

Kumbalgamuwa Mini Hydro (Private) Limited - 2018

1.1 Opinion

The audit of the financial statements of the Kumbalgamuwa Mini Hydro (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of 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 reported 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 2018 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 Audit Scope

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 skepticism 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
The Company had not called confirmations from debtors.	Management Comment had not been provided.	Actions should be taken to receive the confirmation to the audit.

1.5.2 Payables

Audit Issue	Management Comment	Recommendation
The Company had not called confirmations from Creditors.	Management Comment had not been provided.	Actions should be taken to receive the confirmation to the audit.

1.6 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
As per the paragraph 17 of the LKAS 24-Related Party Disclosures standard, an entity shall disclose key management personal compensation in total and for each of the Short-term employee benefits, Post-employment benefits, other long-term benefits, Termination benefits, Share-based payments.	The salaries paid or Payable to General Manager and sitting allowances paid for Board of Directors were the only transactions had with the company and KMP's. We will mention the values also in next time.	Should be adhered to the provision of the Accounting Standard.

However entity has disclosed key management personal compensation without disclosing amount of key management personal compensation.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2018 had resulted in a pre-tax net Profit of Rs. 1,852,399 as compared with the corresponding pre-tax net Loss of Rs. 803,153 in the preceding year, thus indicating improvement of Rs. 2,655,552 in the financial results for the year under review. Gross profit was increased by Rs. 1,002,772, and although Administration expense was increased by Rs. 2,441,366, Finance expense was decreased by Rs. 4,591,076 were the main reasons for this improvement.

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 percentage of increase or decrease are as follows.

Income/ Expenditure	2018	2017	Increase / Decrease	Percentage
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	Rs.	Rs.	Rs.	
Revenue	95,130,264	91,609,563	3,520,701	3.84 %
Cost of Sales	(34,923,155)	(32,405,226)	2,517,929	7.77 %
Administration Expenses	(4,200,253)	(1,758,887)	2,441,366	138.80 %
Finance Expenses	(54,192,472)	(58,783,548)	(4,591,076)	7.81 %

Revenue had been increased by Rs. 3,520,701 for the year under review compared with the preceding year and also Cost of sales had been increase by 2,517,929. Further, Administration expenses had been increased by Rs. 2,441,366 due to Natural infection recovery. Finance expenses also had been decreased by Rs. 4,591,076.

3. Operational Review

3.1 Management inefficiencies

Audit Issue	Management Comment	Recommendation
Kumbalgamuwa Mini Hydro Power Plant had been damaged from landslides in December 2017. Subsequently, the Company had been re-stated the damage at a cost of Rs. 2.9 million. During the re-furbishing the plant was idle nearly 50 days. Further, the plant had faced another land slide in December 2018.	Management Comment had not been provided.	Before establishing power plant, management should be focused about the feasibility of the project in future and actions should be taken to recover damages from Insurance if insured.

3.2 Human Resources Management

The following observations are made.

Audit Issue	Management Comment	Recommendation
(i) Staff recruitments had been done without having formally approved Scheme of Recruitment (SOR).	Management Comment had not been provided	Actions should be taken to prepared and obtain approval for Scheme of Recruitment (SOR) as per Public Enterprises Circular No. PED/12 dated June 2003.
(ii) Staff of the Company had done administration works of the subsidiaries without charged any management fee. Staff Expenses amount of Rs. 21,556,883 had not been distributed among subsidiaries.	As the subsidiaries have not been generating adequate surplus during the year the principle of charging management fees have not been effected. From 2019 we will adhere this concept.	Subsidiaries are separate entities and Staff expenses should be distributed among subsidiaries.

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 and the Public Enterprises Circular No. PED/45 dated 02 October 2007. However, the Company's financial statements for the year 2018 had been submitted to the Auditor General on 07 August 2019.	Group Financial Statements were forwarded earlier than this but due to the changes in Group directors and issues relating to authorized signatures delayed this process.	Should be adhered to the provisions of the Circulars.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate Plan had not been prepared by the Company according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided	Should be adhered to the provisions of the Circular.

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
The Company had not prepared Annual Action Plan according to Public Enterprise Circular No.PED/12 dated 02 June 2003.	Management Comment had not been provided	Should be adhered to the provisions of the Circular.

4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal audit division had not been established and Internal Audit Divisions of Ministry of Power and	Management Comment had not been provided	Internal audit should be carried out as an internal control mechanism.

Renewable Energy and Ceylon Electricity Board also had not carried out any audit in 2018.

4.5 Budgetary Control

Audit Issue

The Company had not an approved budget for the year 2018. Therefore, actual performance and unusual variances could not be reviewed.

Management Comment

Management Comment had not been provided

Recommendation

Budget should be prepared and obtain approval as per the Public Enterprises Circular No. PED/12 dated 02 June 2003

4.6 Sustainable Development Goals

Audit Issue

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 was not aware of SDG and had not identified the targets to be achieved, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.

Management Comment

Management Comment had not been provided

Recommendation

Company should adhere to the provisions of the “2030 Agenda” of the United Nations on the Sustainable Development Goals.