

Kumbalgamuwa Mini Hydro (Private) Limited - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 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 2021, 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 Audit Scope (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 Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>The Company had entered in to an agreement with Forest Conservation Department 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. The annual permit fee of Rs. 4,436,705 should have been paid to the Forest Conservation Department as per the agreement. However, permit fees had not been recognized as lease payments as per SLFRS – 16 – Leases, and the lease liability and the right of use of asset had not been brought to the accounts.</p>	<p>The agreement between the power plant and Forest Conservation Department to the land of power plant identified as an operational lease where annual fee payable was clearly identified.</p>	<p>Should be complied with the provisions of the Accounting Standard.</p>

1.5.2 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
<p>The annual fees had been increased from Rs. 5,000 to Rs. 5,750 per perch in 2019 by the Forest Conservation Department. However, the Company had not complied with the amendment and, as a result, the annual permit fees of the year under review had understated by Rs. 578,700.</p>	<p>The annual permit fee of Rs.4,166,645.40 (771.601 X Rs.5,000.00 each + Vat (8%)) was recorded to the financial statements accordance with the agreement with the Forest Conservation Department 16 February 2018, the exercise dragged and final agreement came on 10 January 2022.</p>	<p>Should be complied with the provisions of the amended service charges.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Agreement registered under section 17 of the Board of Investment of Sri Lanka Law no. 4 of 1978.	(i) The Company had not paid the annual fees since 2017 in compliance with the Part I(2)(i) of the agreement. Further, according to the Part I(2)(ii) of the agreement, in the event of annual fee and/or interest or any part thereof shall remain unpaid for a period of six months after it shall become due, whether same is demanded or not, the agreement shall stand terminated immediately after the last date of six months period without prejudice to any claim by the Board against the Enterprise arising out of the breach of the said term or condition, hence the BOI Agreement could be terminated due to non-payment of annual fees. As a result, the Company might have to re-pay the already obtained tax benefits under the BOI agreement.	Actions have taken to fulfill the requirement. Discussions were completed with the BOI Director (Recoveries) regarding the settlements of due payments under a payment plan and as per the advices from the above meeting, initial step is to release the Rs.1 Mn payment to BOI and the rest will be settled as partial payments.	Should be complied with the agreement.
	(ii) According to the Part I(14)(b) of the agreement within six months from the end of the financial period, the Enterprise should have submitted 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 that requirement.	Requirement will be satisfied as per the agreement with BOI from next year onwards.	Should be complied with the agreement.

(b) Miscellaneous permit issued by Forest Conservation Department under the Forest Ordinance to construct and operate a Mini Hydro Plant.	Licensee shall pay an annual permit fee to operate the mini hydro plant. However, a sum of Rs.19,598,665 as at 31 December 2021 had not been paid to Forest Conservation Department to renew the license since 2017.	The final amount for the permit was finalized on 10 January 2022. The Company is in the process of settling this afterwards according to the cash flows received.	The annual permit fees in arrears should be settled.
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2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 38,979,739 and the corresponding profit in the preceding year amounted to Rs. 32,250,486. Therefore an improvement amounting to Rs. 6,729,253 of the financial result was observed. The reason for the improvement is reduction of finance expenses due to decrease of interest rates during the year 2021.

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 are as follows.

Income/ Expenditure -----	2021 -----	2020 -----	Increase/ (Decrease) -----	Percentage -----
	Rs.	Rs.	Rs.	%
Revenue	116,107,930	115,197,323	910,607	0.8
Cost of Sales	42,502,230	38,462,919	4,039,311	10.5
Administrative Expenses	8,058,091	7,545,142	512,949	6.8
Finance Expenses	26,622,950	37,017,883	(10,394,933)	28

3. Accountability and Good Governance

3.1 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. However, the financial statements for the year 2021 had been submitted to the Auditor General on 05 April 2022.	Financial statements for the period ended 31 December 2021 was prepared and submitted for the approval of the board of directors meeting held on 23 February 2022.	Should be complied with the provisions of the circular.

3.2 Annual Report, Annual Action Plan & Budget

Audit Issue	Management Comment	Recommendation
(a) Annual reports had not been prepared and tabled in the Parliament since 2016.	Annual Report for the year 2020 has been prepared and presented for the Ministry of Power to proceed further.	Should be complied with the provisions in Public Enterprises Circular No.PED/12 dated 02 June 2003.
(b) The Company had not prepared and approved Annual Action Plan and budget for the year 2021.	Action Plan is in a process of finalization. Budget for 2022 has already been completed and approved by BOD of Holding Company.	-Do-

3.3 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
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 had not identified the relevant goals and the targets to be achieved, the gaps in achieving those goals and the suitable indicators for measuring the progress as well.	Will adhere to this best practice and identify SDG targets.	Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.