**West Coast Power (Private) Limited - 2024/2025**

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## 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 2025 comprising the statement of financial position as at 31 March 2025 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 material accounting policy information, 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 2025, 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 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.

## 1.5 Accounts Receivable and Payable

### 1.5.1 Receivable

| | Audit Issue | Management Comment | Recommendation |
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| (a) | In accordance with Section 8.8 of its Power Purchase Agreement with the CEB, the Company is contractually entitled to reimbursement for specific taxes paid. However, the Company has failed to recover Withholding Tax, Economic Service Charge and Nation Building Tax amounting to Rs. 57,364,815, Rs. 166,238,299 and Rs. 19,027,970 respectively. | The taxes in question are recoverable from CEB in accordance with the contractual arrangements. Accordingly, management is of the view that these balances remain fully recoverable, and therefore no impairment provision has been recognized in respect of these receivables. | Necessary Action should be taken to reimburse those taxes paid without delay. |
| (b) | A variance of Rs. 649,066,151 was observed between the sales invoiced by the Company and the amounts accepted by the CEB for the year under review. The total variance comprises Rs. 561,377,011 relating to Rupee-denominated invoices and Rs. 87,689,140 relating to Euro-denominated invoices. This matter is of particular concern which result of the long-standing dispute over revenue recognition parameters was formally resolved during the financial year 2023/24, after the Company adjusted its financial statements in accordance with the newly agreed 31parameters. However, the CEB has not yet made corresponding adjustments to its financial records, although agreed to made adjustment. | This stems from a long-standing dispute over revenue recognition parameters, which was formally resolved in 2023/24, leading the Company to adjust its financial statements. Although billing parameters were mutually revised effective September 2024, CEB continued using previous lower parameters for dispatch advice until October 2024, while the Company invoiced based on the updated parameters. Consequently, the variance for April–August 2024 alone amounts to Rs 516,172,234 (approximately 92% of the total variance). CEB has indicated that the variance will be reconciled once its internal computations are finalized | Necessary action should be taken to resolve the disputes without delay. |

### 1.5.2 Payable

| | Audit Issue | Management Comment | Recommendation |
|---|---|---|---|
| (a) | The Company's financial statements indicate a payable balance to the Ceylon Electricity Board (CEB) amounting to Rs. 1,800,563,323 due to excess charge of delay interest as at 31 March 2025. This liability was arise as a result of the settlement of a long-standing dispute relating to revenue recognition parameters and Rs.635,692,303 remain unsettled as at 31 January 2026. | Under the Power Purchase Agreement (PPA), the Company is contractually entitled to charge delay interest on outstanding receivables and applies monthly compounding in its financial records. While CEB has been computing such interest since 2010 without finalizing or communicating the cumulative amounts, resulting in a temporary recognition mismatch CEB formally confirmed in a letter dated 07 October 2024 that it agrees to pay delay interest using monthly compounding, aligning with the Company's methodology. Accordingly, the receivable is contractually recoverable with CEB's written concurrence, and no impairment, provision, or expected credit loss adjustment is required in the financial statements. | Necessary Action should be taken to resolve the disputes without delay. |

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

| | Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
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| (a) | "Operational Manual for State-Owned Enterprises (SOEs)" dated 16 November 2021**,** issued under Public Enterprises Circular No. 01/2021 | | | |
| | (i) Section 3.1, (i) | Approvals of the General Treasury for their cadres and remuneration had not been obtained. | Management Comment not given | Cadres and remuneration approval Should obtain from General Treasury. |
| | (ii) Section 3.2 (i) | The requests pertaining to carders including cadre positions, scheme of recruitment (SOR), pay structure and allowances with a board approval and | Management Comment not given | Should obtain relevant approvals. |

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| | | recommendations of the line ministry, for the approval of the Director General of the Department of Management Services had not submitted. | | |
| | (iii) Section 6.6 | Annual Report should be tabled in Parliament within five (5) months after the close of the financial year. However, the Company had not tabled the annual report from its inception. | Management Comment not given | Annual report should be table in parliament. |
| | (iv) Section 7.1, 7.2 and 7.3 | Key performance indicators (KPIs) had not identified to comply with said requirement. | Management Comment not given | KPI's should be identified. |
| (b) | Section 40 (i) of the National Audit Act, No. 19 of 2018**,** and Section 4.4 of the Guidelines on Corporate Governance for State owned Enterprises issued under Public Enterprises Circular No. 01/2021 dated 16 November 2021. | SOEs should have internal auditor who report only to the Board through Audit committee. However, the Company had not appointed an internal Auditor. | Management Comment not given | Should be complied with the said provisions of the manual. |
| (c) | Section 2.7 of public Enterprises circular No 04/2022 dated on 08 August 2022. | Although, all kind of sponsorships, donations, SCR expenses and non-business-related promotion expenses had been suspended, the Company had incurred Rs.6,055,506 as donations for the year under review. | Management Comment not given | Should manage expenses as per the provisions of the Circular. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit (after tax) of Rs.20,490 million and the corresponding profit (after tax) in the preceding year amounted to Rs. 19,776 million. Therefore, an improvement amounting to Rs.713 million in the financial result was observed. The main reason for the improvement is increase in other operating income due to increase in exchange gain and over provision of electricity charges

### 2.2 Trend Analysis of major Income and Expenditure items

a. The revenue for the year under review had decreased by 41.59 per cent compared to the previous year. Simultaneously, the cost of sales had decreased by 42.22 per cent.

b. Finance Income of the Company had increased by 329.75 per cent and Finance Cost of the Company had decreased by 99.86 per cent.

c. The other operating income for the year under review had increased by 511.80 per cent compared to the previous year.

### 2.3 Ratio Analysis

a. Gross profit ratio of the Company had increased from 26.9 per cent to 27.7 per cent with compared to the preceding year and the net profit ratio had increased from 22.5 per cent to 39.5 per cent with compared to the preceding year.

b. Return on Equity had decreased from 23.2 per cent to 20.3 per cent with compared to the preceding year.

c. Current ratio of the Company had increased from 1.8 to 4.5 with compared to the preceding year.

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| It was noted that the Company incurred delay interest payments of Rs.112,960,243 to Lakdanavi Limited during the year under review. As per clauses 4.2 (viii) and (ix) of the Operation and Maintenance (O&M) contract between West Coast Power Private Limited ("the Owner") and Lakdanavi Limited ("the Operator"), payments on the Operator's invoice are required within fifteen (15) days of receipt by the Owner, and any payment made later than seven (7) days after the due date attracts interest at 2% above the prevailing prime rate. The payment of substantial delay interest indicates that the Company did not adhere to the stipulated payment timelines, resulting in additional financial costs. | The company prioritizes uninterrupted plant operations by allocating available funds to critical needs such as urgent spare parts, O&M activities, and CPC fuel payments. While payments are generally made on time when funds are sufficient, temporary cash flow constraints have occasionally caused delays in O&M payments. Despite this, the company manages funds prudently to support essential operations and maintain stability. | Should comply with the section of 4.2 (viii) and (ix) of the operation maintenance contract between West Coast Power Private Limited and Lakdanavi Limited to minimize the interest cost. |