review.	We have received an audit report issued by Internal Audit Division of the CEB on the above prior year adjustments & being further analyzed to ascertain source/origin. Will do any adjustment accordingly.	Action should be taken to correct these errors properly after studying reasons.
(d)	A sum of Rs. 15,870,104 payable to Ceylon Shipping Corporation Ltd (CSCL) in respect of lightering VAT which was paid by CEB had been neither paid to CSCL nor presented as an advance received from CEB. Further, the Company had not accounted the aforesaid lightering VAT as payable to CSCL though they have obtained the fund from CEB to settle the charge.	Inland Revenue Department issued a ruling making lightering liable for VAT @ 0%. We have issued a Credit note dated 17/07/2020 to CEB indicating the above transaction.	Arrangement should be made to inform such instances immediately after incurred to CEB.
(e)	VAT payable on reimbursement of expenses amounting to Rs.8,280,994 had not been accounted in the VAT control account. As a	There is no any margin added for our services. As advised by our Tax	Action should be taken to comply with Value Added Tax Act,

	result, VAT liability had been understated by the similar amount.	consultant, re-imbursement of expenses is not liable for VAT.	No.14 of 2002 duly amended.
(f)	The Company had paid a sum of Rs.4,000,000 to supplier through Ceylon Shipping Corporation Ltd (CSCL) without a liability in the ledger account as payable to the said supplier or payable to CSCL in this regard. However, the Company had deducted this amount from CSCL payable balance erroneously. Hence, the liabilities had been understated by similar amount.	Being investigated to ascertain source/origin of the CSCL liability for Mercator & will pass the relevant entries to CSCL accordingly.	Action should be taken to pay outstanding balances after ensuring the existing of the balances in the accounts.
(g)	The Company had paid a sum of Rs. 136,236,370 as Custom VAT for the Shipment No.123 though actual VAT amount was Rs. 106,969,404 as per to the Cusdec. Hence, the overpaid VAT amount was Rs. 29,266,965 and in the financial statement it was shown as Vat receivable amounting to Rs. 26,507,084. Hence, a difference of Rs.2,759,882 between two balances were observed in audit.	We have already done the adjustment for deference Rs.2,759,882 on our quarterly accounts as at 31st March 2020 & will be issued a credit note to CEB for same.	Difference should be corrected in the accounts and should be recovered this balance from Sri Lanka Custom.
(h)	The Company had debited a sum of Rs. 5,218,271 to CSCL payable account. However, supporting documents and reasons were not given to verify this amount. Further, the Company had not reconciled the difference of Rs. 31,916,562 between the balances of Lanka Coal Company (Pvt) Ltd and CSCL disbursement account.	We will pass the adjusted entries to correct the above error. It will be cleared after done the relevant adjustments by CSC as LCC already submitted the invoices & receipts of the related cargo insurance payments.	Relevant documents should be submitted to related parties with proper communication.
(i)	Penalties on Economic Service Charge (ESC) amounting to Rs.500,546, Nation Building Tax (NBT) amounting to Rs. 10,134,113 and Value Added Tax (VAT) amounting to Rs.1,900,938 have been imposed by the Department of Inland Revenue by their letter dated 04 January 2018 for default of payments of tax had been accounted under the tax payable and without disclosed as penalties payable.	We will do the required disclose in next year (2020) financial statements. Negotiated with IRD to wave off the said penalties.	Action should be taken to disclose as penalty payables in the financial statements..

1.5.3 Documentary Evidences not made available for Audit

Following observations are made.

	Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a)	Accounts payable	1,109,063	Confirmation, Schedules.	This balance was caused due to wrong accounting entries done in the year 2018 & before. We will pass the adjusted entries to correct the above error as per the recommendations done by CEB Internal Audit Division.	Actions should be taken to correct the accounts properly.
(b)	Final VAT & Other Receivable from CEB	180,416,885	Confirmation, Schedules	This is the receivable amount for final VAT & exchange loss of the shipments from 123 to 155 and it is related to the Rs. 205 million payments done to S.L Custom. This matter is under investigation by a special committee. We will pass the necessary entries according to the above report.	Actions should be taken to get relevant Confirmations from related parties.
(c)	ESC receivable from CEB	578,678,686	Confirmation, Schedules	LCC has become liable for ESC. We have pointed out on many occasions through board papers, e-mail & invoice to CEB the ESC liability of the company to be paid but still they did not release of funds for same.	Actions should be taken to submit the Confirmations and Schedules to the audit.
(d)	Payable to CEB	6,813,692	Confirmation, Schedules	This is the balance amount of Liquidated damage claimed from M/s Trafigura due to discrepancy of Umpire sample certificates. We have already issued a credit note to CEB for	Actions should be taken to submit the Confirmations/details to the audit.

