Lanka Electricity Company (Private) Limited - 2022
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Electricity Company (Private) Limited("Company") and its Subsidiaries ("Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, statement of other 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 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 and the Group as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Audit Scope 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 Audit Scope (Responsibilities of Management and Those Charged with Governance for the Financial Statements)

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

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

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

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

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard.

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	According to the paragraph 5.5 of Conceptual Framework for Financial Reporting, the initial recognition of assets or liabilities arising from transactions or other events may result in the simultaneous recognition of both income and related expenses. The simultaneous recognition of income and related expenses is sometimes referred to as the matching of costs with income. However, the Company had not identified solar energy purchased cost (Net Accounting and Net Plus) for the period of 2017,2018,2019,2020 and 2022 amounting to Rs. 2,819.6 million as cost of sales in respective years (instead, Company had recognized as receivable from Ceylon Electricity Board) even though the sales revenue of solar energy purchased had been recognized as sales in respective years. As a result of this retained earnings, profit for the year and receivable balance had been overstated by Rs. 1,336.9 million, Rs. 1,482.7 million and Rs. 2,819.6 million respectively as at 31 December 2022.	This solar generation payment cost is not considered as purchasing cost separately, Total export of solar might be considered as revenue if it is consumed within the territory. Sometimes it might be exported to the national grid. Hence it cannot say P&L is overstated by the same value. This situation is overcome by the Uniform National Tariff (UNT) Adjustment. Once UNT approved by the PUCSL this will be considered as an adjustment for the cost of sales.	Should be complied with Accounting Standards.

(b)	According to the section 51 of LKAS – 16 Property, Plant and Equipment, The residual value and the useful life of an assets shall be reviewed at least each financial year end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with LKAS 8. Fully depreciated asset which are being used by the Company amounted to Rs. 9,554.6 million had not been reviewed accordingly as at 31 December 2022.	Agreed with the auditors' comment, however, please note that the applicable depreciation rates are in par with industry rates. Further, it is not practicable to review the usable lifetime of entire asset classes which are spread over the vast geographical area. (Infrastructure system is the highest value asset in LECO).	-Do-

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The balance due from Ceylon Electricity Board (CEB) for miscellaneous services as at 31 December 2022 was Rs. 2,826.6 million This balance was comprised of Rs. 2,819.6 million which was due from CEB for the cost of purchasing energy using net accounting and net plus methods for the years 2017, 2018, 2019, 2020 and 2022. According to balance confirmation from CEB, there were no payable amounts to the Company and there was no formal agreement between two parties for purchasing Electricity using net accounting and net plus methods. Therefore, the recoverability of that balance could not be satisfactory ascertained in audit. Further, the Company had made provision for impairment of Rs. 2,449.3 million for the above receivable balance.	This amount was taken into the accounts as per the regulator's (PUCSL) and Ministry instructions. However, comparing the risk factor of the receivable balance, the relevant Provision were already made in LECO accounts. There is no formal agreement and Confirmation has not yet been submitted by CEB.	Action should be taken to enter into a formal agreement with CEB.
(b)	The Company had incurred a cost of Rs. 206.9 million to purchase the lands and buildings to be used for construction of the CEB primary substations and that amount had been recorded as a balance receivable from the CEB as at 31 December 2022. However, there was no formal agreement between the Company and the CEB regarding setting up primary substations in Company's lands and charges to be paid by the CEB for utilizing the above mentioned lands and buildings.	LECO has constructed five primary substations jointly with CEB. Five lands were purchased by LECO and primarily constructed by CEB through ADB funds. Still, CEB has not acquired the above Lands and they have not paid the cost of land. In our Books, we recognized them as receivable.	-Do-

