

Kumbalagamuwa Mini Hydro (Private) Limited - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kumbalagamuwa Mini Hydro (Private) Limited (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and 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 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 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) The Company had entered into an agreement with the Department of Forest Conservation to lease a land for the purpose of building, owning and operating the mini hydro power plant for a period of 20 years from 18 February 2015. However, the right of use assets, lease liability and lease payments on permit fees had not been recognized in the financial statements of the Company as per the SLFRS – 16- Leases.	As per the relief granted for all the Mini Hydro Energy Developers, the company will act to obtain the particular relief for land lease of the Department of Forest Conservation and amend the financials. Based on the SLFRS 16 company will adhere to the suggested amendments.	Should be complied with the provisions of the Accounting Standards.
b) The Company had recognized the annual fee payable to Board of Investment of Sri Lanka (BOI) amounting to Rs.4.6 million for the period from 2019 to 2021 in the year 2022 without making prior year adjustments to the financial statements complying with the Paragraph 42(a) and (b) of LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors. Accordingly, the profit for the year under review had been under stated by that amount.	The annual fee for Board of Investment Sri Lanka was recognized as an expense in particular year wise and this adjustments was recorded based on the notice communicated on 05 October 2022 and the year wise expense that already being identified.	-Do-
c) The fully depreciated assets amounting to Rs.564,060 were being used by the Company as at the end of the year under review without taking action to review the residual value and the useful life of the assets in terms of the paragraph 51 of LKAS 16 - Property Plant and Equipment.	The company will adhere to revaluation policy in next time.	-Do-

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) According to the financial statements of the Company, the annual fee payable to the Department of Forest Conservation as at 31 December 2022 for the period from 2017 to 2022 was Rs.24.38 million. As per the computation of annual fee (with VAT) made by the audit based on the information provided by the Department of Forest Conservation, the said balance was approximately Rs.25.71 million. Therefore, a difference of Rs.1.31 million was observed in annual fee payable between the financial statements and the computation made by the audit.	This difference will be checked and adjusted accordingly.	Action should be taken to record the correct values in financial statements.
b) As per the letter dated 10 January 2022 of the Department of Forest Conservation, an overdue interest on annual fee for the period from 2017 to 2021 amounting to Rs.1.78 million had been charged by the Department due to the non-payment of annual fee. However, it had been neither accounted for nor disclosed in the financial statements of the Company.	Action will be taken accrued that as it is.	Action should be taken to record all the transactions in the financial statements properly.
c) According to the financial statements of the Company, the annual fee payable to the (BOI) as at 31 December 2022 was Rs.10.52 million and the Company had not taken action to settle this balance even as at the end of the year under review. Further, as per the information provided in the letter dated 05 October 2022 of BOI regarding the outstanding dues, the overdue interest for the period from 2018 to 2022 was approximately Rs.11.73 million. However, the Company had not recognized or disclosed this overdue interest in the financial statements.	As the company is suffering due to lack of funds to be received from CEB for the energy supply, company does not have any cash position to settle the BOI fees. Currently the company is under negotiations with BOI to mitigate these penal interest charges and the said interest will be accrued to the account till the matter solved fully.	Action should be taken to settle the due balances and record all the transactions in the financial statements properly.

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

Reference to Laws, Rules, Regulations ect.	Non-compliance	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 Department of Inland Revenue on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not filed the return for the year of assessment 2017/2018.	The Year 2017/18 was pending because IRD was requiring the certified copy of the Annual Financial Statements by the auditors but the company had only a copy of the F/S. This will be completed with immediate effect.	Should be complied with the provisions of Inland Revenue Act.
b) Section (14) (b) of part I of the agreement with Board of investment of Sri Lanka	Within six months from the end of the financial period, the enterprise should have submitted to the Board, statements of accounts and statistics including a report indicating the results of a physical verification carried out on the capital goods imported by the enterprise on duty free basis during the financial year. However, the Company had not complied with the requirements of the agreement.	This section is noted and will adhere accordingly.	Should be complied with the provisions of BOI agreement.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 3.5 million and the corresponding profit in the preceding year amounted to Rs. 38.9 million. Therefore a deterioration amounting to Rs. 35.4 million of the financial result was observed. The reasons for the deterioration are increase in finance expenses and administrative expenses by 99.9 per cent and 84 per cent respectively.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2022 Rs.	2021 Rs.	Increase/ (Decrease) Rs.	Percentage (%)
Revenue	109,203,318	116,107,930	(6,904,612)	(5.94)
Cost of Sales	37,607,747	42,502,230	(4,894,483)	(11.51)
Administrative Expenses	14,845,434	8,058,091	6,787,343	84.23
Finance Expenses	53,242,294	26,622,950	26,619,344	99.98

3. Accountability and Good Governance

3.1 Annual Action Plan and Budget

Audit Issue	Management Comment	Recommendation
Subsidiaries should submit the finalized strategic plan together with the action plan and annual budget to the Parent Company as per the section 2.3 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021. However, the action plan and annual budget had not been prepared and submitted to Sri Lanka Energies (Private) Ltd.	Action Plan is in progress of Completion. Budget for year 2022 was prepared for Sri Lanka Energies (Pvt) Ltd where the parent entity and Kumbalgamuwa Mini Hydro (Pvt) Ltd is a part of the same Budget and submitted for the BOD approval.	Should be complied with the provisions of Guidelines on Corporate Governance for State Owned Enterprises.