

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Bio-Med Hydro Power (Private) Limited (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy 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 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 2024, 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)	As per the paragraph 37 of LKAS 16-Property, Plant & Equipment, a class of property, plant and equipment is a grouping of assets of a similar nature and use in entities operations. However, as presented in the financial statements, the value of the power plant amounting to Rs.259 million had been comprised of the land & building together with the plant value. However, the Company had accounted separate values for land & building and power plant without obtaining separate valuation report for each asset as at 31 December 2024. Therefore, accuracy of the value of each component could not be verified due to lack of the valuation report. Further, depreciation on land value also had been made by the Company in contrary to the provision in paragraph 58 of the standard.	Agreed. The Department of Valuation has provided the Rs.259 Mn as the total value and the same used for the purchase consideration of the power plant. Though it is requested several times to provide the detail of this valuation no any reply has received from Department of Valuation and had to use the total valuation figure to proceed with annual account finalization.	Should be complied with the provisions of the accounting standard.
(b)	As per the Paragraph 73 (c) of LKAS 16 - Property Plant and Equipment, the useful lives or the depreciation rates used should be disclosed in the financial statements. However, the useful lives or the	Agreed. The rate applied was 6% per annum and the life period as 15 years and will be disclosed accordingly.	Should be complied with the provisions of the accounting standard.

depreciation rate used for buildings had not disclosed in the note 3.2 of financial statements for the year ended 31 December 2024.

(c)	Accrued expenses of Electricity and accommodation charges amounting to Rs.321,267 had been recognized in the year under review without making prior year adjustment in the financial statements in terms of the provisions of paragraph 42 of LKAS - 8 (Accounting Policies, Changes in Accounting Estimates and Errors).As a result, the profit for the year had been understated by the same amount.	Agreed. Actions will be taken to mitigate these omissions.	Should be complied with the provisions of the accounting standard.
-----	--	--	--

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
A sum of Rs.764,389 in five categories of expenses had not accounted and no provision for audit fees for the year 2024 had been made in financial statements of the year under review.	Agreed. Will correct accordingly.	Action should be taken to account the accrued expenses and to make provision for audit fees.

1.6. Documentary Evidences not made available for Audit

Item Available	Amount Rs.	Evidence not	Management Comment	Recommendation
Share application money	Rs.169 million	approvals from the board of directors and relevant authorities	Completely disagreed. This particular acquisition was completely upon the approval of the Board Of Directors. The value of Rs.259 was approved as the purchase consideration and acquire accordingly by paying the 259 Mn .Out of the total purchase consideration, 90 Mn was recorded as the share transfer to the name of Sri	Sufficient and appropriate documentary evidences ex: Board Memorandum and decision should be furnished to the audit.

Lanka Energies (Pvt) Ltd
and rest is recorded as share
application money till the
shares are issued.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Section 126 of Inland Revenue Act No. 24 of 2017	The duly completed return along with the schedules 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 assessments 2023/2024 complying with the said provisions of the Act.	Agreed. In order to proceed with the IRD filing, the valuation for separate fixed assets items need to be obtained from the Department of Valuation to calculate the capital allowances. Already been attended to get this complete.	Should be complied with the provisions in Inland Revenue Act.
b) Section 2.3 of Guideline on Corporate Governance dated 16 November 2021 and Public Enterprises Circular No 01/2021 (ii) dated 27 September 2023	Subsidiaries are required to submit finalized strategic plans, action plans and annual budgets to the Parent Company. However, sufficient documentary evidences were not made available to the audit in relation to the preparation and submission of action plan and annual budget to the Parent Company.	Budgets are not prepared for Subsidiaries individually. Parent entity (SLE) prepares the unit as whole budget and approved budget for the year 2024 already submitted for the audit.	Should be complied with the Guideline on Corporate Governance for State Owned Enterprises.
c) Section 2.4 of Guideline on Corporate Governance	The Board of Directors (BOD) should individually declare their relationship; annually to the Secretary to	Agreed. Will attend to it accordingly.	Should be complied with the Guideline on Corporate