(c)	The difference between value of purchasing order and actual payment had been identified in the purchasing variance account. Accordingly, an amount of Rs. 149.2 million had been charged as operating expenses in profit or loss instead of recognizing it as inventory, assets or profit or loss as relevantly. Accordingly, the audit cannot rule out the impact on profit or loss, inventory or assets due to the above adjustment for the year under review.	This is an inherent issue of the ERP system. Any excess amount paid over the PO value (price variation changes / new tax implementations SSCL etc) cannot transfer to the relevant GRN value. So the balance is charged to the Income Statement.	Financial statements should be prepared correctly.
(d)	Unidentified deposits amounting to Rs. 6.7 million had been included in sundry creditors as at 31 December 2022.	These outstanding balances were appearing in the accounts due to transferring of rejected transaction Accounts balance to this sundry creditors account in 2021. Subsequently, these balances were checked and cleared with CEB. LKR 10 million was identified and cleared with CEB.	Action should be taken to identify the deposits and record accordingly.
(e)	According to the financial statements, the balances of Capital Work in Progress of Kelaniya, Moratuwa, Nugegoda and Negombo branches as at 31 December 2022 were Rs. 45.7 million, Rs. 56 million, Rs. 183.5 million and Rs 41.3 million respectively. However, as per the report of capital jobs in progress, the aforesaid balances were Rs. 43.8 million, Rs. 55.3million, Rs. 181.7 and Rs. 46.7 million respectively. Accordingly, there were differences amounting to Rs. 1.9 million Rs. 0.7 million Rs. 1.8 million and Rs.(5.4) million between the balances shown in the financial statements and the report of capital jobs in progress.	These differences were occurred due to the time gaps between the two systems (Job costing and General Ledger), and the relevant actions were taken to clear them with the assistance of the LECO IT division, expect to clear them prior to the year-end 2023.	Action should be taken to minimize the differences.
(f)	The amortization of Treasury bond purchase discount amounting to Rs. 3.3 million relating to the Treasury bond of Rs. 1.9 billion for the period of 15 September 2022 to 31 December 2022 had been erroneously recorded. As a result of this interest income had been understated by Rs. 6.6 million and investment in the Treasury bond had been understated by same amount as at 31 December 2022.	The discount amount of Treasury Bond (TB) of LKR 1.9 Bn is calculated for the period of 15.09.2022 - 31.12.2022 is as LKR 3,264,329.18. However, this amount has not been journalized for the Financial Year 2022. After realizing the mistake, the entry was arranged to post on the 26. 05. 2023. However, the entry was posted erroneously to the system.	Financial statements should be prepared correctly.

(g)	The balance payable to CEB for Electricity purchases as at 31 December 2022 was Rs. 1,799.3 million However, as per the balance confirmed by CEB, respective receivable balance was Rs. 2,912.7 million. A difference of Rs. 1,113.4 million had been observed between financial statements of the Company and balance confirmation as at 31 December 2022.	The difference of Rs 1,113,389,481 is reconciled as follows.. 1 As per the PUCSL UNT adjustment report issued for 2021, they have deducted Rs 1,112,404,347 from UNT which is relating to Solar Net plus / Net Accounting amount needs to be reimbursed by CEB to LECO. CEB has not accounted it as a payable amount to LECO in their books of account. 2 Estimated UNT 2022 calculated by CEB amounting to Rs 3,163,131 has been accounted by CEB as payable to LECO. However, LECO not taken it to accounts as it is not officially published by PUCSL. UNT adjustment relating to Q4-2020 is Rs 84,941,899.79 payable to CEB. This amount invoiced in December 2022. However, it was not included this Social Security Contribution Levy (SSCL) amount Rs. 2,177,997.43. Therefore, LECO not accounted it.	Action should be taken to minimize the deference.
(h)	The Company had not taken prompt action to clear unidentified bank deposits amounting to Rs. 16.2 million and unidentified debit amounts to the bank amounting to Rs. 6.2 million as per the bank reconciliations as at 31 December 2022. Out of those, Rs. 14.3 million and Rs. 5 million are over 06 months respectively. Further, those unidentified bank deposits and debits had not been included in financial statements.	The Treasury department is liaising with relevant banks and time to time identify these transactions and do necessary adjustments accordingly	Prompt action should be taken to clear unidentified bank deposited and unidentified debits.
(i)	Un-reconciled debit balance of Rs. 5.9 million had been included in Trade and Other Receivable balance as at 31 December 2022.	This unreconciled balance is pending in the system and relevant actions were taken to clear them early.	Action should be taken to reconcile the differences

