

**1. Financial Statements**

**1.1 Opinion**

The audit of the financial statements of the Trincomalee Power Company Limited (“Company”) for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 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 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 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 Material Uncertainties Relating to Going Concern**

I draw attention to Note 2.1.5 to the financial statements. Which explains that the going concern of the company. Accordingly, the Company operated with the sole purpose of developing a 50MW(extendable to 100MW) Solar power plant at Sampur in Trincomalee District. Sustainable Energy Authority granted the Provisional Approval for 50MW Solar Power Development on 01<sup>st</sup> of August 2022 and Term of Reference (TOR) issued by the Central Environmental Authority (CEA) on 13<sup>th</sup> September 2022. Accordingly, appointed a consultant to carry out Impact of Environmental Evaluation (IEE) study as per the TOR and the Draft report on environmental studies has been submitted to CEA. Further discussions are in progress to finalize the Power Purchase Agreement with Ceylon Electricity Board (CEB). The Expenditure incurred for the on-going activities of the Company for the year amounting to Rs. 13,005,462 has been accounted as administrative expenses in the statement of comprehensive income.

#### **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 document shave 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 Laws, Rules, Regulations and Management Decisions etc

	<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
<b>(a)</b>	Section 2.3 of the Guidelines on Corporate Governance for State owned Enterprises dated 16 November 2021.	The finalized strategic plan together with the action plan and annual budget should be submitted to the parent company. However, the Company had failed to comply with this requirement..	Management Comment had Not been received	It should be complied with the requirement of Guidelines on Corporate Governance for State owned Enterprises

<p>(b) Joint Venture and Shareholders Agreement by and between Ceylon Electricity Board and NTPC Limited and Trincomalee Power Company Limited signed on 11<sup>th</sup> March 2022</p>	<p>It is required to ensure that board meeting are held at least once a month. However, only three board meetings had been held during the year under review. Further, Board meeting minutes which had been discussed above the projects objectives, of it had not been forwarded for audit.</p>	<p>Management Comment had been received</p>	<p>Not</p>	<p>Action Should be taken to comply with the requirement of agreement.</p>
<p>Section 2.2.2 (a), (ii) and (iv)</p>	<p>Within 30 days after the last day of March, June, September and December, the company shall deliver to each director quarterly financial and operations reports, and a summary of financial commitments and expenditures as of the report date compared with the approved budget for the then current period, together with a report of performance against budget for the previous three months ending on the report date and cumulative for the year to date, in such form as Board may prescribe. However, company had not complied with the above requirement.</p>	<p>Management Comment had been received</p>	<p>Not</p>	<p>Action Should be taken to comply with the requirement of agreement.</p>
<p>(c) Section 6.7 of the PED Circular No: 01/2021 issued on November 2021, Operational Manual for state owned enterprises(SOEs)</p>	<p>Board of survey to verify the existence of the Property, Plant and Equipment of Rs. 47,869,038 (Carrying value) as at 31 March 2024 was not carried out by the company.</p>	<p>Board of survey has not been carried out for the year ended 31-03-2024 as majority of Rs. 47.5million of the total carrying of the asset value consists of Chain Link Fence and ROU Asset (Leased Land).</p>	<p>Action Should be taken to verify the existence of the Property, Plant and Equipment, through board of survey.</p>	

## 2. Financial Review

### 2.1 Financial Result

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

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The company had paid a sum of Rs. 57.5 million to get a Permit for engaging in and carrying on of an on-grid renewable energy project on 17 July 2023. According to the terms and conditions of the permit, The project should commence its commercial operations within one year of the date of the issue of this Permit (18 July 2023) and in the event of the failure to commence commercial operations within such period, the Director General of the Sri Lanka Sustainable Energy Authority shall have the power to cancel this Permit. However, the commercial operation of the project had not been commenced yet.	TPCL has received one year extension (i.e. till 17-07-2025) of the Energy Permit from SLSEA for the 50 MW On-Grid Renewable energy Project	Action Should be taken to commence its commercial operations before expiring the permit.
(b) According to the terms and conditions of the permit, a progress report indicating the achievement of project milestones should be submitted to the Sri Lanka Sustainable Energy Authority, at the end of each quarter of the year. However, the project agreement had not been signed yet.	The project progress reports may be shared with SLSEA by TPCL after the signing of project agreements with CEB, in Sri Lanka.	Higher level discussions regarding this matter should be commenced.
(c) As per the Articles of Association, objective of the company is to develop, construct, establish, operate and maintain 50 MW Solar Power Plant at Sampur in Trincomalee, and According to the Feasibility report of 50 MW Solar PV, the plant expected to generate around 124.4 Million of Units (MU) energy per annum with annual CO <sub>2</sub> mitigation of 91,434 Tonnes per year. Due to delay in implementation of project, the objectives of annual power generation and annual CO <sub>2</sub> mitigation could not be achieved as expected.	The project shall be commissioned timely after the signing of project agreements with CEB, in Sri Lanka. The energy generation and CO <sub>2</sub> emissions targets shall be achieved during the project life.	Necessary action should be taken to commence the project without delay and achieve the expected objectives of the project.

### 3.2 Delays in Projects or Capital Works

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>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 2024. Even though, no operations had been carried out by the Company, a sum of Rs. 11.2 million had been spent on administrative expenses for the year under review. Further, Accumulated Retained Loss of the Company as at 31 March 2024 was Rs. 635.2 million.</p>	<p>Even though the Cabinet approval was received in 2018 there were series of discussions between shareholders (CEB and NTPC) on the way forward of the company. You may review the board minutes and understand what we have discussed in relation to the 50 MW solar project. However, we accept that it took longer than expected due to numerous reasons. Rs.11.2 million loss in 2023/24 is due to the minimum amount of operating expenditure that should be incurred for a year to keep the company operating with the requirement of shareholders.</p>	<p>Necessary action should be taken to commence the project without delay for the purpose of creating the income through power generation.</p>

## 4. Accountability and Good Governance

### 4.1 Sustainable Development Goals

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>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 had not identified the Sustainable Development Goals and targets to be achieved and the suitable indicators for measuring the progress as well.</p>	<p>TPCL envisage identifying the Sustainable Development Goals, targets to be achieved and suitable indicators for measuring the progress after signing of the project agreements.</p>	<p>Company should comply with “2030 Agenda” of the United Nations on the Sustainable Development Goals.</p>