				same.	
(e)	Ceylon Shipping Corporation Limited – Old payable	28,347,444	Confirmation, Schedules	This balance is including in clearing, forwarding and disbursement a/c as at 31/12/2019 confirmed by Ceylon Shipping Corporation Ltd. We have reconciled the deference of this account & it will be cleared after done the relevant adjustments by CSC.	Actions should be taken to submit the Confirmations and Schedules to the audit.
(f)	Misc. Debtors	18,075,801	Confirmation, Schedules	Initial investigations revealed that the amount consists of overpayment to customs. Being further analyzed.	Actions should be taken to submit the Confirmations and Schedules to the audit after analyzed.
(g)	Receivable from CEB	4,677,509	Confirmation, Schedules	The amount left after settlement of the accounts with CEB in 2017.Being further considered to ascertain source/origin.	Actions should be taken to provide necessary documents
(h)	Trade debtor (CEB) Steam coal	7,750,000	Confirmation, Schedules	The amount paid to M/s Mercator on behalf of CEB. Being considered to ascertain source/origin. This is under investigation by the special committee and awaiting their report.	Actions should be taken to provide necessary documents to the audit.
(i)	Other Receivable from CEB	1,760,500	Confirmation, Schedules	The amount left after settlement of the accounts with CEB in 2017.Being further considered to ascertain source/origin.	Actions should be taken to provide necessary documents to the audit.
(j)	Receivable of Noble Resources International Pte Ltd	1,115,987	Confirmation, Schedules	We will set off this debtor balance against the trade creditor Noble Resource Rs.85,887,776.	Actions should be taken to provide necessary documents to the audit.
(k)	Trade Creditors – Nobel Resources International	85,887,776	Confirmation, Schedules	Part of the amount under drawn by Nobel Recourses Intl. Pvt. Ltd due to expiry of LC validity.	Actions should be taken to provide necessary documents to the audit.

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1.6 Accounts Receivable and Payable

1.6.1 Receivables

Following observations are made.

Audit Issue	Management Comment	Recommendation
(a) There was a difference of Rs. 42,063,946 in between LCC and CEB balances at the end of the year under review.	Reasons for not including Rs.42,063,946 in CEB accounts. **Lightering Adjustment - Rs. 6,136,629.** This was total lightering adjustment for 2018/19 Season. **Clearing Charges – Rs.12,285,000.** This is the Custom clearance charges for 21 shipments in 2018/19 season. We already sent the justification as per clause 8(f) of the CEB-LCC agreement & awaiting their confirmation. **Balance VAT – Rs.22,243,279.** This is the deference of output & input VAT which LCC to be received from CEB for the season 2018/19. We already sent the 23 TAX invoices by the month of June 2020 out of 31 shipments of the season & 08 Tax Invoices are pending to be sent. **Provisional VAT overpaid – 1,399,039.** CEB deducted Rs.1,399,039 as overpaid provisional VAT from the amount to be paid to LCC (Shipment no 212,214,218,220 & 221). This will be cleared after issue the TAX invoices for the related shipments.	Action Should be taken to get confirm the balances from CEB immediately.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) Following observations are made regarding CSCL payable balance of Rs. 668,161,810. Payable balances of Rs. 384,410,527 were in CSCL balance confirmation and had not recorded in LCC accounts as payable to CSCL. However, supporting documents and clear reasons for the balance were not given to verify the balance.	**Freight charges - Rs. 3,935,700** Freight charges of Deaf Coal (Ship No 01) - confirmation waited. **Lightering Charges Rs. 66,419,287** VAT on Lightering which was ruled 0% by IRD **Bunker Adjustment Charges Rs. 12,190,459** Base Bunker price billed at $ 11/MT but LCC taken at $ 10.75/MT (as per agreement) **Demurrages Charges Rs. 194,809,108** With the understanding of CSC, these charges are settled upon collection. As at now Demurrage outstanding is US $ 409,000 which related to pending legal case of Liberty Commodities. After done the subsequently settlements the balance is Rs.13,470,727 only & awaiting the related invoices from CSC for the settlement. **Clearing & Forwarding Charges Disbursement** Rs. 55,462,781 - LCC deducted the insurance cost of last 03 seasons. But CSC asked the receipts of insurance to adjust the account. All receipts have submitted now. Rs. 4,000,000 - LCC deducted the Mercator payment from CSC accounts. Being investigated to ascertain	Transactions between LCC & CSCL should be done according to the agreements and any dispute arisen they should solve amicably.

