

Koladeniya Hydropower (Private) Limited - 2016

The audit of the financial statements of the Koladeniya Hydropower (Private) Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

- a.) The basis of opinion and scope and limitations of the audit are as stated above.
- b.) In my opinion :
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company
 - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act, No. 07 of 2007

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2016 had resulted in a pre-tax net profit of Rs.54,757,419 as compared with the corresponding pre-tax net profit of Rs. 66,567,899 in the preceding year, thus indicating a deterioration of Rs. 11,810,480 in the financial results for the year under review. Decrease of revenue from power generation was the main reason attributed for this deterioration.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the information made available, some important ratios of the Company for the year under review and the preceding year are as follows.

	<u>2016</u>	<u>2015</u>
Gross Profit Ratio (Percentage)	55	66
Current Ratio (Number of Times)	1:54	1:55

Gross Profit Ratio had decreased by 11 Per cent as compared with the preceding year, mainly due to decrease of revenue by Rs. 21 million and increase of cost of sales by Rs.1 million.

3.2.2 Trend Analysis of Major Income and Expenditure Items

Major income and expenditure items of the year under review as compared with the preceding year with the variances are as follows.

<u>Income/ Expenditure</u>	<u>2016</u>	<u>2015</u>	<u>Variance</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>{Favourable/(Adverse)}</u>	
			<u>Rs.</u>	<u>Percentage</u>
Income from hire of Power Plant	75,767,005	97,234,183	(21,467,178)	(22)
Cost of Sales	33,921,202	32,924,765	(996,437)	(3)
Administration Expenses	3,893,565	4,279,543	385,978	9
Interest Income from Fixed Deposit	12,681,516	392,301	12,289,215	3,132

Revenue for the year under review had been decreased by Rs. 21 million in the year under review as compared with the preceding year due to decrease in rainfall. However, interest income on fixed deposits had been increased by Rs. 12 million as compared with the preceding year.

4. Operating Review

4.1 Performance

The main objective of the Company is to build, operate and manage a Mini Hydro Power Plant for the production and sales of electricity to the National Grid. Accordingly, the Power Generation of the year under review was 4,692.097 Kwh and it was higher than the estimated annual Power Generation of 4,688.086 Kwh which planned to produce during the feasibility study stage. The details of the Power Generation and income earned during past four years are given below

<u>Year</u>	<u>Power Generation</u> <u>Kwh</u>	<u>Income</u> <u>Rs. Million</u>
2016	4,692.097	75.76
2015	6,080.927	97.23
2014	5,753.413	91.54
2013	5,188.016	82.12

The Power Generation for the year under review had been deteriorated by 1,388.830 Kwh due to decrease of rainfall in the year under review.

5. Accountability and Good Governance

5.1 Social Responsibilities

The following infrastructure developments activities had not been implemented by the Company in the year under review as agreed to the villagers of Koladeniya and project approving agency of Mahaweli Authority of Sri Lanka.

- (i) Construct a new foot bridge or to widen the existing foot bridge located about 400 meters upstream of the weir location. (Budgetary Provision was Rs. 4.5 million)

The Chairman of the Company had stated in his reply in this regard as "it is not possible for the Company to get approvals from the relevant Government Institutions, as the owner of the said project as well as the administrator is Ambagamuwa Pradeshiya Sabha.

- (ii) Concreting internal roads in the village (Budgetary Provision was Rs. 3 million)

In this regard The Chairman of the Company had informed me that "the Management is advised to utilize this amount to concrete possible length of the village road. A further provision of Rs. 5 Million has been provided in the Budget for the year 2018 to complete the concreting of internal road net-work of the village".

5.2 Corporate Plan

The Company had not prepared a Corporate Plan as instructed by Public Enterprises Circular No. PED/12 of 02 June 2003.