

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Coal Company (Pvt) Ltd (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 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 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 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 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.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) The Company had obtained 2 short term loan facilities of Rs.9,825 million and Rs. 21,000 million (revolving facility) from Bank of Ceylon in the year 2024 to part finance of coal purchases through a treasury guarantee of Rs. 22,000 million and 27,500 million respectively. However, comprehensive disclosures regarding the said loans and the treasury guarantee had not been made in financial statement in terms of the paragraph 14 of SLFRS – 7 Financial Instruments- Disclosures.	In accordance with the requirements of SLFRS 7. A comprehensive breakdown of the nature, terms, and associated risks of these instruments will be included in the financial statements for the year ending 31 December 2025.	Should be complied with provisions of the Accounting Standards.
(b) As per the paragraph No. 5.5.15 (a) of SLFRS 9 – Financial Instruments, the Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for, trade and other receivables or contract assets that result from transactions that are within the scope of SLFRS 15. However, the Company had not made provision for the trade and other receivables balance of Rs.28,248,085,451 as at 31 December 2024. Further, it was observed that Rs. 1,497,429,268 had been remained in outstanding over one year without being recovered.	The company has evaluated its trade receivables collectively for impairment. For certain individually significant receivables, no provision for impairment has been recognized because these receivables are backed by corresponding payables. Accordingly, there is no exposure at default that would necessitate an impairment charge. This impairment policy is disclosed under note no - 3.5.1 Financial Assets in the financial statements.	Should be complied with provisions of the accounting standards.
(c) As per the paragraph 85 (a) & (b) of LKAS 37 – Provisions contingent liabilities and contingent assets, the Company shall disclose each class of provision; a brief description of the nature of the obligation and the expected time of any resulting outflows of economic benefits, an indication of	In accordance with Paragraphs 85(a) and 85(b) of LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets, this provision will also be disclosed under contingent liabilities in the financial statements for the year ending	Should be complied with provisions of the Accounting Standards.

uncertainties about the amount or timing those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48 and the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement. However, the Company had made a provision of Rs.2,500,000 for contingent liabilities in the financial statements on labor case against to the Company without disclosing as contingent liabilities in the financial statements instead of recognizing as contingent liabilities in the statement of financial position as at 31 December 2024.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Revenue recognition policy of the Company in coal is priced invoicing purposes at all costs incurred in delivering to jetty. It is considered that the transfer of goods is passed to the buyer upon delivery of coal to the jetty and involved to the buyer. However, 15,795 MT of coal amounting to Rs.656,866,545 which was delivered to the jetty as at 31 December 2024 had not been recognized as revenue. Accordingly, profit for the year and trade receivables were understated by same amount in the year under review.	As per the mutual agreement with CEB, coal is priced for invoicing purposes based on all costs incurred in delivering it to the jetty for the coal shipments that have completed discharge. The said shipment completed discharge on 04th January 2025 and was invoiced to CEB on the same date	Action should be taken to keep the consistency on revenue recognition in each and every procurement.
(b) As per the section 3 (ix) of Value Added Tax (Amendment) Act, No. 16 of 2024, for any	The Cusdec date for the two referenced shipments was December 2023, and a VAT rate	Output VAT should be applied based on the discharged date of the shipment and action should be

taxable period commencing on or after January 1, 2024 at the rate of eighteen percent should be applied to the VAT in the taxable supply. However, the Company had used the fifteen percent to calculate the output VAT on the two sales invoices amounting to Rs.5,298,885,749 which was relevant to first quarter of 2024 instead of applying eighteen percent. Thereby, VAT payable was understated by Rs. 158,966,573 in the financial statements, year under review.

of 15% provisional and final VAT and the output tax were applied as Input VAT rate for similar shipment. The discharge completion for both shipments occurred in January 2024.

As we are unable to use two different VAT rates (15% and 18%) in the VAT return for the first quarter of 2024, we have amended Schedule 01 (Output VAT) of the fourth quarter of 2023 to include these two shipments accordingly.

taken to adjust the accounts.

(c) A difference of Rs. 591,408,679 was noted between the balance payable to Ceylon shipping Corporation (CSC) Ltd. as at 31 December, 2024 recorded in the company's financial statements (Rs. 555,445,825) and the confirmation submitted by the CSC (Rs. 1,146,854,504). Although the difference was reconciled, such balance was remained unresolved as at the end of the year under review.

As described in audit observations, we prepared a reconciliation statement by identifying items for the difference in the balance payable to Ceylon Shipping Corporation as of December 31, 2024. Most of the items were not booked by LCC for justifiable reasons and were disclosed under note no. 24 "Commitment & Contingencies." The LCC and the CSC are currently in discussions to resolve the existing discrepancies in the year end balances, as of 31 December 2024.

