

Deduru Oya Mini Hydro (Private) Limited – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Deduru Oya Mini Hydro (Private) Limited (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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
According to paragraph 73(c) of LKAS 16 - Property, Plant & Equipment, the Company shall disclose the useful lives or depreciation rates used for each class of property, plant & equipment. However, the Company had not disclosed the useful lives or depreciation rates for Machinery & Equipment, Turbines and Water Wheels and Power Plant Building in the financial statement.	Actions will be taken to disclose the useful lives or depreciation rates for machinery & equipment. Turbines and water wheels and for the power plant building as well from next year onwards.	Should be complied with the provisions of the Accounting Standard.

1.5.2 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
According to the financial statements, the provision for income tax for the year 2021 was Rs.9,952,579. However, the Company had not prepared the income tax computation in accordance with the provisions in the Inland Revenue Act No. 24 of 2017 and its amendments. Hence, it was unable to verify the accuracy of above provision shown in the financial statements.	The financial statements of daduru Oya Mini Hydro (pvt) Ltd. was finalized with an income tax provision 24% from the profit before tax and this provision was made for the purpose of finalizing the annual financial statements till the proper income tax computation is conducted from the inception of the company. Currently under the process of finalizing the income tax computation from the inception and to file the income tax returns parallel to this.	Should be complied with the provisions of the Inland Revenue Act.

1.6 Accounts Payable

Audit Issue	Management Comment	Recommendation
The Company had not taken actions to settle the royalty fee payable amounting to Rs. 14,217,134 in the year under review.	This royalty fee was accrued based on the 15% rate agreed accordance with the MOU with Department of Irrigation. This will be settled in appropriate manner.	Action should be taken to settle the balance.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 126 of the Inland Revenue Act, No. 24 of 2017.	The duly completed returns along with the schedules 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 submitted Income Tax Returns for the year of assessment 2020/2021 to the Department of Inland Revenue up to 21 July 2022.	Currently under the process of finalizing the income tax computation from the inception and to file the income tax returns parallel to this.	Should be complied with the provisions of Inland Revenue Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.41,469,078 and the corresponding loss in the preceding year amounted to Rs 3,435,873. Therefore an improvement amounting to Rs. 44,904,951 of the financial result was observed. The main reason for the improvement is commencement of the power generation of the plant and generating the income by Rs.94,780,891 .

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Company had incurred a sum of Rs.5,345,118 for the inauguration ceremony of the Daduru Oya Mini Hydro Power Plant held to add 1.3 MW to the national grid in the year 2021.	This inauguration was as essential item at the time item prevailed at the time of this project was completed, as explained in Audit Committee meeting.	Expenses should be managed economically and efficiently.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
A Scheme of Recruitment (SOR) had not been prepared by the Company for staff recruitments and promotions.	Not applicable as explained in audit committee.	A Scheme of Recruitment (SOR) should be prepared and approved as per Public Enterprises Circular No:PED 12 dated 02 June 2003.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
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. However, the financial statements for the year 2021 had been submitted to the Auditor General on 05 April 2022.	Financial statements for the period ended 31/12/2021 was prepared and submitted for the approval of the board of directors meeting held on 23 February 2022.	Should be complied with the provisions of the circular.

4.2 Annual Report, Annual Action Plan and Budget

Audit Issue	Management Comment	Recommendation
(i) Annual reports had not been prepared and tabled in the Parliament since 2016.	Annual Report for the year 2020 has been prepared and presented for the Ministry of Power to proceed further.	Should be complied with the provisions in Public Enterprises Circular No.PED/12 dated 02 June 2003.
(ii) The Company had not prepared and approved Annual Action Plan and budget for the year 2021.	Annual Action Plan Action Plan is in a process of finalization.	-Do-
	Budget Budget for 2022 has already been completed and approved by BOD of the holding Company.	-Do-

4.3 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
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 had not identified the relevant goals and the targets to be achieved, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.	Will adhere to this best practice and identify SDG targets.	Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.