Item	**Amounts (Rs.)**
Freight Charges	3,935,700
Lightering Charges	66,419,287
Bunker Adjustment Charges	12,190,459
Demurrages Charges	194,809,108
Clearing & Forwarding Charges Disbursement A/C	64,694,719
Exchange Loss/Gain	42,361,254
Total	**384,410,527**

		source/origin of the Mercator liability & will pass the relevant entries accordingly. Rs. 679,000 - LCC deducted the cost of damage fishing nets issuing debit notes but CSC did not deduct. Rs. 4,552,938 - The amount left after done the reconciliation as at 31/03/2020 & being further considered to ascertain source/origin. Exchange Loss/Gain Rs. 42,361,254- With the understanding of CSC, these are settled upon collection from CEB & Exchange gain/loss confirmation awaited from CEB as per the agreement.	
(b)	A sum of Rs.15,211,259 and Rs.27,913,940 had been debited to CSCL payable account by debit note for freight charges and Clearing, Forwarding & Disbursement Charges respectively. However, supporting documents and clear reasons were not given to verify the transactions. Further, CSCL had not recorded these balances as at 31 December 2019 in their accounts.	As per the CEB & LCC Agreement (Addendum No 01- clause no 6.1) LCC deducted the freight charges a sum of Rs.15,211,259 from 08 shipments & issued a Credit note to CSC. Rs.27,913,940 which LCC debited CSCL account as Balance Insurance for 2018/19 season Rs. 18,310,476 and penalty of Rs. 9,603,464 for custom declaration responsibility.	Certified clear documents should be maintained and balance confirmations need to be obtained.
(c)	LCC had debited a sum of Rs. 33,959,892 and credited a sum of Rs.5,218,271 to CSCL payable account. However, supporting documents and clear reasons were not given to verify these balances.	Rs.33,959,892 was the cost of insurance for the season 2015/16 & 2016/17 are respect of shipment nos. 79 to 154. LCC deducted these insurance cost from CSC account but CSC asked the invoices & receipts of insurance to adjust their account. All invoices & receipts have already submitted now. As per the internal audit report	Relevant documents should be submitted to related parties with proper communication.

		issued by CEB Internal Audit branch, a balance sum of Rs.5,218,271 (Cargo Insurance Payable) created due to wrong accounting entries done in the year 2016. We will pass the adjusted entries to correct the above error.	

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Following observations are made.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Public Enterprises Circular No. PED /12 dated 02 June 2003.			
	(i) Section 9.3	A Scheme of Recruitment and Promotion (SORP) approved by the Department of Management Services was not with the Company.	SORP is a dire need of the LCC and I have given priority to streamlining this process, and based on my request the Board of Directors of the LCC has appointed a special committee to draft its own SORP.	Approval should be obtained for the SOR immediately.
	(ii) Section 9.7	The Company had paid a sum of Rs. 112,434 as medical expenses to the staff during the year under review without an approved medical scheme.	We have paid the said medical expenses under board approval & chairman's approval. Now we have approved medical scheme with effect from November 2019.	Company should obtain formal approvals as per the Circular other than board approval.
	(iii) Section9.3	According to the circular, vacant posts should not be filled with acting posts for indefinite	The Board of Directors of the LCC has appointed a	Should be complied with the circular.