dated 16 November 2021.	the Board using the format given in the Annexure II of Guideline on Corporate Governance and the Annual Report (AR) of the SOE should disclose the information in relation to each Director. However, the Company had not obtained the declarations of directors in the board of directors for the year 2024 and information in relation to each Director had not been disclosed in the annual report.		Governance for State Owned Enterprises.
d) Section (2.2) (b) of Article 2 of standardized power purchase agreement with the Ceylon Electricity Board dated on 17 April 2012	Prior to the Commercial Operation date and thereafter on or before 01 December of each subsequent year, the seller shall furnish to CEB an annual forecast that includes the following: (i) anticipated monthly generation availability, and (ii) schedules outages for each year, provided, however, the seller shall have no liability to CEB and shall be subject to no penalty in the event that the actual amount of electrical energy delivered to CEB, or the times of said delivery, differ from the amounts or times shown in said forecasts, However, the Company had not prepared and submitted to CEB annual energy forecast for the year 2024.	Noted Please. Will proceed accordingly.	Should be complied with the Standardized Power Purchase Agreement with the Ceylon Electricity Board.

2. Financial Review

2.1 Financial Result

The Company had been acquired by Sri Lanka Energies (Private) Limited on 01 December 2023 and operated one month period in the year 2023. The operating result of the Company for the year ended 31 December 2024 amounted to a loss of Rs. 16,752,033 and the corresponding loss for the month ended 2023 amounted to Rs. 1,019,791 of the financial result was observed. The reasons for the deterioration are decrease of revenue and the increase of cost of sales in the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Biomed Hydro Power (Pvt) Ltd had been acquired on 25 October 2023 by Sri Lanka Energies (Private) Ltd. However, the Company had not taken action to issue the share certificate for the share capital of Rs 90 million provided by the parent Company, even as at date of 08 May 2025. Further, the share certificate of the previous shareholders had not been cancelled by the Company.	Transfer the shares has already been completed of by filing the form 15 under ROC and in the form 15 certifies the sole ownership as Sri Lanka Energies(Pvt) Ltd. Accordingly will attend to cancelation of the previous share certificates issued.	Information about the share capital should be forwarded to Board of Directors to get a proper decision.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Sri Lanka Energies (Private) Ltd had acquired the power plant at a cost of Rs.259 million on 25 October 2023 as per the approval granted by board of directors on 16 May 2023 by considering the recommendations given by the technical evaluation committee. Accordingly, the following observations are made by comparing the expectations of the technical feasibility evaluation report with the actual performance of the Company.	When the year 2024 is considered expected Northeast monsoon rains were not at the anticipated level and the generation capacity of both turbines were under-utilized and most of the times ,out of the two turbines ,only one was performed due to the lack of water flow.	
(i) Expected revenue and actual revenue for the year 2024 were Rs.67.3 million and 12.78 million	Considering the dry season held, it was decided to carry out the overhaul of	Reasons for deviation should be investigate

