

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the West Coast Power (Private) Limited 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 statement of cash flows 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 31March 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 Emphasis of matter

I draw attention to Note 25 of the financial statements, which discloses the prior year adjustment arising from the resolution of several long-standing operational and billing disputes between company and the Ceylon Electricity Board (CEB). These disputes, which date back to 2019, included matters such as the application of parameter values by CEB, Fuel Energy Rate (FER) discrepancies, diesel operation-related issues, imposition of liquidated damages due to fuel non-availability, import energy billing issues, deduction of VAT from monthly reimbursements, and the methodology used for delay interest calculations. As disclosed, an impairment provision of Rs.18,236,009,674 had been previously recognized in relation to these disputes. Following their resolution, a further adjustment of Rs.22,074,233,110 was identified due to the overstatement of revenue in prior periods. Consequently, the comparative figures have been restated to reflect this prior period adjustment in accordance with the applicable financial reporting framework. My opinion is not modified in respect of this matter.

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 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 scepticism 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 Accounts Payable

Audit Issue	Management Comment	Recommendation
An amount of Rs.2,600,147,652 was remained in long period as a payable balance to Ceylon Electricity Board (CEB) for the Electricity consumption as at 31 March 2024. Further, it was accounted based on estimation made by the company, since, the Electricity bills from CEB for import of electricity had not been received during the year.	Electricity invoices have not been received by WCPL since December 2022, and expenses have been recorded based on calculated values.	Action should be taken to resolve the disputes with the co-ordination of relevant parties

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Operation Manual for State owned Enterprises dated 16 November 2021, issued under Public Enterprises Circular No 01/2021	(i) Paragraph 3.1 (i) All state owned enterprises (SOE) must seek the approval of the General Treasury for their cadres and remuneration. However, Company had not complied with the said requirement.	This company is a single purpose company set up to own the Yugadhanavi Power Plant. As per the requirements of the Power Purchase Agreement (PPA) signed with CEB, the entire operation of the power plant is outsourced to 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.	Should be complied with the provisions of the manual
(ii) Paragraph 3.2(i)	SOEs must submit their requests pertaining to carders including cadre positions, Scheme of Recruitments (SOR), pay structure and allowances with a Board approval and recommendations of the line ministry, for the approval of the Director General, department of Management services. However, it was	There was no need to make any request regarding cadres due to the setup of a single-purpose entity.	Should be complied with the provisions of the manual

observed that Company had not complied with above requirement.

(iii) Section 6.6	The 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.	WCPL is currently preparing the annual report, which will be made available to the audit.	Should be complied with the provisions of the manual
(iv) Section 7.1, 7.2 and 7.3	Key performance indicators (KPIs) must have identified, and Board of Directors should periodically review KPIs including against the action plan and the budget to ensure that actual performance is in line with the expected KPIs. However, it was observed that the Company had not complied with those requirements.	General Treasury has not invested any funds in the Company, and its involvement was made only for the purpose of financing the Power Plant by way of a foreign loan which has been fully settled. However, this information is provided by the management to the Board on regular basis.	Should be complied with the provisions of the manual
(iv) Section 7.5	SOE should forward monthly, Quarterly and annual performance report to the Line Ministry and General Treasury. However, it was observed that Company had not complied with above requirement	General Treasury has not invested any funds in the Company, and its involvement was made only for the purpose of financing the Power Plant by way of a foreign loan which has been fully settled. However, this information is provided by the management to the Board on regular basis.	Should be complied with the provisions of the manual
(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 through the secretary of Line Ministry to the Director General, Department of Public Enterprises or the Director	This company has been set up to generate profits for its shareholders by providing electricity to the National grid. This goal has been achieved for the last 14 years. Therefore, it is not necessary to prepare	Should be complied with the provisions of the manual