Action should be taken to clear the difference

1.5.3 Un-reconciled Records

Item	As per Financial Statements Rs.	As per corresponding records Rs.	Difference Rs.	Management Comment	Recommendation
Trade Debtors	27,921,164,238	27,943,757,000	22,592,762	LCC and CEB are currently in discussions to resolve the remain discrepancies in the year-end balances, as of 31st December 2024.	Reconciliation should be prepare and take necessary action to clear them.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Trade receivable & Miscellaneous debtors	9,808,968	invoices, detailed schedules and balance confirmations	<p>i. Miscellaneous Debtors – Rs. 9,808,968.00</p> <p>Initial investigations revealed that the amount comprises of irrecoverable NBT & PAL. Being further investigated to ascertain source/origin.</p>	Relevant documentary evidences should be submitted to the audit to verify balances.
(b) Payable balances	87,335,359	invoices, detailed schedules and balance confirmations	<p>ii. Rs. 84,771,789.21- Payable to Noble Resources International</p> <p>The balance consists primarily of an underdrawn amount to Nobel Recourses Intl. Pvt. Ltd as a result of the LC validity period expiring. The funds were used to settle other payables based on operational exigencies due to certain claims by us for coal-related payments and management fees, among other things, that had been outstanding with CEB for some time.</p> <p>iii. Rs. 2,563,569.68- Balance of Account Payable</p> <p>According to the Internal</p>	

Audit report issued by the CEB Internal Audit Branch, these payables were the result of incorrect accounting entries made in 2018 and earlier. We will make the necessary corrections in accordance with the recommendations provided by the CEB Internal Audit Branch.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
<p>(a) As of 31 December 2024, the company reported Rs. 197,452,711 as VAT and other receivables from CEB, which CEB had not recognized in their financial statements. No action had been taken by the company to resolve this discrepancy arising uncertainly about the recoverability of the amount.</p>	<p>This is related to the 205 million Customs Penalty issue. Following the meeting held on 19th February 2025 at the Ministry of Energy, it was recommended that a sum of Rs.80.90 million be paid by Lanka Coal Company (LCC)/Ceylon Electricity Board (CEB) to Ceylon Shipping Corporation (CSC), subject to the approval of the Boards of Directors of both LCC and CEB.</p>	<p>Action should be taken to recover the outstanding balance.</p>
	<p>Both Boards have subsequently granted the required approvals, and CEB will proceed with the release of funds amounting to Rs.80.90 million to CSC. The balance Rs.114.80 million to be adjusted through an internal accounting entry by offsetting the receivable from CEB against the payable to CSC in the books of LCC as this represents a duplicate VAT payment made by both CSC and LCC.</p>	

(b) Balance confirmations relating to three receivable balances aggregating Rs. 103,769,024 due from CEB as at the end of the year under review were not made available to the audit. Further, this balance had not been presented as payable balance to the company in CEB financial statements as at 31 December 2024. Therefore, the recoverability of the said balance is uncertain.

The said receivable balance amounting Rs.103,769,024 is contained the following three balances.

Action should be taken to recover this outstanding balance.

01. Management Fee Receivable from CEB - Rs.99,106,390.00

CEB has already settled Rs. 30,676,370.00 from the outstanding management fee receivable. The remaining balance is currently under discussion with management, as all related expenditures were incurred in connection with business transactions involving CEB.

02. Exchange loss Receivable from CEB (Cotecna) – Rs.51,632.00

Subsequently, this balance was settled by CEB. As at 31/12/2024, there remains a payable balance to CEB arising from an exchange gain generated through the settlement of Cotecna Inspection India Pvt Ltd. This amount will be adjusted against the next immediate settlement due to Cotecna

03. Income Tax Receivable from CEB – Rs. 4,611,002.00

Since LCC does not earn a profit from the delivery of coal to CEB, income tax expense also eligible to reimburse from CEB. LCC has asked to confirm this balance from CEB but they did not confirm as at finalize the Financial Statements.

(c) Management fees receivable amounting to Rs. 85,784,418 had been remained in outstanding over 4 years without being recovered. However, no any provision for

The balance net overhead cost receivable from CEB for the years 2016, 2018, 2019, and 2020 is being contested. The outstanding amount as of now is

Action should be taken to recover the long outstanding dues and recognize an appropriate impairment provision.

impairment had been made in the financial statements thereon.

Rs. 68,430,019.00 & discussions at the management level are ongoing to resolve the matter, with the objective of reaching a mutual agreement regarding the recoverability of this amount as this balance relates entirely to expenditures incurred in the course of business transactions with CEB.

(d) The Company had paid a sum of Rs.136,236,370 in 2016 as Custom VAT for the Shipment No.123. However, according to the Custom declaration (Cusdec), the actual VAT amount was Rs.106,969,404. Accordingly, it was observed that the Company had overpaid a sum of Rs. 29,266,965 and action had not been taken to clear the said balance even as at the end of the year under review.

LCC found that IRD has recorded this overpayment VAT Rs.29,266,965.00 & according to the new assessment issued, IRD confirmed that there was an excess input VAT of Rs.26,306,145.00 as at 31/03/2019. LCC will take the appropriate formalities to set off this input VAT against LCC's outstanding Customs due balances.

