

Kumbalgamuwa Mini Hydro (Private) Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kumbalgamuwa 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’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 Standards

Non Compliance with the reference 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.385,881,787 relating to 6 categories as at 31 December 2023 had not been reviewed and accounted as required by the Standards.	The company is in the process of revaluation has been mentioned in the query.	Should be complied with the provisions of the Accounting Standards.
b) In obtaining a term loan of Rs.426.4 million from a private commercial bank on 10 March 2015, 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 together with all permits; licenses issued by the regulatory bodies and mortgage for Rs.10 million over 100% shares of the Company. 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 has been made in the financial statements. Comprehensive disclosure will be added accordingly in future.	-Do-
c) 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 of asset and lease liability had not been recognized in the	The error is identified and will satisfy the SLFRS -16 accordingly. Further, negotiations with the Department of Forest Conservation are in progress for	-Do-

financial statements by the Company as per the SLFRS – 16- Leases. Furthermore, as per the letter sent by the Department of Forest to the Company on 17 December 2023, an annual permit fee of Rs.31,308,661 for the period from 2017 to 2023 had not been paid yet.

the finalization of fee payable.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) As per the financial statements and the balance confirmation provided by the bank, the balance of term loan was Rs.218,950,000 and Rs.218,800,000 respectively. The term loan payable amount was overstated by Rs.150,000 due to erroneously recorded by the Company in first quarter of 2019.	This was reconciled and identified that there were three transactions which were erroneously recorded in first quarter of 2019.	Action should be taken to record the correct values of loans in financial statements.
(b) The CEB had settled its dues after deducting the amount of Rs.1,282,050 for supply of fuel to the Company in 2022. However, the said fuel supply had not been recognized as fuel expense in the financial statements of the company.	This expense was identified only, when deduction made from the customer receivables by CEB in the year 2023. Will adhere to this adjustment.	Action should be taken to record all the expenses in the financial statements properly.
(c) The Company had financed Rs.101,000,000 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. 101,000,000 as at 31 December 2023.	Currently under the process of adjusting as been discussed in the audit committee.	Action should be taken to record the related party transactions in correct values in the financial statements.
(d) As per the financial statements of the Company, the amounts due from Bio Med Hydro Power (Private) Limited as at 31 December 2023 was Rs.101,000,000 and as per the financial statements of Bio Med Hydro Power (Private) Limited, the said due balance was Rs.72,000,000. Accordingly, the difference was Rs.29,000,000 between two financial statements. It had not been reconciled and corrected yet.	Currently under the process of adjusting as been discussed in the audit committee.	Inter-company balances should be reconciled.

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, annual registration fees for 4 years payable to Board of Investment as at 31 December 2023 was Rs.24,749,632. However, the Company had failed to settle the said balance even as at the end of the year under review.	Several discussions have completed with the BOI Director (Recoveries) regarding the settlements of due payments under a payment plan, since the 2023 cash inflow is very feeble, therefore the company was in a hard situation to settle the dues of BOI.	Action should be taken to settle the due balances of BOI without delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) 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.101 million to acquire Bio-Med Hydro Power (Private) Limited without obtaining the board approval of the Company.	With the suggestion made, company will adhere to this best practice in future.	Should be complied with the provisions of Company's 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 end of the year of assessment. However, the Company had not filed the return for the year of assessment 2017/2018.	The year 2023 the company has cleared the backlog of income tax return filing, company has unable complete the filing of 2017 and 2022 will take immediate actions to file the income tax Returns to the IRD.	Should be complied with the provisions of Inland Revenue Act.

c) Section 14 (b) of part 1 of the agreement with the Board of Investment of Sri Lanka.	As per the agreement, within six months from the end of the financial period, the enterprise shall submit 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.	Since the company is not in the process of preparation of by annual reports, annual financial statements to the BOI already submitted.	Should be complied with the provisions of the agreement with the Board of Investment of Sri Lanka.
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1.7 Cash Management

Audit Issue

As per the special condition no. 11 of the loan agreement dated on 10 March 2015, the Company shall undertake to create a reserve with the bank covering a sum of Rs.13,200,000 equivalent to 03 months loan installments in a deposit account to be used during the periods which power production is not adequate to service the loan commitments of the Company and replenish the fund whenever necessary. However, the Company had not taken action to create such a reserve. Further, the Company had failed to settle the loan installments on time and loan installments amounting to Rs.59,202,221 had been recovered by the Bank through a temporary overdraft facility. As a result, the Company had to pay an overdraft interest of Rs.2,167,496 and penalty interest of Rs.149,435 for the year under review other than the loan interest.

Management Comment

This situation was arrived only because of delayed payment by the CEB.

Recommendation

Should be complied with the conditions of the loan agreement and action should be taken to settle the loan installments in due dates in order to avoid penalty interest.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.1.06 million and the corresponding loss (re-stated) in the preceding year amounted to Rs.11.26 million. Therefore, an improvement amounting to Rs.12.32 million of the financial result was observed. The reason for the improvement is decrease in administrative expenses by 65 per cent.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2023 Rs.	2022 Rs.	Increase/(Decrease) Rs.	Percentage (%)
Revenue	114,777,781	109,203,318	5,574,463	5.10
Cost of Sales	44,533,878	37,607,747	6,926,131	18.42
Administrative Expenses	10,311,727	29,664,415	(19,352,688)	(65.24)
Finance Expenses	59,061,597	53,242,294	5,819,303	10.93

2.3 Ratio Analysis

Ratio	2023	2022
Current Ratio	0.73	1.0
Net Profit Ratio	0.93%	(10.31%)
Gross Profit Ratio	61	65
Return on Capital Employed	0.31%	(2.77%)