Deduruoya Mini Hydro (Private) Limited - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Deduruoya Mini Hydro (Private) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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’sability 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 Companyor to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’sfinancial 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 Standards

	Non Compliance with the referance to particular Standard	Management Comment	Recommendation
a)	In terms of paragraph 51 of the Sri Lanka Accounting Standard No 16, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the change shall be accounted for in accordance with Sri Lanka Accounting Standard No 8. However, the assets with carrying value of Rs. 290,891,826 relating to 9 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.	Figures will be corrected accordingly.	Should be complied with the provisions of the Accounting Standards.
b)	According to the Paragraph 69 (c) of LKAS 01- Presentation of the Financial Statements, an entity shall classify a liability as current when, the liability is due to be settled within twelve months after the reporting period. However, an accrued balance of Audit fees presented under current liabilities amounting to Rs.100,000 had remained unsettled since 2017.	Actions have taken to remove this non-moving balance with the recommendation of audit committee.	Should be complied with the provisions of the Accounting Standards or action should be taken to make adjustments to financial statements.
c)	d) In obtaining a term loan of Rs. 83.2 million from a private commercial bank on 06 August 2021, it was agreed to comply with 3 conditions relating to security under Facility 1 of the loan agreement. Accordingly, it was secured by project assets (plant and machinery excluding lands) & all permits, licenses and approvals issued by the government agencies for the power project as primary mortgage and 100% share issued by the company supported by an irrevocable Power of Attorney from the shareholders in favour of the Bank with the right to transfer the shares mortgaged to the Bank as an	Disclosure has been made under the note number 15 with related to the loan of Sampath Bank PLC, the assets pledged for the said loan and the present Value. Comprehensive	Should be complied with the provisions of the Accounting Standards.

additional mortgage. Furthermore, as per the Section 06 of the Memorandum of Understanding (MOU) between Department of Irrigation and the Company, the bank shall take over the plant operation to recover its losses in case of default of the repayment of the financial assistance given to the project. However, the security conditions of the above loan had not been comprehensively disclosed in the financial statements of the Company for the year under review in terms of Paragraph 14 of the SLFRS 07 – Financial Instruments: Disclosures.	disclosure will be added accordingly in future.	

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Company had financed Rs.97,000,000 to Sri Lanka Energies (Private) Limited to acquire Bio Med Hydro Power (Private) Limited and amount financed had been recorded as amounts due from Bio Med Hydro Power (Private)Ltd instead of being recorded it as amounts due from Sri Lanka Energies (Private) Limited.Accordingly, the amounts due to related parties and amounts due from related parties had been overstated by Rs. 97,000,000 as at 31 December 2023.	There is no error in the activity, this action is correct.	Action should be taken to record all the transactions in the financial statements properly.
(b)	In calculating the assessable income from the business for the years of assessment 2022/2023 and 2023/2024, the rate of capital allowance of 5 per cent had been applied by the Company on Turbine and Water Wheels (categorized under the machinery) instead of applying 20 per cent. Therefore, income tax payable and income tax expense for the year were overstated by Rs. 8,302,984 and Rs.1,933,778 for the years of assessment 2022/2023 and 2023/2024 respectively.	Mistakenly done during the tax calculations will be corrected accordingly.	Should be complied with the provisions of the Inland Revenue Act.
(c)	In the financial statements of the preceding year, the overdraft (OD) interest had been separately presented under the finance expenses. However, the OD interest amounting to Rs.2,204,247 charged for the year 2023 had been included in bank charges without presenting separately.	Adjustment will be corrected accordingly.	Action should be taken to make adjustments to the financial statements.

