

## **Kumbalgamuwa Mini Hydro (Private) Limited – 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Kumbalgamuwa Mini Hydro (Private) Limited “Company” for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 reported 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 2020 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**

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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**

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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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-Compliance with Sri Lanka Accounting Standard**

The following observations are made.

<b>Non-Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The Company had entered in to an agreement with Forest Conservation Department to lease a land for the purpose of building, owning and operating the mini hydro power plant for a period of 20 years from 15 February 2015. The annual permit fee of Rs.4,436,705 should have been paid to the Forest Conservation Department as per the agreement. However, permit fee had not been identified as a lease payment under SLFRS – 16 and the lease liability and the right to use asset had not been brought to account. Further, the Company had not complied with the amendment made for the calculation of annual permit fee to the Forest Conservation Department. As a result, the annual permit fee as at the end of the year under review had been understated by Rs. 578,700.</p>	<p>Will adhere to this best practice from next year onwards.</p>	<p>Should comply with the provision of the Accounting Standards.</p>

## 1.5.2 Accounting Deficiencies

The following observations are made

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Annual Energy Metering Testing charges amounting to Rs. 88,085, which was relevant to the previous year (2019), had been accounted for in the year under review, and no any provision for that expenses had been made for the year 2020.	Will attend to the needful to avoid these errors in record keeping in future.	Transactions should be accounted for in the relevant financial year.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 32,250,486 and the corresponding profit in the preceding year amounted to Rs. 13,861,453. Therefore, an improvement amounting to Rs. 18,389,033 of the financial result was observed. The main reason for that improvement was the decrease of financial expenses of the year under review by Rs. 14,190,143.

### 2.2 Trend Analysis of major Income and Expenditure items

Analysis of 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.

<b>Income/ Expenditure</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ (Decrease)</b>	<b>Percentage</b>
	Rs.	Rs.	Rs.	%
Revenue	115,197,323	106,274,755	8,922,568	8
Cost of Sales	38,462,919	35,546,827	2,916,092	8
Administration Expenses	7,545,142	5,718,105	1,827,037	32
Finance Expenses	37,017,883	51,208,026	(14,190,143)	(28)

Revenue and Cost of sales had increased by Rs. 8,922,568 and Rs. 2,916,092 respectively for the year under review compared with the preceding year. Administration expenses had increased by Rs. 1,827,037 due to the management fee and finance expenses had decreased by Rs. 14,190,143 due to interest rates concessions granted by the government on loans.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to Section 2(i) of BOI agreement dated 06March 2015, the enterprise shall pay an annual fee of Sri Lanka rupees equivalent to the US Dollar 5,000 per annum until the tax holiday period ends. And, if the enterprise fails to pay to the Board of Investment on or before 10 <sup>th</sup> day of the first month in each year, an interest equivalent to the prevailing 364 treasury bill rate (“interest”) for that year shall be charged on delayed payment, in addition to annual fee. However, the annual fee for the years 2018, 2019 and 2020 had not been paid by the Company even as at 10 November 2021.	Actions will be taken for the early settlement of this.	Should comply with the agreement.
(b) Physical verifications of fixed assets had not been carried out by the Company for the year under review.	Management comments had not been provided.	Physical Verifications of assets should be carried out and report should be submitted to the Auditor General.

#### 3.2 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A Scheme of Recruitment (SOR) had not been prepared by the Company for staff recruitments and promotions.	Management comments had not been provided.	Scheme of Recruitment (SOR) should be prepared and get approval as per Public Enterprises CircularNo.PED/12 dated 02 June 2003.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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 Circulars of No. PED/12 of 02 June 2003 and No. PED/45 of 2007. However, the financial statements for the year 2020 had been submitted to the Auditor General on 28 April 2021.	Management comments had not been provided.	Should comply with the provisions in the Circulars.

##### **4.2 Tabling of Annual Report in Parliament**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Annual Reports had not been prepared and tabled in the parliament since 2016.	Management comments had not been provided.	Should comply with the provision in Public Enterprise Circular No. PED/12 dated 02 June 2003.

##### **4.3 Corporate Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A Corporate Plan had not been prepared by the Company in compliance with Public Enterprise Circular No. PED/12 dated 02 June 2003.	Management comments had not been provided.	Should comply with the provision in the Circular.

##### **4.4 Annual Action Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Company had not prepared Annual Action Plan in compliance with Public Enterprise Circular No. PED/12 dated 02 June 2003.	Management comments had not been provided.	Should comply with the provision in the Circular.

#### 4.5 Internal Audit

##### Audit Issue

An internal audit division had not been established and Internal Audit Divisions of Ministry of Power and Ceylon Electricity Board had also not carried out any audit in 2020.

##### Management Comment

Management comments had not been provided.

##### Recommendation

Internal audit should be carried out to ensure proper internal control system.

#### 4.6 Budgetary Control

##### Audit Issue

An approved budget for the year 2020 was not made available to audit. Therefore, actual performance could not be reviewed with the budget.

##### Management Comment

Management comments had not been provided.

##### Recommendation

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

#### 4.7 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. However, the Company 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 comments had not been provided.

##### Recommendation

Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.