		periods other than a period not exceeding 03 months. Chief Procurement Officer was appointed as Acting General Manager of the Company with effect from 01 October 2017. However, the position of General Manager was not filled until 31 December 2020 for 39 months.	special committee to draft its own SORP. As soon as get the necessary approval for LCC own SORP, fill the vacant posts.	
(b)	Section 1 of the Public Enterprise Circular No. PED. 57 dated 11 February 2011,	The Company had been paid a sum of Rs.150,000 as advertising and promotional activities, contrary to the circular.	These expenses are approved by the Chairman on the recommendation of the Acting GM. Those which are directly involved in procurement of coal.	Company should be adhered to the provisions of the Public Enterprise Circular No. PED/ 57 dated 11 February 2011.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2019 had resulted neither pretax net profit nor net loss as per the preceding year, due to entering into an agreement with the Ceylon Electricity Board to reimburse the net overhead cost incurred by the Company since the year 2014.

2.2 Trend Analysis of major Income and Expenditure items

Major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are as follows.

Income/ Expenditure	**2019** **Rs**	**2018** **Rs**	**Increase/ (Decrease)** **Rs**	**Percentage**
Revenue	42,470,160,495	41,470,171,433	999,989,062	2.4%
Cost of Sales	42,414,953,867	41,410,859,105	1,004,094,762	2.4%
Administration Cost	65,288,550	71,709,152	(6,420,602)	(9%)

Revenue had been increased by Rs. 999,989,062 for the year under review compared with the preceding year and cost of sales had been increased by Rs. 1,004,094,762 due to increase of coal prices and the addition of cash discount. Further administration cost had been decreased by Rs. 6,420,602 and decrease of staff medical expenses, overseas traveling expenses and professional expenses were the main reasons for the decrease.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
An employee of the company had committed a fraud amounting to Rs.590,193 by manipulating payment vouchers in 2018. However, the Company had not taken disciplinary action against this employee even up to the date of this report.	We already recovered the fraud amount had committed by the said employee. We have extended his probation period & did not pay the staff bonus for the year 2019 as disciplinary actions.	Disciplinary action should be taken against this employee as per Establishment Code.

3.2 Procurement Management

Following observations are made.

	Audit Issue	Management Comment	Recommendation
(a)	A supplier had submitted a conditional bid for procurement of Coal for the Season 2018/2019 against the clause 2.2.5 of the bid document which relevant to delivery schedule and it is a major deviation under clause 2.6.4b (k) and (m) of the bid document. Then, the Standing Technical Evaluation Committee (STEC) evaluated this bidder as a non- responsive bidder. However, Special Standing Cabinet Appointed Committee (SSCAPC) had awarded this tender to said Supplier after confirmed that the bid submitted was not a conditional bid and considering the financial benefit.	As per the financial benefit to country, SSCAPC has taken decision to award tender to the M/s Trafigura.	Action should be taken to comply with bid document and should be concerned the quality of Coal.
(b)	Three shipments had been loaded from Tarahan port - Bandar Lampung in Sumathra which was not included in bidding document. The Company had not taken approvals from Cabinet of Ministers, SSCAPC or STEC to procure coal from Sumathra.	Port restriction has implemented because of Ceylon Shipping Corporation’s involvement. At the meeting held at Ministry of Power & Energy, CSC agreed to transport coal from Tarahan port at terminal. There were two benefits from above	Action should be taken to comply with bid document.

		selection. •Extra voyages to CSC & it is financial benefit to country. •Saving US $ 4.10 per M/T comparing with next lowest bidder (US $ 3.40 from bid price & US $ 0.70 from freight).	
(c)	It was observed that four shipments were in reject level as per unloading port reports. The Company had obtained third party report (Umpire sample report) and had paid to the supplier accordingly. However, CEB didn't accept this third party report and CEB had deducted a sum of Rs. 22,520,186 for quality adjustment. Further a Technical Committee report of the Lakvijaya Power Plant of CEB dated 21 May 2019 pointed out that the quality of this coal is not good enough to use in the boilers of the Power Plant. Further, it was observed that the Coal imported is with high moisture, Low ash fusion temperature and high GCV deterioration rate etc.	As per the agreement the reference sample of which were rejected have been sent to an Australian Laboratory which was recommended LVPP. All the payment was done as per the agreement clause number 3.5.3.	Action should be taken to comply with bid documents in implementing and evaluations of bids.