(j)	According to the financial statements of the Company, the balance payable to Ante LECO Metering Company (Pvt) Ltd as at 31 December 2022 was Rs. 38.6 million. The corresponding balance due from LECO recorded in the financial statements of the Ante LECO Metering Company (Pvt) Ltd was Rs. 22.8 million and a difference of Rs. 15.8 million had been observed between the two Companies as at 31 December 2022.	The reconciliation is as follows. **Payable Amount in LECO Accounts as on 31.12.2022** 38,614,045 **ADD** Invoice No: LECO/T029 9,093 Invoice No: 2022/LECO/DN/01 (3phase test benches 659,509 Invoice NO : LECO/GIS/01 (Pole survey Galle) 1,019,807 Invoice NO : LECO/GIS/02 (Pole survey Moratuwa) 3,546,241 5,234,651 **LESS** PO NO : 459505AA (17,573,305) PO No : 459505AB (unsettled Amount) (3,461,814) (21,035,11 **Received Amount in ALMC Accounts as on 31.12.2022** 22,813,578	Action should be taken to record the transactions properly.
(k)	According to the financial statements of the Company, advances made to Ante LECO Metering Company (Pvt) Ltd as at 31 December 2022 was Rs. 136.3 million. However, as per the financial statements of the Ante LECO Metering Company (Pvt) Ltd, corresponding balance was Rs. 113.3 million and there was a difference of Rs. 23 million between the two Companies as at 31 December 2022.	The reason for this issue is an advance payment to ANTE- LECO Company and the advance settlement.	Action should be taken to reconcile the differences and record the transactions properly.

1.5.3 Documentary Evidences not made available for Audit

	Audit Issue	Management Comment	Recommendation
(a)	The receivable balances of Rs. 3.9 million due from CEB for self-generation had been remained unrecovered for more than five years. There was no formal agreement between the Company and CEB regarding self-generation, and the balance confirmation of that amount was not made available to audit. Therefore, the recoverability of that balance could not be satisfactory ascertained in audit.	This balance is remaining in the system without being cleared due to a dispute with CEB (As these were instructions from the line ministry that overlooks both CEB and LECO). However, the Relevant provisions were already made in LECO accounts. There is no formal agreement and Confirmation has not yet been submitted by CEB.	Action should be taken to (i) Recover the balance from CEB (ii) Enter in to an agreement with CEB
(b)	The Company had not made provision for Uniform National Tariff adjustment for the year 2022. However, the impact to the financial result of the year under review could not be ascertained by audit due to lack of information.	Agreed with Auditors' comments and 1st two-quarter actual figures were already received from the PUCSL and relevant adjustments were made by posting Journal entries. Latter quarter details are pending and further adjustments will be taken accordingly.	Financial statements should be prepared correctly.
(c)	Share certificates or any other sufficient appropriate documentary evidence in respect of the investment amounting to Rs. 5 million made in ordinary shares of the Lanka Broad Band Network (Private) Limited as at 31 December 2022 were not made available to audit.	Relevant legal actions are taken by Legal Division with the opinion of the Attorney General. No Journal entry adjustment.	Action should be taken to recover the investment.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Long outstanding VAT debit balance (receivable balance) as at 31 December 2022 was Rs. 33.4 million.	Rs 33,427,699 This receivable balance of VAT arose due to input tax claim in 2007. Several times informed IRD to refund it but not yet paid.	Action should be taken to recover balance receivable having negotiated with Inland Revenue Department (IRD).

(b)	Out of total debtors in the billing Systems, Rs. 424.7 million or 8.59 per cent was due for more than 1 year. There were 13 debtors whose outstanding balance was more than Rs. 450,000 as at 31 December 2022. Further, Credit balances of trade debtors more than two years was Rs. 14.4 million as at 31 December 2022.Out of that, Rs. 5.3 million belongs to disconnected customer accounts.	This amount was appearing in the system due to the delay of the normal Disconnection process of the Company, due to the country's situation on those days, however, after starting the normal disconnection process, (from the 2023/03 Billing cycle) All relevant actions are taken at the branch level to recovery of the outstanding amount.	(i) Action should be taken to recover the long outstanding balance. (ii) Action should be taken to refund the balance if required conditions are fulfilled.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	VAT payable Credit Balance amounting to Rs 6.2 million had been included in Trade & Other Payables since 2016.	Rs 6,188,496 were mistakenly not considered for VAT return filing of the quarter 4 of 2007.	VAT returns should be prepared correctly.
(b)	An unidentified collection from customers amounting to Rs. 8.3 million which was transferred to rejected account had been included in balance of other creditors as at 31 December 2022.	Noted and all relevant actions are taken to clear them based on customer/ collection agents' requests.	(i) Appropriate action need to be taken to identify and record unidentified collection. (ii) The internal control system should be improved to minimize un-identified collections.

