

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Energies HR (Private) Limited (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of profit and loss and comprehensive income,, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable

a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

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

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) Six (06) employees had resigned from the Company without completing 05 years' service period and Rs. 486,135 had been made as the provision for gratuity up to 2023. Further, Rs. 243,067 of provision for gratuity had not been made for 03 employees who are currently employing in the Company. Accordingly, provision for gratuity was overstated by Rs. 243,067.	These resignations were not properly communicated to company prior to the submission of annual financials.	The Company should adjust the gratuity provision.
b) As per the Financial Statements, the company recognize the salary and allowances of out sourced employees in the cost of sale account. However, the APIT payable on the above salary amounting to Rs 875,835 had not been recognized in the books of accounts. As a result, profit for the year was overstated and the APIT payable as at end of the year was understated by the same amount.	This will be adjusted accordingly.	APIT Payable Should be recognized in the financial statements.
c) According to the financial statement of the Company, provision for the income tax was Rs. 3,306,616. However, when computing the income tax for the year of assessment 2024/2025, gratuity provision of Rs. 1,378,238 had been deducted as gratuity paid for the above year of assessment. Accordingly, provision for income tax was understated by Rs. 393,450 in the year 2024.	This will be checked and corrected with return filing.	When calculating the income tax, gratuity provision should be adjusted accurately.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
WHT Receivable	84,949	WHT certificates	The bank is accepting to provide only for recent past year. Currently we are also trying at level best to get this balance cleared.	Action should be taken to get the WHT Certificates and claim it against the income tax.

1.6 Accounts Payables

Audit Issue	Management Comment	Recommendation
a) The balance of Sales tax payable to CEB (excess VAT collected from the CEB) as at 31 December 2024 amounting to Rs. 11,791,191, had remained over six years without being settled.	Based on the prevailing content of cash flow, priority is given to settle the dues of income taxes and this will be settled in afterwards.	Information about the issue should be forwarded to the Board of directors to get a proper decision and accordingly, action should be taken to settle the due balance.
b) Section 4 of National Building Tax Act no. 9 of 2009, The NBT payables collected from the CEB amounting to Rs. 10,744,888 had not been paid to the Inland Revenue Department for more than five years.	Based on the prevailing content of cash flow, priority is given to settle the dues of income taxes and this will be settled in afterwards.	Information about the issue should be forwarded to the Board of directors to get a proper decision and accordingly, action should be taken to settle the due balance.
c) Audit fees amounting to Rs. 220,000 had remained without being settled over seven years.	This was a provision made under the completion of annual financials where we need have an invoice to settle.	Information about the issue should be forwarded to the Board of directors to get a proper decision and accordingly, action should be taken to settle the due balance.
d) The balance of trade receivable from ultimate parent had comprised with	As been presented to the audit there were some non-moving	Information about the issue should be

negative values (To be paid to ultimate parent) of Rs. 323,493 and negative balance of Rs.139,998 (to be received from ultimate parent) had been included in trade and other payables as at 31 December 2024. However, such balance had remained without been settled over five years.

balances which need to be taken out or adjusted, which might record. Through the Journal Entry by the Earnest & Young under the finalization of the previous annual audit. These balances need to be addressed for the clearances with the authentication.

forwarded to the Board of directors to get a proper decision and accordingly, action should be taken to settle the due balance.

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
a) Section 126 of Inland Revenue Act No. 24 of 2017, The duly completed return along with the schedule and any other required documents should be submitted to the Inland Revenue Department on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not filed returns for the year of assessment 2017/2018, 2022/2023 and 2023/2024 complying with the said provisions of the Act. Further, the balance of income tax payable of Rs. 39,845,069 as at 31 December 2024 had remained without been paid since the inception of the Company.	Currently under the process of filing CIT returns for the 2022/2023 and 2023/2024 where the CIT calculations have been finalized and shared with the audit already. Company have started the settlement of due income tax payable and settled LKR 10 Mn within the year under review. This was adjusted according to the CIT returns	Should be complied with the provisions in the Inland Revenue Act.
Further, under provision of Rs. 29,065,844 relating to the years of assessment 2014/2015, 2015/2016 and 2016/2017 had been accounted for the year under review. As a result, profit for the year amounting to Rs. 7,628,993 has been turned to a loss of Rs. 21,436,851.		

1.8 Non -compliance with Laws, Rules, Regulations and Management Decisions ect.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Section 2.3 of Guideline on Corporate Governance dated 16 November 2021 and Public Enterprises Circular No 01/2021 (ii) dated 27.09.2023	Subsidiaries are required to submit finalized strategic plans, action plans and annual budgets to the Parent Company. However, sufficient documentary evidences were not made available to the audit in relation to the preparation and submission of action plan and annual budget to the parent company.	Budgets are not prepared for Subsidiaries individually. Parent entity prepares the unit as whole budget and approved budget for the year 2024 already submitted for the audit.	Budget should be prepared periodically and action should be taken to handover at relevant period
b) Part III of section 27 of Employees Trust Fund Act no. 46 of 1980	Where any contribution payable under this Act has not been paid to the Fund on due date and the employer is unable to explain to the satisfaction of the Board that the failure to pay such contribution was due to circumstances beyond his control, he shall be liable to pay to the Fund, in addition to the amount of such contribution, a surcharge on such amount calculated. However, as per the financial statements of the Company, the surcharge on ETF amounting Rs. 88, 221 had been paid by the Company due to delays in payments.	Generally, EPF and ETF payables settled on time and actions will be taken to avoid further delays.	Action should be taken to pay at relevant period.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.10,935,609 and the corresponding profit in the preceding year amounted to (Re – Stated) Rs.4,513,102. Therefore, an improvement amounting to Rs. 6,422,507 of the financial result was observed. The reason for the improvement was increased of finance income and other income.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2024 Rs.	2023 Rs. (Re-Sated)	Increase/ (Decrease) Rs.	Percentage (%)
Revenue	146,524,865	103,432,648	43,092,217	41.6
Cost of sale	130,575,675	93,046,563	37,529,112	40.3
Administrative Cost	5,916,305	5,904,595	11,710	0.19
Finance Expenses	30,360	6,210	24,150	389
Finance Income	153,809	37,821	115,988	307
Other Income	779,275	-	779,275	100

2.3 Ratio Analysis

Ratio	2024	2023
Return on capital employed (%)	9.30	3.25
Gross profit ratio (%)	10.88	10.04
Net profit ratio (%)	-14.63	3.86
Current Ratio (times)	2.59	3.91