

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 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) Interest income on delayed payment for power purchased by Ceylon Electricity Board (CEB) amounting to Rs.40,336,568 in accordance with the paragraph No.5 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 of LKAS - 8 (Accounting Policies, Changes in Accounting Estimates and Errors). As a result, the profit for the year under review was overstated by such amount.	Agreed	Should be complied with the provisions of the Accounting Standards.
b) 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.599,158,493 had been comprised of the building together with the plant value. However, action had not	Agreed. This need to be done by a proper valuation through Department of Valuations and will attend for it.	Should be complied with the provisions of the Accounting Standards.

been taken by the Company to separate the value of building and carry out a proper valuation to obtain a separate value for building as at 31 December 2024. Further, useful life time of each items mentioned above had not been assessed by the company.

- c) As per the Paragraph 51 of LKAS 16 – Property, Plant and Equipment, the residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, the assets with carrying value of Rs. 353,243,375 relating to 6 categories as at 31 December 2024 had not been reviewed and accounted as required by the Standards.

Agreed. List of fully depreciated assets have been mentioned in the F/S and will adhere with the revaluation accordingly.

Should be complied with the provisions of the Accounting Standards.

- d) The Company had entered into an agreement with the Department of Forest Conservation 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 with the annual permit fee of Rs.5,000 (current rate is Rs.5,750) per perch. Accordingly, land should be identified as right of use asset and lease liability as per the SLFRS – 16- Leases. However, the Company had identified the above right of use asset as operating lease. Accordingly, lease amount Rs.4,910,847 for the period had been charged to the statement of profit and loss and other comprehensive income & accrued expenses had been credited, instead of recognized as right of use asset and lease

Agreed. Will be corrected accordingly.

Should be complied with the provisions of the Accounting Standards.

liability in compliance with the recognition and measurement criteria of the SLFRS – 16- Leases.

Further, as per the financial statements for the year ended 31 December 2024, an annual permit fee of Rs. 32,829,237 had not been paid to the Department of Forest Conservation for the period from 2017 to 2024. Accordingly, as per the letter dated 09 October 2024 Department of Forest Conservation had informed to the Company that the permit is to be cancelled in future. However, the Company had not disclosed the above matter in the financial statements for the year ended 31 December 2024.

The company has made requests from the Department of Forest Conservation the correct amount which to be settled by the company by agreeing to settle the priority. Accordingly the cancellation will not be proceeded.

Should be complied with the provisions of the Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) As per the last letter sent by the Department of Forest Conservation on 09 April 2024, the total outstanding amount for the period of 2017-2021 was amounting to Rs. 28,868,991 and with the amount accrued for the year 2024 amounting to Rs.4,910,847, total payable amount should be amounting to Rs.33,779,838. However, as per the financial statements of the Company, the balance payable to the Department of Forest as at 31 December 2024 was Rs.32,829,237. Accordingly, payable amount had been understated by Rs.950,601.	Based on the discrepancies that been observed, a letter was communicated to the Department of Forest Conservation to get the corrected payable value.	Action should be taken to record the correct value.
(b) The Company had obtained a term loan of Rs.460,000,000 from a private Commercial Bank in March 2015 for the purpose of part financing the Kumbalgamuwa Mini Hydro Power Project. As per the financial statement and	Agreed. Only the error is with the calculating the short term borrowings out of the total loan value. The total of short and long term borrowings	Action should be taken to record the correct value.

the loan agreement, the outstanding short term loan balance for the year 2025 as at 31 December 2024, were Rs.35,250,000 and Rs.32,500,000 respectively. As a result, short term borrowing was overstated and long term borrowing was understated by Rs.2,750,000.

satisfy the outstanding total of the loan as at 31/12/2024. As per our schedule as well as the confirmation by the bank accordingly.

1.6 Related Parties and Related Party Transactions not Disclosed

Audit Issue	Management Comment	Recommendation
The Company had obtained bank draft amounting to Rs.14,957,456 on behalf of the Scrap Aluminium Recycling project of Sri Lanka Energies (Private) Limited (SLE) on 22 November 2024 and it was settled on 31 December 2024. However, the Finance Expenses charged on overdraft facility and commission on bank guarantee for LC amounting Rs.1,212,405 had been accounted as expenses in the financial statements of the Company, instead of accounting in the amounts due from SLE. As a result, profit for the year and amounts due from SLE were understated by same amount.	Agreed. Will be corrected accordingly.	Action should be taken to identify the receivable balance.

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 schedule 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	Currently under the process of filing CIT returns for the 2022/2023 and 2023/2024 where the CIT calculations have been finalized and shared with the audit already.	Should be complied with the provisions of Inland Revenue Act.

	of assessments 2017/2018, 2022/2023 and 2023/2024 complying with the said provisions of the 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 prepares the unit as whole budget and approved budget for the year 2024 already submitted for the audit.	Should be complied with the provisions of Guideline on Corporate Governance.
c) Section (2) (i) of part I of the agreement with the Board of Investment of Sri Lanka	As per the agreement, annual fee shall be paid by the Enterprise to the Board on or before the Tenth (10 th) day of the first month in each year from the date hereof. However, the Company had failed to pay the annual fee aggregated amount of Rs.13,988,264 on due date. Further, it was observed that there was delayed interest amounting to Rs.5,644,762 with VAT.	According to the agreement, BOI annual fee is not applicable for the year 2024, therefore need to reconcile these amounts with the BOI and will make necessary arrangements for the payments. This dues were arisen only because of delayed payment from CEB in the past period.	Should be complied with the provisions of the agreement with the Board of Investment of Sri Lanka

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 36.19 million and the corresponding loss (re-stated) in the preceding year amounted to Rs. 0.089 million. Therefore, an improvement amounting to Rs. 36.1 million of the financial result was observed. The reason for the improvement is decrease in administrative expenses and finance expenses by 34 per cent and 58 per cent respectively.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2024 Rs.	2023 Rs.	Increase/(Decrease) Rs.	Percentage (%)
Revenue	72,998,546	114,777,781	(41,779,235)	(36.40)
Cost of Sales	46,029,372	45,815,928	213,444	0.47
Administrative Expenses	6,836,301	10,333,417	(3,497,116)	(33.84)
Finance Expenses	24,559,127	58,911,597	(34,352,470)	(58.31)

2.3 Ratio Analysis

Ratio	2024	2023
Current Ratio (Times)	0.90	0.70
Net Profit Ratio (%)	49.5	(0.08)
Gross Profit Ratio (%)	36.94	60.08
Return on Capital Employed (%)	15.93	14.32