1.5.3 Accounts Receivable and Payable

1.5.3.1 Accounts Payable

Audit Issue	Management Comment	Recommendation
As per the financial statements of the Company, the royalty fees payable as at 31 December 2023 was Rs.31,259,762. This balance had been consisted of the royalty fees payable to the Department of Irrigation for the years of 2021, 2022 and 2023. However, the Company had not taken action to settle the said balance even as at the end of the year under review.	As per the MOU payments are done when requested only. All the requested demands were completed by now, though this is accumulated at present.	Action should be taken to settle the due balance.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
As per the Section 185 (1) (a) of Companies Act no. 07 of 2007,	The Company shall not enter into any major transaction, unless such transaction is, approved by special resolution. However, contradictory to the above provision, the Company had given funds amounting to Rs.97 million to acquire Bio-Med Hydro Power (Private) Limited without obtaining the board approval of the Company.	Deduru Oya Mini Hydro (Pvt) Ltd (DMHPP) is fully owned subsidiary of Sri Lanka Energies (Pvt) Ltd (SLE) where the acquisition of new company, Bio-Med Hydro Power (Pvt) Ltd was done with the proper approval of the Board of Directors of SLE where the BOD of DMHPP is consisted with the same members. Accordingly with the suggestion made, company will adhere to this best practice in future.	Should be complied with the provisions of the Companies Act.

1.7 Non -compliance with Tax Regulations

Referance 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,	The taxable income shall be taxed at the rate of 30 per cent with effect from 01 April 2023. However, Income Tax Computation had been made by applying the rate of 24 per cent for the year of assessment 2023/2024. As a result, income tax payable amount was understated by Rs. 1,863,643 as per the tax computation of the Company.	Actions will be taken for the corrections.	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 Inland Revenue Department on or before the 30 November subsequent to the end of the year of assessment. However, the Company had not filed returns for the year of assessment 2022/2023 complying with the said provisions of the Act.As per the financial statements of the Company, tax payable amount as at 31 December 2023 was Rs.22, 927,946.	Actions will be taken to file the IT return for 2022/23	-Do-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.8.17 million and the corresponding profit in the preceding year amounted to Rs.46.47 million.Therefore an deterioration amounting to Rs. 38.31 million of the financial result was observed. The reason for the deterioration is decreasing the revenue by Rs.36.33 million during the year under review.

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 is as follows

Income/ Expenditure	2023 Rs.million	2022 Rs.million	Increase/(Decrease) Rs million	Percentage (%)
Revenue	69,823,889	106,153,264	(36,329,375)	(34)
Cost of Sale	31,156,643	23,600,569	7,556,074	32
Administrative Expences	13,148,119	19,076,013	(5,927,894)	(31)

2.3 Ratio Analysis

Ratio	2023	2022
Return on capital employed (%)	5.50	28.54
Gross profit ratio (%)	55.38	77.77
Net profit ratio (%)	11.70	43.78
Current Ratio (times)	1:0.46	1:0.45

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
a)	The Company had obtained a term loan of Rs.83.2 million from a private Commercial Bank in September 2021.The outstanding loan balance as at 31 December 2023 was Rs.54,850,000 and the loan interest charged for the year under review was Rs.14,470,502 including penalty interest of Rs.58,660. However, the Company had failed to settle the loan instalments on time and loan instalments amounting to Rs.10,800,000 had been recovered by the Bank during the year 2023 through a temporary overdraft facility. As a result, the Company had to pay an overdraft interest of Rs.2,204,244 and penalty interest other than the loan interest.	This situation was arrived only because of delayed payment by the CEB.	Action should be taken to implement proper cash management in the Company.

b) As per the special condition no. 02 of the loan agreement dated on 06 August 2021, 03 months debt service commitment (interest + capital applicable for 3 months) to be maintained in a Debt Service Reserve account with the private Commercial Bank through the cash generated by the project and same to be used during the periods where power production would not be adequate to service the loan commitments and to replenish same whenever necessary until the loans are settled in full. However, the Company had not taken action to create such a reserve account.	This situation was arrived only because of delayed payment by the CEB.	Action should be taken to comply with the loan conditions.