	respectively. However, the Company had achieved only 18.9 percent from expected revenue.	the turbines in the meanwhile period anticipating better scale performance in year 2025 without any disturbance.	Accordingly information should be forwarded to get a proper decision.
(ii)	It was expected to earn gross profit amounting to Rs.43.9 million and Rs.44.7 million for the year 2023 and 2024 respectively. However, the actual figures for the year 2023 and 2024 were gross loss of Rs.0.90 million and Rs.22.99 million respectively.	This can be confirmed through the generation income that has been gained in the first five months of the year 2025 and the both turbines are under the expected performance and also generated 30.2 Mn.	Reasons for deviation should be investigate Accordingly information should be forwarded to get a proper decision.
(iii)	Further, it was expected to earn profit for the year Rs.31.6 million and Rs.32.2 million for the year 2023 and 2024 respectively. However, the actual figures for the year 2023 and 2024 were loss of Rs.1.01 million and Rs.16.75 million respectively.	Further out of the gross loss recorded for the year 2024, 60% (15.8 Mn) was for the annual depreciation, which was a normal expense.	Reasons for deviation should be investigate Accordingly information should be forwarded to get a proper decision.
(iv)	Expected annual cash flows for the year 2023 and 2024 were Rs.48.9 million and Rs.49.4 million respectively. However, the actual annual cash flow for the year 2023 and 2024 were Rs.0.6 million and Rs.1.14 million respectively.		Reasons for deviation should be investigate Accordingly information should be forwarded to get a proper decision.
(v)	Expected annual energy generation for the year 2024 was 3.6 GWs. However, the actual annual energy generation was 0.72 GWs and the Company had only achieved 20 per cent from the expected annual energy generation.		Reasons for deviation should be investigate Accordingly information should be forwarded to get a proper decision.

Ultimately, according to the above (i), (ii), (iii) (iv) and (v), it was observed that the Company had unable to achieve the expected financial and operational performance for the year 2023 and 2024.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) As per the paragraph 3.7.2 - the execution of Works by using the PEs own personnel and equipment (force account) of procurement guideline dated on 25 January 2006, if the PE determines that it has the required workforce to undertake execution of such works, this method is appropriate in the circumstances: (a) when quantities are difficult to define in advance; (b) contractors are unlikely to bid at reasonable prices; (c) work should be carried out without interrupting the ongoing work; and (d) emergency situations that need urgent attention. However, the Company had selected the method similar to the force account without considering criteria included in the procurement guideline. Further, the Company had not determined the required workforce to execute the construction of building and salary expense had been incurred amounting to Rs. 5,163,151 for 12 no of employees who were recruited for days' pay basis for the construction of building. Further, no board approval had been taken for above works carried out during the year.	Based on the BOQ'S and the Estimates, construction labours were hired on the basis of work would be carried out without interrupting the on-going works and situations that need urgent attention. However the daily payment made to the construction labours were completely based on government approved provincial per day rates and the Rs.5,163,151.00 for twelve employees were for the period of 13 months from the date acquired to the end of the reporting period.	Should be complied with the provisions in Procurement Guideline, Procurement Manual and its supplements.
(b) As per the paragraph 4.3.1 (a) of procurement guideline dated on 25 January 2006, Total Cost of Estimate including all associated costs shall be prepared by the Procuring entity (PE). However, the Company had not prepared the above estimates for the constructions of building and equipment development. Further, cost incurred for above mentioned works as at 31st Dec 2024 was Rs.17,786,845.	Not Accepted. Separate BOQ's and the Estimates have been prepared and submitted for the audit each and every constructions/maintenance conducted throughout the period.	Should be complied with the provisions in Procurement Guideline, Procurement Manual and its supplements.
(c) As per the paragraph 4.2.1 (a), (b), (c) of procurement guideline dated on 25 January 2006, the PE shall prepare a Master Procurement Plan (MPP), Procurement activities envisaged at least for a period of three years and shall be listed in the MPP and Procurement activities for the	Currently, the Company is in the preparation of 2025.	Should be complied with the provisions in Procurement Guideline, Procurement Manual and its supplements.

immediately succeeding year shall be prepared in detail. However, the Company had not fulfilled the above requirements.

- (d) As per the paragraph 9.3.1 (b) – repairs to motor vehicles and equipment of supplement 38 of procurement manual, the approval of the Secretary to the Ministry should be obtained for repairs exceeding the cost of Rs. 500,000. However, the Company had not taken action to obtain the approval from Secretary to the Ministry for repairing of vehicle amounting to Rs.741,934.

The repair work was completed satisfying the requirement of the procurement regulations by calling quotations and the approval process as per the procurement authority delegations. This is the same method followed in previous year as well.

Should be complied with the provisions in Procurement Guideline, Procurement Manual and its supplements.