

West Coast Power (Private) Limited - 2022/2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the West Coast Power (Private) Limited (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flows 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2023, 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 Emphasis of matter

Without qualifying my opinion, I draw attention to Note 15.9 to the financial statements.

1.4 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.

1.5 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 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.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Receivable

Audit Issue	Management Comment	Recommendation
Monthly invoices issued by the Company as per power purchase agreement regarding power generation had been reviewed by Ceylon Electricity Board (CEB), and in most instances the amount accepted by the CEB was lower than the amount invoiced. CEB had confirmed the amount agreed without providing the reason affected to the difference. Total balance receivable from CEB as at 31 March 2023 was Rs. 110,194 million. However, as per the balance Confirmation of CEB, respective payable balance to the Company was Rs. 79,382 million. Further, the Company had made provision of Rs, 12,160 million for impairment for the above receivable balance.	We have all legal and financial evidences to prove the recoverability of the said amount to WCPL. Particularly pertaining to the legality governed by the Power Purchasing Agreement (PPA) between WCPL and CEB. We wish to highlight a discrepancy where, despite our unwavering adherence to the parameters set forth in the PPA, CEB has initiated payments under different parameters without formal amendments to the agreement.	Action should be taken to resolve the dispute with CEB.

1.6.2 Payable

Audit Issue	Management Comment	Recommendation
<p>As per the Section 5.2.1 of the Fuel Supply Agreement entered in to with Ceylon Petroleum Corporation (CPC), the Company shall pay the invoiced amount to the (CPC) within seven days of receipt of such an invoice. However, the payable balance to CPC as at 31 March 2023 amounted to Rs.39, 794 million and out of that payable balance of Rs. 19,317 million remained unsettled over 5 months. As a result of this, CPC had charged interest amounting to Rs. 727 million from the Company for the year under review.</p>	<p>During the year, the receipts of CEB payments were very much less than the amount invoiced. As a result, the Company could not settle its payables to CPC for fuel purchased. We have communicated this matter with CEB several times; however, there has been no significant improvement yet. The interest amount due to CPC's outstanding balance is recovered from the CEB's outstanding balance and there is no loss to WCPL.</p>	<p>Action should be taken to resolve the dispute with the co-ordination of relevant parties.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Operational Manual for state owned enterprises dated 17 November 2021.	<p>All state owned enterprises must seek the approval of the General Treasury for their cadres and remuneration. Company had failed to comply with the requirement.</p>	<p>This Company is a single purpose Company set up to own the Yugadhanavi 300 MW Combined Cycle Power Plant. Entire Operation and Maintenance activities of the power plant is carried out by competent contractor. Accordingly, the WCPL has recruited only three employees to carry out the overall operations smoothly. Their remuneration is approved by the Board of Directors</p>	<p>Should be complied with the provisions of the above manual</p>

annually, these recruitments made based on qualifications and experience. There were no recruitments or resignations during the year.

(ii) Section 3.2 (vi)

Bonus payment should be made in line with the circular directions issued by the General Treasury. Accordingly, the Company should pay bonus as per the public Enterprises circular dated 21 December 2022. However, the Company had paid Rs.1.85 million as Bonus for the year under review to all three employees of the Company without complying with above Circular. Further, Board approval and other documentary evidence relating to the above payment were not made available to audit.

The bonus of Rs. 1,850,000 paid to all the Company's executive staff is due to the crucial role of the staff in maintaining 24-hour operation, for the service rendered by them even during pandemic and other crisis situation that the country has undergone.

- Do -

(iii) Section 6.6

The Annual Report should be tabled in Parliament within five (5) months after the close of the financial year. However, Company had not tabled the annual report from its inception.

Given the very specific nature of the operations of WCPL, Company should also apply to PED for an exemption from the said Operational Manual and request to follow the current Procedure Manual.

- Do -

(iv) Section 7.5	SOE should forward monthly, Quarterly and annual performance report to the Line Ministry and General Treasury. However it was observed that Company had not complied with above requirement.	Given the very specific nature of the operations of WCPL, Company should also apply to PED for an exemption from the said Operational Manual and request to follow the current Procedure Manual.	- Do -
(b) Guidelines on Corporate Governance for State Owned Enterprises dated 17 November 2021			
(i) Section 2.3	The finalized strategic plan together with the action plan and annual budget should be submitted through the secretary of line ministry to the Director General, Department of public Enterprises or the Director General, Department of National Budget as applicable. However Company had failed to comply with this requirement.	This Company has been set up to generate profits for its shareholders by providing electricity to the National grid. This goal has been achieved for the last 13 years. Therefore, it is not necessary to prepare a strategic plan for the already agreed contractual obligations.	- Do -
(ii) Section 4.4	All SOEs should have an internal auditor who reports only to the Board through Audit committee. However the Company had not complied with that requirement.	The statutory Audit covers the auditing of the compliance with these procedures and budgets. The entire staff of the Company is limited to 3 persons and Company is responsible only for bulk purchase of fuel from CPC, Chemicals, and for annual statutory payments only.	- Do -

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.19, 437 million and the corresponding profit in the preceding year amounted to Rs. 18,811 million. Therefore, an improvement amounting to Rs.626 million in the financial result was observed. The main reason for the improvement is increase in Power Generation income.

2.2 Trend Analysis of major Income and Expenditure items

- a. The revenue for the year under review had increased by 126 per cent compared to the previous year. Simultaneously, the cost of sales had increased by 153 per cent.
- b. Finance Income of the Company had decreased by 18 per cent and Finance Cost of the Company had increased by 651 per cent.

2.3 Ratio Analysis

- a. Gross profit ratio of the Company had decreased from 43 per cent to 36 per cent with compared to the preceding year and the net profit ratio had decreased from 50 per cent to 23 per cent with compared to the preceding year.
- b. Return on Equity had decreased from 23 per cent to 21 per cent with compared to the preceding year.
- c. Current ratio of the Company had decreased from 2.9 to 1.8 with compared to the preceding year.