(c)	The Company had not refunded the deposits of temporary connections amounting to Rs. 15 million after the disconnection of the temporary connections and these balances has been remained for a long period. Further, following minus amounts aggregating Rs. 372,805 for Kelaniya and Galle branches included under temporary connection deposits for a long period of time.	These balances are occurred due to system issues and clearance actions will be taken at the branch level. .	System should be corrected and refund if relevant condition is fulfilled.
(d)	The amount of Rs.1.4 million that received for the period of 2005 to 2008 against the fraud occurred in LECO Kelaniya Branch had been included in Sundry creditors (the collection received against the fraud account - 0207200 0A).	This matter is still pending in the courts and actions will be taken accordingly.	Action should be taken to avoid frauds and record the loss.
(e)	Long outstanding balances carried forwarded as at 31 December 2022 in Purchase provision Ledger of Kotte, Kelaniya, Galle, Nugegoda and Negombo branches were Rs. 2.8 million, Rs. 2 million, Rs. 2.3 million, Rs. 5.5 million and Rs. 2.1 million respectively. However, no action had been taken by the Company to settle these long outstanding balances even during the year under review.	Agreed with Auditor's comments and relevant actions are taken at branch level.	Necessary actions should be taken to settle the outstanding, if relevant conditions are fulfilled.
(f)	Net metering payable balance to solar customers as at 31 December 2022 was Rs. 20.6 million. This balance remained unsettled for more than two years.	These balances are remaining in the accounts due to a dispute with relevant parties. Further actions will be taken in due course.	Action should be taken to resolve the dispute and make the payments.

1.6.3 Advances

	Audit Issue	Management Comment	Recommendation
(a)	Company had not properly maintained a formal advance register.	Standard two separate registers are maintained to record all the required details (including advance requested person and the settlements) pertains to the advances granted to the suppliers and employees. The	Advance register should be maintained properly.

		registers are maintained in both hard and soft versions for the convenient perusal of the user. Further, we will implement more enhancements to the registers to handle outstanding balance efficiently.	
(b)	An unrecovered loan balance from retired, passed away, vacated on post, resigned, interdicted and terminated employees of the Company as at 31 December 2022 was Rs. 7.8 million.	This matter should be further analyzed and once we get the legal advice we will do the needful either to recover or write off.	Action should be taken to recover the loans.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
National Budget Circular No.08/2022 dated 25 November 2022	It had been stopped the expenses for holding all kind of events including opening ceremonies, friendly meetings, and conferences related to the assumption of duties and retirement by officials using by government or organization funds. Accordingly, it was observed that, Company had incurred 8.1 million for annual sport day held on December 2022.	Amounting Rs. 68,521,704.96 had been allocated under the cost code "Staff welfare admin" (00230210HA10) of Approved Annual budget. Money Spend for Sport day was made through the approved Budget Head and board approval had been received for that money.	Should be complied with circulars.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
According to the Circular dated 20 December 2018 issued by the Chief Financial Officer, "All the works related to cash collection at the cashier points i.e. checking reconciliations,	This issue is occurring due to integration issues of these two systems and is expected to solve it with the proposed	Cash collection should be timely recorded in primary book/ Ledger making necessary

certifying and approving updates, bill, Pronto and cash books shall be finalized and completed within two working days". Accordingly, receipts from customers had been recorded in billing system by cashiers, and receipts had been issued to customers through the Billing system. However, revenue generated from cash collection process had not been recorded in the General Ledger through the Pronto system as those two systems had not been linked together. Instead, all receipts had been recorded in General Ledger manually as bulks a few days after the transaction occurred.	ERP system.	improvements to the information systems.

