

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Deduruoya Mini Hydro (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) In terms of the Paragraph 42 (a) and (b) of LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors states that the company shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. However, interest income on delayed payments from CEB amounting to Rs.37,573,582 in accordance with the paragraph No.5.2(b) of the agreement for the previous period of 2021 to 2023 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 LKAS 8 - Accounting Policies,	Agreed	Should be complied with the provisions of the Accounting Standards.

Changes in Accounting Estimates and Errors. As a result, the profit for the year had been overstated by the same amount.

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| <p>b) In terms of paragraph 51 of LKAS 16 - Property, Plant and Equipment, the residual value and the useful life of an asset shall be reviewed annually and, if expectations differ from previous estimates, the changes shall be accounted for in accordance with LKAS 8. However, the assets with carrying value of Rs.273,786,978 relating to 9 categories as at 31 December 2024 had not been reviewed and accounted as required by the standard.</p> | <p>Agreed.</p> | <p>Should be complied with the provisions of the Accounting Standards.</p> |
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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) Even though the income tax return for the year of assessment 2021/2022 had been finalized the over provision of income tax for the year 2021/2022 amounting to Rs.2,731,300 had not been accounted in the financial statements. As a result, profit for the year was understated and Income tax payable as at end of the year was overstated by same amount.	Agreed.	Action should be taken to record all the transactions in the financial statements properly
b) As per the WHT certificates for the year 2023 and 2024, Withholding Tax (WHT) receivables amounting to Rs.27,866 was not recorded in the WHT receivables and interest income. As a result, the profit for the year and the WHT receivables were understated by the same amount.	Agreed.	Action should be taken to make adjustments to the financial statements.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount (Rs)	Evidence not available	Management Comment	Recommendation
The original WHT certificates for Rs.22,532 were not forwarded for audit, and the Company had not claimed above balance against the income tax payable for more than 9 years.	22,532	Originals of WHT certificates	WHT claim will be settled against the income tax filing.	Originals of WHT certificates should be submitted to the audit and action should be taken to claim with the income tax.

1.5.4 Accounts Payable

Audit Issue	Management Comment	Recommendation
a) As per the financial statements of the Company, the royalty fees payable as at 31 December 2024 was Rs.43,838,382. This balance comprises unpaid royalty fees relating to the years 2021, 2022, 2023, and 2024, payable to the Department of Irrigation. However, Company had not taken any action to settle this outstanding balance as at the end of the year under review.	Agreed.	Information related to this matter should be forwarded to the Board of Director to get a proper decision and accordingly action should be taken.
b) As per the financial statements of the Company, audit fees amounting to Rs.100,000 had remained over 8 years without been settled.	Agreed.	Information related to this matter should be forwarded to the Board of Director to get a proper decision and accordingly action should be taken

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a)	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 a whole budget and approved budget for the year 2024 already submitted for the audit	Should be complied with the Guideline on Corporate Governance and subsidiaries are required to submit annual action plan and annual budget accordingly.
b)	Section 2.4 of Guideline on Corporate Governance dated 16 November 2021.	The Board of Directors should individually declare their relationship; annually to the Secretary to the Board using the format given in the Annexure II of Guideline on Corporate Governance. However, the Company had not obtained the declarations of directors in the board of directors for the year 2024.	Agreed to forward the BOD declarations accordingly.	Should be complied with the Guideline on Corporate Governance.

1.7 Non -compliance with Tax Regulations

	Reference to Laws, Rules, Regulations etc.	Non -compliance	Management Comment	Recommendation
	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 Inland Revenue Department on or before the 30	Actions will be taken for the corrections.	Should be complied with the provisions of the Inland Revenue Act.

November subsequent to the end of the year of assessment. However, the Company had not filed the returns for the year of assessment 2022/2023 and 2023/2024 complying with the said provisions of the Act. Furthermore, the balance of net income tax payable of Rs. 12,927,946 had not been paid yet.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.78,120,901 and the corresponding profit in the preceding year amounted to Rs.8,173,409 Therefore, an improvement amounting to Rs. 69,947,492 of the financial result was observed. The reason for the improvement is increase of the finance income and deterioration of finance expenses during the year under review.

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 is as follows

Income/ Expenditure	2024 Rs.	2023 Rs.	Increase/(Decrease) Rs.	Percentage (%)
Revenue	90,614,448	69,823,889	20,790,559	29.77
Cost of Sales	27,068,259	31,156,643	(4,088,384)	(13.12)
Administrative Expenses	16,737,360	13,148,119	3,589,241	27.30

The administrative expenses had been increased by 27 percent due to increase of royalty fee amounting to Rs. 3,109,520.

2.3 Ratio Analysis

Ratio	2024	2023
Return on capital employed (%)	37	14
Gross profit ratio (%)	70	55
Net profit ratio (%)	86	9
Current Ratio (times)	0.47	0.14