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| | General, Department of National Budget as applicable. However, it was observed that the Company had failed to comply with this requirement. | a strategic plan for the already agreed contractual obligations. | | |
| (c) | Section 40 (i) of the National audit Act, No 19 of 2018. And Section 4.4 of the Guideline on Corporate Governance for State owned Enterprises issued under Public Enterprises Circular No. 01/2021 dated 19 November 2021. | SOEs should have internal auditor who report only to the Board through Audit committee. However, it was observed that, an Internal Auditor for the company had not appointed. | WCPL has established an audit committee to align with this requirement. The statutory audit covers compliance with these procedures and budgets. The company's entire staff is limited to three persons, and the company is responsible only for the bulk purchase of fuel from CPC, chemicals, and annual statutory payments. | Should be complied with the provisions of the manual |
| (d) | Section 2.7 of public Enterprises circular No 04/2022 dated on 08 August 2022. | It was suspended all kind of sponsorships, donations, Corporate Social Responsibility (CSR) expenses and non-business-related promotion expenses. However, it was observed that, Company had made Rs. 5,511,595 as donations for the year under review. | CSR expenses have been approved in the budget. | Should be complied with the provisions of the manual |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.19, 776 million and the corresponding profit in the preceding year amounted to Rs.14,641 million. Therefore, an improvement amounting to Rs. 5,135 million of the financial result was observed. The main reason for the improvement is the increase in gross profit by Rs. 2,990 million and the decrease in finance cost by Rs. 4,279 million.

2.2 Trend Analysis of major Income and Expenditure items

- a. The revenue for the year under review had increased by 16.7 per cent compared to the previous year. Simultaneously, the cost of sales had increased by 17.6 per cent.
- b. Finance Income of the Company had decreased by 32.2 per cent and Finance Cost of the Company had decreased by 66.7 per cent.

2.3 Ratio Analysis

- a. Gross profit ratio of the Company had decreased from 27.5 per cent to 26.9 per cent with compared to the preceding year and the net profit ratio had increased from 19.4 per cent to 22.5 per cent with compared to the preceding year.
- b. Return on Equity had increased from 22.4 per cent to 20.8 per cent with compared to the preceding year.
- c. Current ratio of the Company had increased from 1.4 to 1.8 with compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) As per the section of 4.2 (viii) and (ix) of the operation maintenance contract entered into between Company and Lakdanavi limited, “payment shall be made on operator’s invoice within fifteen days of owner’s receipt of such invoice. Payment to operator received later than seven days after the due date will incur interest at the rate of 2 per cent above prime rate”. Accordingly, it was observed that the Company had paid amounting to Rs.142,318,849 during the year under review to Lakdanavi Limited as delay interest which was uneconomic to the company.	O&M payments to Lakdhanavi Limited were delayed due to poor cash receipts from CEB.	Should comply with the said section of the operations maintenance contract between West Coast Power Private Limited and Lakdanavi Limited to eliminate the delay interest cost.
(b) As per Section 5.2.1 of the Fuel Supply Agreement, “Commencing with the week following the second week in which fuel was delivered under the agreement and each Bi-week thereafter, the Ceylon Petroleum Corporation (CPC) shall submit an invoice in rupees to the Company and the Company shall pay the invoiced amount to the CPC within seven days of receipt of such an invoice” during the year under review, it was observed	CPC payments were delayed due to poor cash receipts from CEB.	Should comply with the Section 5.2.1 of the Fuel Supply Agreement to eliminate the delay interest cost.

that CPC had charged Rs. 2,028,220,528 during the year under review as delay interest which was uneconomic to the company due to payment delays.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
The Company follows its own developed procurement manual for the Procurement activities, which was not approved by the relevant authority (National Procurement Agency) without following the Government Procurement Guidelines 2006. During the year under review company had procured Rs. 1,206 million worth of Goods & works following its owned manual.	WCPL procedure manual was approved by board of directors. According to the PPA company is liable to maintain certain availability unless otherwise WCPL has to pay penalty. Therefore, West Coast Power (Pvt) Ltd has followed a procedure manual and it has been approved by the Board of Directors	Should be complied with the provisions of the said procedure manual

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
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, targets to be achieved and the suitable indicators for measuring the progress as well.	This company was established to generate profits for its shareholders by supplying electricity to National Grid. This goal has been successfully achieved over the past 14 years. Therefore, it is not necessary to prepare such goals and implementations in alignment with the SDGs.	Should be complied with “2030 agenda” of the United Nations of the Sustainable Development Goals.