1.9 Non- compliance with Tax Regulations.

Audit Issue	Management Comment	Recommendation
As per the Public Enterprises Circular no 03/2016 dated 29 April 2016, APIT Tax of public officers including employees of state owned enterprises should be deducted from tax liable employee earnings as per the APIT Tax Table No.6 of the Inland Revenue Department. However, for the year ended 31 December 2022 APIT Tax of Rs. 5 million had been paid by the Company on behalf of the Employees. Further, when an employer or any other person settles income tax liability of an employee, without being deducted from his salary Tax on tax may arises. Accordingly, Tax on tax effect had not been considered for above APIT payment for the year under review.	Noted. The Company is not paying APIT on behalf of the employee with effect from 01 January 2023 according to the PED circular reference PE/COP/POLI/Circulars dated 12.01.2023.	Should be complied with the Public Enterprises Circulars.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,908.8 million and the corresponding profit in the preceding year amounted to Rs. 5,107.7 million. Therefore, a deterioration amounting to Rs. 3,198.9 million of the financial result was observed. The reasons for the deterioration were decrease in dividend income and increase in provision for impairment of CEB receivable.

2.2 Trend Analysis of major Income and Expenditure items

(a) The revenue for the year under review had increased by 18 per cent compared to the previous year. Simultaneously the cost of sales had increased by 19 per cent and gross profit for the year under review had increased by 14 per cent.

(b) Other operating income for the year under review had decreased by 48 per cent compared to the previous year.

(c) Finance Income for the year under review had increased by 51 per cent compared to the previous year.

2.3 Ratio Analysis

(a) Net profit margin had decreased from 15 per cent to 5 per cent compared to the preceding year.

(b) Return on Equity (ROE) had decreased from 8 per cent to 5 per cent compared to the preceding year.

(c) Current ratio of the Company had increased from 3.3 to 3.6 compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	There was no formal power purchase agreements entered into between the CEB and the Company for electricity purchase and purchasing electricity using net accounting and net plus method relevant to the Solar Scheme.	A formal power purchase agreement has not yet been signed. However, a draft agreement has prepared and tabled for discussion. Further action will be taken in due course based on this discussion. The draft agreement for purchasing electricity using net accounting and net plus method was received from CEB for review and sent it back with LECO comments. Further actions will be completed with the restructuring process.	Action should be taken to enter into formal agreements with CEB.
(b)	The Fixed Assets Register has not been properly updated.	Agreed with the auditor's observations and these types of issues have occurred due to system issues. Further rectifying actions will be taken with IT assistance.	Action should be taken to update the Fixed Asset Register properly.
(c)	Although the lands had been purchased for constructing the branch offices at Kelaniya, Kotte, Customer Service Centers	Branch Office - Kelaniya- Not constructed yet - Kotte- The ownership of the Land has a dispute with UDA and has	Action should be taken to get the maximum benefit from the resources of the

	in Negombo, Nugegoda, and quarters of the Customer Service Centers in Payagala in the years of 2001, 2000, 2018, 2001 and 2019 respectively, construction works had not been commenced even as at the end of the year under review. Further, as these branch offices and customer service centers of the Company were being operated in rented premises and the Company had incurred Rs. 18.4 million on renting premises for the year under review.	not been transferred. Consumer service centers - Negombo- Under the procurement process - Nugegoda- Procurement works completed. Quarters of Consumer service centers - Payagala - Only Land - Panadura- Only Land	organization.
(d)	The Company had not finalized the investigation and had not identified the actual loss of the fraud committed by a management assistant who engaged in a financial fraud at the Galle branch.	Final report had not been received yet. Thereafter next actions will be taken.	(i) Action should be taken to recover the loss and prevent frauds. (ii) Disciplinary action should be taken on responsible parties.
(e)	Three sets of Earth cables of Consumer Service Center at Kandana with a purchased cost of Rs. 0.5 million and market value of approximately Rs. 1.0 million in 2021 had been lost in September 2021. Loss had not been recovered up to the end of the year under review.	Investigation is in progress. Action taken this regard will be informed after the investigation.	- Do -

