

Trincomalee Power Company Limited -2022/ 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Trincomalee Power Company 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 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 matters described in paragraph 1.6 of this report, 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 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 opinion.

1.3 Material Uncertainties Relating to Going Concern

Without qualifying my opinion, I draw attention to Note 2.1.5 to the financial statements which describes an uncertainty that may cast doubt on the Company’s ability to continue as a going concern.

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 laws.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Accounting Standards

Audit Issue	Management Comment	Recommendation
According to the Inland Revenue Department, Company is liable to pay tax and penalty for previous years amounting to Rs. 3.9 million as at 31 March 2023. However, Company had not recognised the liability. As a result of this, liabilities and retained loss had been understated by same amount as at 31 March 2023.	The Company has not received any letter from department of inland revenue so far in relation to the CIT liabilities. As per the audited financial statements of the company, no profits have been earned/declared since the commercial operation of the business has not commenced yet except interest income on the fixed deposits. The company has paid due taxes on interest income in the same years of assessments and submitted the return on income to the Department of inland revenue. Therefore, There is no proper evidence to make a provision to the accounts.	Action should be taken to recognised the liability having negotiated with IRD.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 9.1 million and the corresponding loss in the preceding year amounted to Rs.11 million. Therefore an improvement amounting to Rs. 1.9 million of the financial result was observed. The reason for the improvement is the increase in finance income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Company had not maintained a Fixed Asset Register.	After ceasing the company activities with the government decision in 2016, The company did not purchase any asset. However, Finance unit is maintaining a separate excel sheet to record the asset purchased from 01 st April 2023. All the assets were fully depreciated as at 31 March 2023 except chain linked Fence and ROU Assets, i.e. leased land. Action will be taken to prepare proper Fixed asset register.	The Fixed Asset Register should be properly maintained.

3.2 Delays in Projects or Capital Works

Audit Issue	Management Comment	Recommendation
The Company had received a Cabinet approval in the year 2018 to set up a 50 MW solar power plant in Sampur. However, operations of the said power plant had not been commenced up to 31 March 2023. Even though no operations had been carried out by the Company, a sum of Rs. 11.9 million had been spent on administrative expenses for the year under review. Accumulated Retained Loss of the Company as at 31 March 2023 was Rs. 624 million.	The Cabinet approval was received in 2018. There were series of discussions between shareholders (CEB and NTPC Limited) on the way forward of the company. Subsequently, priority was given to initial work of developing LNG project. But activities of LNG development were temporally suspended due to land filling issues of the proposed land at kerawalapitiya. Development of the 50 MW solar PV project is now progressing. The environmental clearance and Energy Permit are now secured and the project financing is almost finalised.	Necessary action should be taken to implement the project without delay.