

West Coast Power (Private) Limited - 2021 /2022

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 2022 comprising the statement of financial position as at 31 March 2022 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, 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.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Payment of Annual bonus for three employees including Chief Executive officer, Accountant and Assistant Accountant.	1,333,000	Board approval and other relevant documents	As a norm WCPL is following performance-based bonus scheme during past period. Once a year CEO evaluates the performance of company staff members and decides on Bonuses to be paid.	Documents should be provided to audit.

1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
Receivables amounting to Rs. 19,457,255,454 from Ceylon Electricity Board (CEB) had been remained unsettled for more than one year.	CEB settlement is being very poor during the year. Company has communicated this with CEB several times and we are expecting CEB will improve their settlement after the Tariff Change.	Appropriate actions should be taken to recover dues without delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
<p>Public Enterprises Circular No. 01/2021 of 16 November 2021 on Guidelines for Corporate Governance and Operational Manual for state owned enterprises.</p>	<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 Power Plant. As per requirements of the PPA (Power Purchase Agreement) signed with CEB, the entire operation of the power plant is carried out by a Contractor. Therefore, the Company has only the CEO, Accountant, and Asst. Accountant as employees. Their remuneration is approved by the Board as per Budgetary Control Process of the Company. There were no new recruitments or resignations during the year. Company has Board approved Operational Manual which included a section for Human Resource Management.</p>	<p>Should be complied with the provisions of the circular.</p>
<p>Operational Manual</p>	<p>The Company had not prepared a Scheme of Recruitment and Promotion for each post.</p>	<p>This Company is a single purpose Company set up to own the Yugadhanavi power plant. It is impractical to prepare a scheme as suggested by this Circular for</p>	<p>- Do -</p>

		this Company.	
(c) Section 6.2	Boards of State Owned Enterprises (SOEs) with a consistent revenue of at least Rs. 30 billion per annum in the last two years must establish an Investment Committee (IC) in line with the investment policy established by the Board of Directors. Company had failed to comply with the requirement.	Management obtained approval from Board of Directors for the investments of Excess fund invest in the Bank as Fixed Deposit.	- Do -
(d) Section 7.5	State owned enterprises should forward monthly, quarterly, and annual performance reports to the Line Ministry and General Treasury in such formats as required. Company had failed to comply with the requirement.	General Treasury has not invested any funds in the Company and its investment was made only for the purpose of financing of the Power Plant by way of a foreign loan which has been fully settled. This information are provided by the management to the Board on regular basis.	- Do -

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.18,811,281,941 and the corresponding profit in the preceding year amounted to Rs.15,574,865,319. Therefore, an improvement amounting to Rs.3,236,416,622 in the financial result was observed. The main reason for the improvement is increase of exchange gain on foreign currency receivable.

2.2 Trend Analysis of major Income and Expenditure items

- a. The revenue for the year under review had decreased by 16 per cent compared to the previous year. Simultaneously, the cost of sales had decreased by 24 per cent and the gross profit for the year under review had decreased by 2 per cent.
- b. Finance Income of the company had increased by 116 per cent and Finance Cost of the Company had increased by 3 per cent.

2.3 Ratio Analysis

- a. Gross profit ratio of the Company had increased from 37 per cent to 43 per cent with compared to the preceding year and the net profit ratio had increased from 35 per cent to 50 per cent with compared to the preceding year.
- b. Return on Equity had increased from 21 per cent to 23 per cent with compared to the preceding year.

3. Operational Review

3.1 Management Activities

Audit Issue	Management Comment	Recommendation
<p>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 reasons affected to the difference. However, the Company was unable to get solution for this dispute even at the end of the year under review.</p>	<p>As per the section 8.10.2 of Power Purchasing Agreement entered between WCPL and CEB “if the case of disputes on any amount specified in any invoice from CEB shall, within seven days of receipts of such invoice, give notice to the other party and pay any undisputed amount in that invoice on or before the due date therefore”. However, Until now WCPL has not received written notice from CEB about disputes, within seven days of the monthly invoice. After receiving the bank advice for payment by CEB, WCPL always have officially written to CEB asking for the reasons for variances. In the Board Meeting held on 15 June 2022 Board decided to inform Secretary to Treasury about CEB’s non-corporation in resolving the disputes. Further Board has always provided 50% impairment for all disputed amounts.</p>	<p>Action should be taken to resolve the dispute with the co-ordination of relevant parties.</p>

4. Accountability and Good Governance

4.1 Strategic Plan

Audit Issue	Management Comment	Recommendation
<p>As per section 2.3 of Public Enterprises Circular No. 01/2021 of 16 November 2021 on Guidelines for Corporate Governance for state owned enterprises, the Board of Directors should ensure that its strategic plan is prepared to achieve its mandated objectives within a national policy framework. The finalized strategic</p>	<p>General Treasury has not invested any funds in the Company and its investment was made only for the purpose of financing of the Power</p>	<p>Should be complied with relevant guidelines and circulars.</p>

plan together with the action plan and annual budget should be submitted through the Secretary of the relevant Line Ministry, to the Director General, Department of Public Enterprises or the Director General, Department of National Budget as applicable. However, the Company had failed to comply with above requirement.

Plant by way of a foreign loan which has been fully settled. This information are provided by the management to the Board on regular basis.

4.2 Audit Committee

Audit Issue

Section 4.4 of Guidelines for Corporate Governance for state owned enterprises, all state owned enterprises should have IAs (Internal Auditors) who report only to the Board through the Audit Committee. Section 4.2 in the same guideline indicated the Audit Committee of a state owned enterprises plays an important role in facilitating the oversight function. The Audit Committee should consist of 3 non-executive directors or 1/3rd of non-executive directors of the Board, whichever is higher, with at least one member possessing knowledge and qualifications in financial management, with such member being appointed as the Chairman of the Audit Committee. Whenever the Board of Directors consists of a Treasury representative, such member should be appointed to the Audit Committee. Company had not complied with the above requirements.

Management Comment

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.

Recommendation

Should be complied with the provisions of the circular.

4.3 Sustainable Development Goals

Audit Issue

In accordance with the “2030 Agenda” of the United Nations 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 it 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

The company owns and operates 300MW Kerawalapitiya Power Plant. That is the only function of the company. Its transactions are limited to payments made to CPC for fuel purchased, procurement of certain chemicals as recommended by equipment supplier and management of O&M contract approved by the Board. There are procedures followed for each of these activities. Procedures are approved by the Board. Capital Budget for any improvement in power plant infrastructure is also approved by the Board.

Recommendation

Company should comply with requirements of “2030 Agenda” on the SDG.