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	No action had been taken by the Company to identify the unusable items in the non-moving stock to be disposed and to carry out the disposal process with regard to stock items categorized as disposal stock.	It is Company policy to transfer operational stocks which are aging more than 5 years to Nonmoving warehouse. After the Board of Survey these items are transferred to Disposable warehouse for disposal activities. In relation to these items, BoS team engage in survey and verification activities and once BoS completed necessary actions will be taken to dispose them.	Inventory management system should be strengthening.
(b)	In disposal materials in Ekala stores, there were 19 coil lost transformers worth Rs. 0.8 million (the capacity of them could not be found). These items were lost in 2011. However, no action had been taken to conduct an inquiry on theft of coils and identify the parties responsible for the incident in order to recover the loss or take legal action even lapsing more than 11 years.	Observation noted and will do the necessary activities to inquire about this matter and do the legal actions.	(i) Action should be taken to protect the resources of the organization and recover the loss. (ii) Disciplinary action should be taken on responsible parties.
(c)	According to the available information to the audit, out of the slow-moving stock, items worth Rs. 75.5 million had been identified as disposable in main stores in Ekala. However, action had not been taken to dispose them.	It is Company policy to transfer operational stocks which are aging more than 5 years to Nonmoving warehouse. In relation to these items, BoS team engage in survey and verification activities and once BoS completed necessary actions will be taken to dispose them.	Recourses of the organization should be utilized to get maximum benefit to the organization.
(d)	According to the Supply Services Code of the Company, cost estimate should be provided within 10 days for new connection applications and job related to new connections of paid customers should be completed	The given performance assurances are subjected to the external constraints that beyond the control of Company. We wish to mention that our company regularly monitors the customer service	Action should be taken to provide efficient customer service as per the Supply Services Code.

within 10 days. However, estimates for 350 new connection applications had not been provided for more than 3 months as at 31 December 2022. Further, new connection jobs relating to 45 paid customers had not been completed even after 3 months as at 31 December 2022.	performance and deviation reported during the December 2022.	

3.3 Delays in Projects or Capital Works

	Audit Issue	Management Comment	Recommendation
(a)	The Company had purchased a land of 73.7 perches situated at No. 508, Elvitigala Mawatha, Narahenpita at a cost of Rs. 53.5 million in the year 2001 for construction of the head office building. The approval of Cabinet of Ministers had been granted at its meeting held on 18 April 2012 to construct the Head Office building for LECO and to obtain the Service of the University of Moratuwa for designing, preparation of tender documents, BOQ documents and etc. (Engineer). Even though the procurement process had been commenced in 2013, it had taken nearly 8 years to come to an end. The Procurement of construction of Head Office building of the Company had been awarded to Sripalie Contractors (Pvt) Ltd by the CAPC on 16 August 2021. Approximately 12 year had spent to commence procurement process in 2013 from the land purchase and that procurement process had taken nearly 8 years to select a contractor for this construction. As such this particular land purchased for the purpose of constructing the head office building of the Company had been idle for approximately 20 years generating no benefits to the Company.	A land was purchased to build the LECO head office building in year 2001 and then selected the consultant via cabinet decision in year 2012. Then tender drawings had been prepares with the selected consultant, university of Moratuwa (UoM). However, at the half way of the procurement process, the LECO Board had decided cancel the bid of pilling works in November 2013 and approval for the said cancellation was granted by the Ministry Procurement Committee. Then Board had directed to give the project implementation consultancy to another government agency, Central Engineering Consultancy Bureau (CECB) in March 2014. However, due to certain technicalities, said handing over not successful. These proceedings were duly informed to the UOM and their positive concern was given to accommodate the CECB comments in to the building design.	Recourses of the organization should be utilized to get maximum benefit to the organization.

