

Kumbalgamuwa Mini Hydro (Private) Limited - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Kumbalgamuwa Mini Hydro (Private) Limited (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and 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

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) The Company has entered in to an agreement with Forest Conservation Department to lease the land from 15 February 2015 for a period of 20 years for the purpose of building, owning and operating the mini hydro power plant at a annual fee of Rs. 3,858,005. However, the value of right of use land had not been recognized as a lease asset and lease liability under the Sri Lanka Financial Reporting Standard on Lease (SLFRS 16).	Management Comment had not been provided.	Should be complied with the provision of the Accounting Standards
(b) According to the Sri Lanka Accounting Standard on Related Party Disclosures (LKAS 24), detailed disclosures had not been made regarding the related parties in the financial statements of the year under review.	Management Comment had not been provided.	Should be complied with the provision of the Accounting Standards

1.6 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
According to Section 08 of Nation Building Tax Act No.09 of 2009 (duly amended), NBT tax returns should be submitted on or before the last day of the month after the each quarter. However, NBT tax returns had been submitted with 02 to 09 months delay.	Management Comment had not been provided.	Should be complied with Nation Building Tax Act No.09 of 2009 (duly amended)

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
Composition of Cash & Cash equivalents had not been shown separately in the financial statements.	Management Comment had not been provided.	Should be disclosed in the notes.

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 in a pre-tax net Profit of Rs. 13,861,453 as compared with the corresponding pre-tax net Loss of Rs. 5,863,611 in the preceding year, thus indicating improvement of Rs. 19,725,064 in the financial results for the year under review.

2.2 Trend Analysis of major Income and Expenditure items

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

Income/ Expenditure	2019	2018	Increase / Decrease	Percentage %
Revenue	106,274,755	95,130,264	11,144,491	12
Cost of Sales	35,546,827	34,923,155	623,672	2
Administration Expenses	5,718,105	8,058,258	(2,340,153)	-29
Finance Expenses	51,208,026	54,192,472	(2,984,446)	-6

Revenue had been increased by Rs. 11,144,491 for the year under review compared with the preceding year due to increased power generation income. Further, administration expenses had been decreased by Rs. 2,340,153 due to decrease in natural infection recovery expense and board of investment approval expenses. Finance expenses also had been decreased by Rs. 2,984,446 due to decrease of interest expense on loan.

3. Operational Review

3.1 Management inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to Section 2 (i) of the Board of Investment (BOI) agreement No. 4845/06/03/2015 dated 06 th March 2015, the Company shall pay an annual fee in rupees which equivalent to US Dollar 5,000 to the BOI until end of the tax holiday period and if the Company fails to pay the annual fee on due date, an interest equivalent to the prevailing 364 treasury bill rate for that year shall be charged as delay payment fee. However, the annual fee of the year 2018 and 2019 and penalty interest thereon had not been paid even as at 30 November 2020.	Management Comment had not been provided.	Should be complied with the agreement.

(b) Physical verifications of assets had not been carried out by the Company for the year under review.	Management Comment had not been provided.	Should be carried out physical verifications of assets.
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3.2 Human Resources Management

The following observations are made.

Audit Issue -----	Management Comment -----	Recommendation -----
Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).	Management Comment had not been provided	Should be prepared Scheme of Recruitment (SOR)

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Approved financial statements along with the draft performance report should be rendered to the Auditor General within 60 days after the close of the financial year in accordance with the Public Enterprises Circular No. PED/12 of 02 June 2003 and further it should be in accordance with the Public Enterprises Circular No. PED/45 dated 02 October 2007. However, the financial statements for the year 2019 had been submitted to the Auditor General on 13 July 2020.	Group Financial Statements were forwarded earlier than this but due to the changes in Group directors and issues relating to authorized signatures delayed this process.	Should be complied with the provisions in the circulars.
(b) Annual Reports had not been prepared and tabled in the parliament since 2016.	Management Comment had not been provided.	Should be complied with the provisions in the circular

4.2 Corporate Plan

Audit Issue -----	Management Comment -----	Recommendation -----
A Corporate Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided	Should be complied with the provisions in the circular

4.3 Annual Action Plan

Audit Issue

The Company had not prepared Annual Action Plan according to Public Enterprise Circular No.PED/12 dated 02 June 2003.

Management Comment

Management Comment had not been provided

Recommendation

Should be complied with the provisions in the circular

4.4 Internal Audit

Audit Issue

An internal audit division had not been established and Internal Audit Divisions of Ministry of Power and Renewable Energy and Ceylon Electricity Board also had not carried out any audit in 2019.

Management Comment

Management Comment had not been provided

Recommendation

Internal audit should be carried out.

4.5 Budgetary Control

Audit Issue

The Company had not an approved budget for the year 2019. Therefore, actual performance and unusual variances could not be reviewed.

Management Comment

Management Comment had not been provided

Recommendation

Budget should be prepared and get approval as per the Public Enterprises Circular No. PED/12 dated 02 June 2003

4.6 Sustainable Development Goals

Audit Issue

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

Management Comment

Management Comment had not been provided

Recommendation

Company should comply with “2020 Agenda” of the United Nations on the Sustainable Development Goals.