

West Coast Power (Private) Limited - 2020/ 2021

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 2021 comprising the statement of financial position as at 31 March 2021 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 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 2021, 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 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 Audit Scope

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.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 15,542.5 million and the corresponding profit in the preceding year amounted to Rs. 11,201.6 million. Therefore an improvement amounting to Rs. 4,340.9 million of the financial result was observed. The main reasons for the improvement of financial result were decreasing the cost of sales due to the decrease of the prices of heavy fuel oil (HFO) and increasing the exchange gain on foreign currency receivable by Rs. 1,566.9 million.

2.2 Trend Analysis of major Income and Expenditure items

- (a) The revenue for the year under review has decreased by 9.5 per cent compared to the previous year. Simultaneously the cost of sales has decreased by 17.8 per cent. Therefore the gross profit for the year under review has increased by 9.7 per cent.
- (b) Other operating income for the year under review has increased by 3652 per cent compared to the previous year. The main reason for the improvement is increasing the exchange gain on foreign currency receivable.
- (c) Finance Income for the year under review has increased by 35 per cent compared to the previous year. The main reason for the improvement is increasing of interest on local currency investment.

2.3 Ratio Analysis

- (a) Gross profit ratio of the company has been increased from 30 per cent to 37 per cent when comparing with its preceding year. Further net profit ratio of the company has been increased from 23 per cent to 35 per cent in respect to prior year.
- (b) Return on Equity (ROE) ratio has been increased from 18 per cent to 21 per cent compared to the preceding year.
- (c) Current ratio of the Company stayed constant at 3:1 though both years.

3. Operational Review

3.1 Management Activities

Audit Issue

Monthly invoices issued by the Company as per the power purchase agreement regarding power generations were reviewed by the Ceylon Electricity Board (CEB) and in most instances the amount accepted by the CEB is lower than the amount invoiced. CEB confirms the amount agreed and does not give the reasons affected to the difference. However, the Company was unable to get solution for this dispute even as at the date of this report.

Management Comment

We have sent several letters to CEB, requesting them to inform us the differences in writing in compliance with the requirement of the Power Purchase Agreement but CEB has not responded for these letters.

Recommendation

The Company should take necessary actions to come to an agreement with the CEB on the amount invoiced.

3.2 Human Resources Management

Audit Issue

A scheme of requirement and promotion had not been prepared by the Company as per the section 9.3 of Public Enterprises Circular No. PED/12 dated 02 June 2003.

Management Comment

Company has only CEO, Accountant and Assistant Accountant. There are no plans to recruit any more employees. Therefore, a need for a scheme of requirement (SOR) does not arise.

Recommendation

The company should comply with the provisions of the circular.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue

The Company had not rendered accounts to the Auditor General within 60 days after the close of the financial year as per section 6.5.1 of the Public Enterprises Circular No. PED/12.

Management Comment

Management comment was not received.

Recommendation

The company should comply with the provisions of the circular.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate plan had not been prepared by the Company according to the Public Enterprises Circular No. PED/12 of 02 June 2003.	The Company own and operated 300MW Kerawalapitiya Power Plant. Its transactions are limited to payments made to CPC for fuel purchased, Procurement for chemical recommended by equipment supplier and management of O&M contract approved by the board. Capital budget is also approved by the Board.	The company should comply with the provisions of the circular.

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
Internal Audit division had not been established by the Company.	The statutory Auditor Covers the auditing of compliance with these procedures and budgets. Therefore, Board of Directors has not recommended an internal audit function.	The company should comply with the provisions of the circular.

4.4 Audit Committee

Audit Issue	Management Comment	Recommendation
Audit Committees had not been conducted by the Company during the year under review.	The statutory Auditor Covers the auditing of compliance with these procedures and budgets. Therefore, Board of Directors has not recommended an internal audit function.	The company should comply with the provisions of the circular.

4.5 Sustainable Development Goals

Audit Issue

In accordance with the “2030 Agenda” of the United National on the Sustainable Development Goals (SDG) all state institutions should contribute in implementation of goals and functions under its scope. However, the Company was not aware of SDG and had not identified the targets to be achieved, the gaps in achieving those goals and suitable indicators for measuring the progress as well.

**Management
Comment**

We have not been informed about 2030 agenda by anybody

Recommendation

The company should comply with the provisions of the “2030 Agenda” of the United Nations on the Sustainable Development Goals.