3.3 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	The employees of the Company have been paid in accordance with the salary scales of the CEB from 01 July 2013 to 31 December 2017 with the absence of approved SORP. However, we observed that in recruiting and promoting employees the Company had not adhered with qualifications and experiences required by SORP of CEB. Example: The Company had recruited an Accountant in 04.08.2016 offering K4 salary scale of the CEB with five salary increments. According to the SORP of CEB approved on 03.02.2006, post of Accountant should be possessed 05 years post qualifying experience (Intermediate Certificate) in	SORP is a dire need of the LCC and I have given priority to streamlining this process, and base on my request the Board of Directors of the LCC has appointed a special committee to draft its own SORP.	Until preparation of formal SORP at least Company should adhered to the SORP of the CEB and rectify the post, promotions etc. immediately.

	accountancy/auditing field at executive level in an institution with more than 100 employees or B.Sc (Accountancy) Degree awarded by a recognized university and 03 years post qualifying experience in accountancy/auditing field at executive level in an institution with more than 100 employees with the produced Intermediate examination certificate of ICA. However he had neither submitted relevant degree certificate nor service letters providing relevant qualifications. However, he had been absorbed to permanent cadre and promoted to the K3 salary scale on 08.01.2017, end of his 9 months' probation period and promoted as Finance Manager on 01 January 2018 offering K2 salary scale of the CEB. According to the SORP of CEB, he should possess full professional Qualifications or 5 years active service to become eligible for K3 salary scale and 8 years active service in K3 salary scale to promote K2 salary scale.		
(b)	According to the Curriculum Vitae provided by Finance Manager, he is a finalist of CA Sri Lanka and has provided a copy of the result sheet of Final Level 1 issued by CA Sri Lanka to the personal file. All the copies of educational and professional qualifications were not sealed as "original seen" and the company has not get verified the accuracy of provided certificates. According to the verification we obtained from CA Sri Lanka, result sheet for Final Level 1 provided by Mr. B.A.A. Kumara is a forged document and he has not completed the Final Level 1 of CA Sri Lanka. Although he possess only the intermediate level qualification of CA Sri Lanka and has not provided proofs of his professional qualifications, was promoted as the Finance Manager (without approval of the Board of Directors) offering K2 salary scale of the CEB.	As per draft SORP, minimum qualification for finance Manager should be intermediate/ Managerial level qualification with 10 years. And presently final level executive MBA student 2018/2020. Appropriate action will be taken for forged certificate.	Draft SORP cannot be applied and disciplinary action should be taken against the employee submission of forged certificate immediately.
(c)	None of the educational qualifications were confirmed prior to absorb employees to the permanent carder.	As a result of the discussion with relevant LCC officers, steps have been taken to verify the educational qualifications of LCC employees who have not yet been verified and the	Recruitment process should be followed accurately.

		system will be formalized so that this does not happen again in the future.	
(d)	We observed an instance where an employee has been recruited even without inspecting proofs for minimum qualifications requires for the post. Example: Human Resources Officer - Certificate of GCE A/L exam hadn't been checked when recruiting this employee on 02 January 2018 and she hadn't passed that exam.	I also observed that the minimum qualifications of the HR officer have not been checked at the time of recruiting. HRO has now completed a degree in Human Resource Management with the introduction of a proper recruitment process, these type of irregularities will no longer be prevail.	Basic qualifications should be checked and verified at the recruitment of employees.
(e)	According to the Public Enterprise Department circular No. 12, on 02 June 2003, Public Enterprises must be adhered with the provisions of Establishment Code in the absence of an approved SORP. According to the section 3.7 of chapter VII of Establishment Code, any provision should not be included in appointment letter, to place salary in a point of salary scale without taking approval of Service Minutes/SORP. However, LCC had issued appointment letter placing salary in a point of salary scale, without in an initial step of salary scale. According to the section 5.3.3 of Chapter VII Establishment Code of Socialist Republic of Sri Lanka when promote an employee, if he received salary finally less than initial step of new salary scale, he should be placed initial step of new salary scale. However, the Company had paid salaries placing in a point offering salary increments at promotion for several employees, contrary to the Establishment Code. I. Chief Procurement Officer Observations i. The Company has paid a sum of Rs. 1,678,919 of salary over payment due to wrong salary increment. ii. EPF & ETF overpayment on salary overpayment was Rs. 251,838.	Since the inception of the LCC, it has adopted various procedures related to CEB, Government and Shop and Office Act. I have observed that LCC has not followed proper Management procedures since its inception. Various procedures have been adopted from time to time and therefore appropriate action procedures should be introduced to correct all previous management practices. As the LCC SORP Drafting Committee has been appointed, this will be rectified as soon as the Committee Report is received.	Overpayments contrary to the SORP of CEB Should be recovered from responsible parties.

