

Trincomalee Power Company Limited – 2020/2021

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 2021 comprising the statement of financial position as at 31 March 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Material Uncertainty Related to Going Concern

Without qualifying my opinion, I draw attention to the Note No. 2.1.5 of the financial statements which describes an uncertainty that may cast doubt about the Company’s ability to continue as a going concern.

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 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.

1.6 Audit Observation on the Preparation of the Financial Statements

1.6.1 Documentary Evidences not made available for Audit

Audit Issue -----	Amount -----	Evidence not Available -----	Management Comment -----	Recommendation -----
	Rs.			
Land and Development assets write off	2,985,550	Acknowledgement from the contractor and the Board decision regarding the write-off	This write-off is due to the reduction of contract value paid to the contractor. Since board of directors decided to conclude the chain link fencing contract by paying less value than agreed, we have reversed the amount deducted from the original contract value.	Information requested by the Auditor General should be provided to audit, and the fair value of Land and Development assets should be included in the financial statements.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre -tax net loss of Rs. 12,875,278 and the corresponding pre -tax net loss in the preceding year amounted to Rs. 13,475,234. Accordingly, the financial results showed a decrease in loss by Rs. 599,956. The main reason for the deterioration was the decrease in salary and office rent expenses.

3. Operational Review

3.1 Delays in projects or Capitol Work

Audit Issue	Management Comment	Recommendation
<p>The Company had received a Cabinet approval in 2018 to set up a 50 MW solar power plant in Sampur. However, development activities of the said power plant at least initial activities such as signing Joint Venture Shareholder Agreement or Project agreements had not been carried out even up to 31 January 2022. Even though, no any operations had been carried out by the Company up to 31 January 2022, a sum of Rs. 12,977,874 had been spent on administration expenses during the year under review.</p>	<p>Discussions are in progress to start the 50MW Solar power plant. Currently both shareholders of Ceylon Electricity Board (CEB) and National Thermal Power Corporation (NTPC) are working towards to develop 50 MW Solar plant in Sampur and are at final stage of finalizing Joint Venture Share Holder Agreement (JVSHA). The said Rs. 12.9 million administrative expenses include Rs. 2.7 million depreciation on chain link fence. Also it has been reduced the administration overheads by Rs. 5 million (without depreciation) comparable to 2020 due to cost reduction.</p>	<p>Necessary actions should be taken to implement the Cabinet decision.</p>

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>(a) The Company had not prepared a scheme of recruitment and promotion for each post as per the Public Enterprise Circular No. PED/12 dated 02 June 2003.</p>	<p>Thus staff was reduced to one officer just to maintain the office and coordinate with NTPC and CEB and carry out essential activities. Therefore, the observation given is not applicable due to current nature of the Company.</p>	<p>Necessary actions should be taken to prepare a scheme of recruitment and promotion as per the circular instructions.</p>
<p>(b) Organization chart and approved cadre registered with the Department of Public Enterprises were not made available to audit.</p>	<p>Thus staff was reduced to one officer just to maintain the office and coordinate with NTPC and CEB and carry out essential activities. Therefore the observation given is not applicable due to current nature of the Company.</p>	<p>It should be complied with relevant guidelines and circulars.</p>

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Issue

From the inception of the Company, annual reports had not been tabled in the Parliament up to now in terms of Public Enterprise Circular No. PED/12 dated 02 June 2003.

Management Comment

Trincomalee Power Company Limited submitted audited accounts to CEB for consolidation purposes and generally CEB present the annual reports and audited accounts of subsidiaries to the parliament after obtained approval from the Ministry.

Recommendation

Necessary actions should be taken to table the annual reports in the parliament as required by the circular.

4.2 Corporate Plan and Annual Action Plan

Audit Issue

The Company had not prepared a corporate plan and an annual action plan for the year under review as per the Public Enterprise Circular No. PED/12 dated 02 June 2003.

Management Comment

Currently both shareholders (CEB and NTPC) are working toward to expedite the development of 50MW solar plant in Sampur and discussions are continuing to finalize the JVSHA. Other activities will commence once the Attorney General's approval is obtained for the JVSHA. Therefore, the observation given is not applicable due to current nature of the Company.

Recommendation

A corporate plan and annual action plan should be prepared as per the circular instructions.

4.3 Audit Committee

Audit Issue

The Company had not appointed an internal auditor or established internal audit division, and internal audit function had not been carried out in terms of the Section 40 and 41 of the National Audit Act No. 19 of 2018 and the Public Enterprise Circular No. PED/12 dated 02 June 2003.

Management Comment

Trincomalee Power Company Limited does not do operations to get the service of an Internal Auditor to carry out Internal Audits. Therefore this may be implemented once Company starts commercial operations of Solar Power Project.

Recommendation

It should be complied with relevant guidelines and circulars.

4.4 Budgetary Control

Audit Issue

The Company had not prepared a budget to achieve the targets it had set for itself in the year ahead as an incremental step in achieving the long-term goals for the enterprise, as spelt out in the corporate plan as per the Public Enterprise Circular No. PED/12 dated 02 June 2003.

Management Comment

Currently both shareholders (CEB and NTPC) are working toward to expedite the development of 50MW solar plant in Sampur and discussions are continuing to finalize the JVSHA. Other activities will commence once the Attorney General's approval is obtained for the JVSHA. Therefore the observation given is not applicable due to current nature of the Company.

Recommendation

An annual budget for the Company should be prepared as per the circular instructions.