

Deduru Oya Mini Hydro (Private) Limited - 2022

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Deduru Oya 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, 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 Opinion

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 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 Accounts Payable

Audit Issue	Management Comment	Recommendation
The royalty fees payable amounting to Rs.27.18 million as at 31 December 2022 to the Department of Irrigation for the years 2021 and 2022 had not been settled by the Company.	Royalty fee is for Department of Irrigation will be settled no sooner the funds arrived from CEB.	Action should be taken to settle the due balance.

1.6 Non-compliance with Tax Regulations

Reference to Laws, Rules, Regulations ect.	Non-compliance	Management Comment	Recommendation
(a) The Section 33.3 (ii) of Inland Revenue (Amendment) Act No.45 of 2022 and Paragraph 3 of notice to tax payers No. PN/IT/2022-03 dated 15 December 2022.	Income Tax Computation shall be prepared according to the pro rata basis and the rate of 24 per cent for the first 6 months and 30 per cent for the balance 6 months should be applied. However, the Company had prepared the Income Tax Computation by applying the rate of 24 per cent for the year ended 31 December 2022.	This will be checked and rectified if so.	Should be complied with the provisions of the Inland Revenue Act.
(b) 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	Backlog of Income Tax (IT) return filling was completed and company will initiate the	-Do-

end of the year of assessment. However, the Company had not filed the return for the year of assessment 2017/2018. IT settlements with a negotiation of IRD.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.46,356,143 and the corresponding profit in the preceding year amounted to Rs.41,383,445. Therefore an improvement amounting to Rs. 4,972,698 of the financial result was observed. The reason for the improvement is increasing the revenue by Rs.11,372,373 during the year under review.

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 No. 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, Parent Company.	Action Plan is in progress of Completion. Budget for year 2022 was prepared for Sri Lanka Energies (Pvt) Ltd where the parent entity and Deduru Oya 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.