(b)	At the time of the first Cabinet approval granted for this construction in 2012, the total estimated cost of the project was Rs. 500 million. When the subsequent Cabinet approval received on 14 December 2020, the revised total cost estimation was Rs. 1,138 million. In addition, as the Company had no their own premises for the head office, they had to rent out premises for the said purpose. As a result, the Company had to incur approximately Rs. 321 million on rent of current head office premises for nearly 19 years period from 2002 to 2021.	LECO obtained the cabinet approval for the revised Engineer's Estimate on 14 December 2020 and revised tender documents were received from UOM on March 2021. Finally, head office construction tender was awarded to Sripali constructor (pvt) Ltd on 27 September 2021 by competitive bidding process despite of the corona situation prevailed in the country.	-Do-
(c)	The requirement of key project staff with necessary qualifications and experience had been included in Clause No. 4.2 (e) in bidding data of the Bidding document. However, the audit was unable to ascertain that some of the key project staff of the selected bidder (Sripali Contractors (Pvt) Ltd) had fulfilled the required qualification as stipulated in bid documents. Further, the audit was unable to confirm that the TEC had paid proper concern in this regard at the bid evaluation stage.	It can be identified that TEC had not given due attention about several experience gap of key project staff between the bid Document and the information provided by the selected bidder in the bidding document due an oversight. Any how such experience gap is not materialized in the awarding and construction stage as the bidder shall comply with the requirements stipulated in the bid document. Please note that LECO and Engineer's standing on the requirement of qualified staff is remaining unchanged throughout the project.	Proper attention should be given in evaluating the key project staff.

3.4 Procurement Management

	Audit Issue	Management Comment	Recommendation
(a)	The Master Procurement Plan prepared by the Company had not included procurement activities for a period of three years as per the Guideline 4.2.1(b) of the Government Procurement Guidelines. Further, the Procurement Plan had not been regularly updated and progress had not been reviewed. Accordingly, it was difficult to identify the progress of the procurements separately as of a specific date.	As per the Procurement Manual, the envisaged procurement list will be included in next year's procurement plan. The plan is now regularly updated and reviewed with the aid of task management software.	Government Procurement Guidelines should be followed.

(b)	15,000 no. of communication modules had been purchased by the Company under the Purchase Order no 369316 dated 23 May 2018 without proper procurement procedure.	Those were purchased based on previously quoted price. Hence no bid was invited. Further according to the tripartite agreement reached by LECO, CEB and Ante LECO, if the electricity modules required by LECO and CEB are produced by Ante LECO, it should be purchased by Ante LECO.	Proper procurement process should be followed.

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	Scheme Of Recruitments and Promotions (SORP) for executive staff had been established in 2022. Accordingly, the placement to the SORP scheme had been done from the date of recruitment to the Company and Salary arrears had been calculated from 01 January 2016. As per the board paper dated 08 November 2022, total financial requirement for the payment of arrears had been identified as 420Mn by the expert committee. But detailed estimate of the financial requirement had not been presented to the Audit. As per the first part payment for salary arrears, Company had paid Rs.90Mn during the year under review.	Board approval obtained for the salary scale recommended for 2021 and to pay salary areas with effect from 2016.01.01 with the approved scales of 2021. Therefore, all salary conversions have been done with the scales revised from 2016-2021.	Required information should be made available to the Audit.
(b)	As per the advertisement called for the post of Manager Engineering Research and Development dated 08 April 2007, at least 10 years post qualifying experience in relation to electricity distribution, construction, contact administration, quality assurance, etc were needed for above post. However, the post qualifying experience of the recruited officer had not been confirmed through formal service certificates.	Noted to inclusion Relevant service letters to the personal file.	Most appropriate applicant should be recruited after confirming the accuracy of the information provided.

3.6 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
A centralized transport unit had not been established under the administration division with the supervision of a transport officer qualified in Automobile Engineering and instead transport function had been decentralized. Accordingly, all vehicle related matters such as allocating vehicles for duties, record keeping, running charts and log books maintenance, providing fuel, repairs and maintenance, etc. had been separately handled by each division. Therefore, it was observed that the control over the vehicle administration had not been properly designed and implemented by the Company.	It will take necessary steps to do it near future.	Proper procedures should be implemented in vehicle management.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
In accordance with the "2030 Agenda" of the United Nations of the Sustainable Development Goals (SDG) all state institutions should contribute in implementation of goals and functions under its scope. But the Company had not identified the relevant targets to be archived, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.	In the LECO Corporate plan, SGD 07 and SGD 09 have been identified as directly pertinent to LECO's operational work scope. Therefore, we have to figure out and work on specific actions that correspondingly address and align with these SDGs.	Should be complied with "2030 agenda" of the United Nations of the Sustainable Development Goals.