iii. Director Board approval hadn’t been obtained for promotion and Salary increments.

iv. According to SORP of CEB, Manager (Operations) should be possess 06 year service experience to get promotion from K4 to K3 salary scale, and 15 year experience for promote K1 salary scale. However, this employee has been promoted K4 to K3 within 06 month with 05 increment and K3 to K1 within 09 month with abnormal 13 increments.

v. Directly promoted from K3 to K1 salary scale.

vi. Although he has been paid in accordance with the salary scale of CEB in recruiting and promoting this employee, the Company had not adhered with qualification and experience required by SORP of CEB.

vii. Further, it was observed in audit that Chief Procurement Officer hasn’t relevant educational qualifications and Transport and Logistics Management related qualifications or Post Graduate Degree (with Procurement and Professional Qualification).

II. Chief Finance Officer

Observations

i. The Company has paid a sum of Rs. 1,684,880 of salary over payment due to wrong salary increment.

ii. EPF & ETF overpayment on salary overpayment was Rs.252,732.

	iii. Director Board approval hadn’t been obtained for promotion and salary increment. iv. Time taken to promote from K2 to K1 was 13 days. v. CFO has been paid in accordance with the salary scale of CEB. However, we observed that in recruiting and promoting this employee company have not adhere with qualification and experience required by SORP of CEB. III. Finance Manager Observations i. The Company had paid a sum of Rs. 170,528 of salary over payment due to wrong salary increments. ii. EPF & ETF overpayment on salary overpayment was Rs.25,579. iii. Director Board approval hadn’t been obtained for promotion and salary increments. iv. Time taken promote from K4 to K3 was 09 month and K3 to K2 was 01 year. v. Finance manager has been paid in accordance with the salary scale of CEB. However, we observed that in recruiting and promoting this employee, Company had not adhered with qualification and experience required by SORP of CEB. IV. Other Employees Number of salary increments had been granted for other 04 employees until they covered service periods. Hence overpayment as at 31 December 2019 was amounting to Rs. 440,418.		Salary increments should not be granted to employees until covered service periods.
(f)	Finance Manager and Procurement Manager has been promoted to K2 salary scale (118,900-5x2, 145-10x2, 470) on 01 January 2018 by	These promotions and pay increases have been based on SORPs submitted for	Overpayment done according to unapproved SORP

	mentioning SORP of the Company was effected from 01 January 2018. According to SORP of the Company, these two employees should be placed K3 salary scale (97,920-5x1,755-10x1,820). However, approval of the Director board hadn't been obtained up to now for this promotion. According to proposed Scheme of Recruitment and Promotion (SORP) Manager (Procurement) should be recruited for K3 salary scale. If employee has full professional qualification, he/she should completed 06 year service period to get promotion to K2 salary scale and if employee has part professional qualification, he/she should completed 08 year service period. Then, without proper approval salaries, EPF and ETF overpayment to these two employees was amounting to Rs. 1,447,620.	their consideration during several board meetings. These issues will be rectified after the new SORP is approved by the LCC Board.	should be recovered from persons authorized the payments.
(g)	The Company had paid 25% of salary increase to the staff from 01 January 2018 without approval from the Board of Directors and Salaries and Cadre Commission.	This issue arises again and again after not following proper procedure for more than 12 years. That is why, after identifying these issues, necessary steps have been taken to overcome them.	Approvals should be obtained before payments.
(h)	According to the Public Enterprises Department circular No. 12, on 02 June 2003, Public Enterprises must adhere with the provisions of Establishment Code, if Enterprise does not possess an approved SORP. According to the section 12.6 of Chapter VII of Establishment Code of Socialist Republic of Sri Lanka for an officer who is acting on a post while accomplishing duties of his/her permanent post can be paid 25% of the initial salary of the acting post and the salary of officer's permanent post. However, it was observed that Chief Procurement Officer is paid acting allowance of equal to 50% of the salary of acting post of General Manager contrary to the provisions specified.	This has been observed and will be rectified by adhering to Section 12.6 of chapter VII of Establishment Code of Socialist Republic of Sri Lanka.	Action should be taken to comply with the circular.
(i)	It was observed in audit that, the Company has been paying Rs.2,500 allowances per month to Confidential Secretary from 01 June 2018 without formal approval.	This was approved by a former chairman of the LCC according to the methodology followed previously.	Action should be taken to get approval for payment of allowances as per Public Enterprises circulars.

(j)	Although the Company has used CEB recruitment and promotion procedure up to 31 December 2017 the Company had recruited employees with different probation periods lower than 03 years.	All 3 employees you have mentioned there have been promoted by the Chairman LCC.	Action should be taken to comply with the provisions of the Public Enterprises circulars.
(k)	Manager (Procurement) had been recruited on 15 September 2017 to K3 salary scale (97,920-5x1,755-10x1,820) with 01 year probation period. He had been issued permanent letter on 16 March 2018. Then, it was observed in audit that, the probation period was one year as per appointment letter, he had been confirmed in the post after 06 month and promoted to K2 salary scale from K3 salary scale without board approval and violating promotion procedure.	Same issue as the above.	Correct recruitment procedures should be applied.
(l)	It was observed in audit that Accounts Assistant appointed on 14 September 2010 probation period has not been ended and has not been absorbed to permanent cadre.	This matter is considered and rectified the same.	Correct recruitment procedures should be applied.
(m)	Correctness of original certificate had not been confirmed by the Company when recruit or when absorbed permanent cadre after probation period.	Required action will be taken to rectify the matter	Correctness of the certificates should be get confirmed when recruiting.
(n)	According to the Public Administration Circular No. 09/2009 all Public Servants including Minister's staff, Secretaries to Ministries and Heads of Institutions should confirm their arrival and departure to and from their work places through the finger scanners. However, Managers of the Company had not complied with this circular.	Necessary steps have been taken to adhere to the finger print scanner for the relevant managers from 21st August 2020.	Action should be taken to comply with the provisions of the circular.
(o)	According to the Public Enterprises Department circular No. 12 on 02 June 2003, the Company should get approval from Department of Public Enterprises to implement the Scheme of Distress loans. However, Managers of the Company had not complied with this circular.	Board of LCC on the 73rd board meeting held on 10th June 2020, decided to grant loan facility maximum Rs.350,000 per employee at the rate of interest 6% reducing balance basis.	Action should be taken to get approval from Department of Public Enterprises, General Treasury as required by the Circular.

4. Accountability and Good Governance

4.1 Tabling the Annual Reports

Audit Issue	Management Comment	Recommendation
Annual reports for the years from 2015 to 2019 had not been tabled in the Parliament as per the Public Enterprise No.PED/12 dated 02 June 2003.	Management comment had not been submitted.	Action should be taken to comply with the provisions of the circular.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate Plan had not been prepared by the Company as specified by the Public Enterprise Circular No. PED/12 dated 02 June 2003.	Management comment had not been submitted.	Action should be taken to comply with the provisions of the circular.

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
Annual action plan had not been prepared by the Company for the year under review as specified by the Public Enterprise Circular No. PED/12 dated 02 June 2003.	Management comment had not been submitted.	Action should be taken to comply with the provisions of the circular.

4.4 Budgetary Control

Audit Issue	Management Comment	Recommendation
According to the Public Enterprises Circular No. PED/12 of 02 June 2003, the annual budget should include a budgeted income and expenditure statement, a cash flow statement for the year, a balance sheet at the end of the year, and a budgeted capital expenditure statement together with an Annual Action Plan. However, the Company had not complied with that requirement.	Management comment had not been submitted.	Action should be taken to comply with the provisions of the circular.