Action should be taken to clear the outstanding balance

(e) Although, the Company had not recovered the long outstanding receivable balances of Rs. 589,973,845 and Rs. 244,834,171 from Ceylon Shipping Corporation Ltd (CSCL) and Liberty Commodities Ltd respectively even as at the end of the year under review and no any provision had been made for impairment. Further, since CSCL & Liberty Commodities Ltd had not confirmed the said due balances, the audit was unable to ascertain the accuracy and the existence of such balances.

i. Receivable from Taurian Iron and Steel Company Pvt Ltd. – Rs. 589,973,845.00

The current status of the outstanding amount receivable from Ceylon Shipping Corporation (Taurian Iron and Steel Company Ltd.) was referred to the Cabinet of Ministers, who appointed a four-member Committee of the Treasury (Chairman), Ceylon Shipping Corporation, Lakvijaya Power Plant, and Lanka Coal Company to negotiate with the Taurian Iron and Steel Company. According to the CSC sources, the report of the negotiating committee has been forwarded to the Ministry of Power and Renewable Energy through the Ministry of Ports & Shipping. LCC and CEB already submitted their observation to the power Ministry.

Action should be taken to recover the long outstanding dues and recognize an appropriate impairment provision.

A high-level meeting is scheduled to be held on 17th June 2025 to discuss this matter. The meeting will be chaired by Professor Kapila C.K. Perera, Secretary to the Ministry of Transport, Highways, Ports and Civil Aviation.

ii. Liberty Commodities Ltd.
– Rs. 244,834,171.00

As disclosed in the note no 26, Summary of Legal cases, LCC Received an order and/or award from Arbitration on 31/12/2021, directing the Respondent to pay the Claimant (Lanka Coal Company) US \$ 1,575,141.86 with 3% annual interest plus the Arbitration cost of 10 million rupees. Also Judgement of Commercial High Court – Colombo of the above matter was delivered on 08.08.2023 in LCC favor and an order was made to enforce the Arbitral Award. AG's has sent letter on 06 the Nov, 2023 to LCC to submit a detailed report with regard to the assets of Liberty Commodities Limited to get the decree executed. Sri Lankan High Commissioner in the UK has sent the asset details of Liberty Commodities to the AG and the legal process is going on.

At present, the Attorney General's Department has submitted the decision statement received from the arbitral tribunal to the judge of the High Court of Commerce for approval.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
<p>(a)As per the details obtained from Inland Revenue Department on 09 April 2025, a sum of Rs.5,364,274,802 of VAT payable including the VAT penalty amounting to Rs.1,977,491,269 for five quarters had remained over three years without being settle. However, it had not been recognized or disclosed in the financial statements.</p>	<p>It has been resolved; system update will take place soon in both Customs and IRD, necessary related supporting document attached herewith for your information.</p>	<p>Should follow up action be taken to system update.</p>
<p>(b) Out of the total trade payable balances, two outstanding balances of Rs. 473,620,987 and Rs.714,965,434 payable to Ceylon Shipping Corporation Ltd (CSCL) and CEB (for Liberty & Taurian) respectively had remain over two years without being settled even as at the end of the year under review.</p>	<p>A. The outstanding payable balance to CSCL for more than 2 years include the followings.</p> <p>i. The corresponding receivable for this payable is related to above reply (a) Final VAT and Other Receivable from CEB – Rs.197,452,711. As mentioned, management conversations are currently underway to resolve the discrepancy and CSC will be settled once funds are received from CEB, based on the LCC & CEB board approvals.</p> <p>ii. Due to Shipment No 277 - Ceylon Princess reached to Load port beyond the agreed laycan & CEB hold Rs. 127,580,461.49 based on the calculation done for index change. This is also referred to the LCC & CEB board approvals & necessary actions will be taken accordingly.</p> <p>iii. Based on the management conversations, LCC has settled CSCL an advance payment of</p>	<p>Action should be taken to resolve disagreements and settle the payable balance.</p>

Rs.107 million from the funds received from CEB on 4th January 2023 for discharge port Demurrage that was relevant parties yet to be agreed for the laytime calculations. LCC hold Rs. 145,261,997 from balance payable to CSC for the coal season 2021/2022 and CSC will be settled once relevant parties agreed for the said laytime calculations.

iv. Due to a wrong declaration done by Ceylon Shipping Corporation, Lanka Coal Company (Pvt) Ltd overpaid VAT of Rs.29,266,966 to Sri Lanka Customs for shipment no. 123. LCC found that IRD has recorded this overpayment VAT & it will take the appropriate formalities to set off this overpaid VAT against LCC's outstanding Customs due balances. LCC is holding equal CSC outstanding sum until the above formalities are resolved. The balance Rs. 5,295,847 is related to the receivable from Taurian Iron and Steel Company Pvt Ltd.

B. Rs.714,965,434 : Payable to CEB (Liberty & Taurian)

We received the CEB confirmation for this payable and there is a corresponding receivable for this payable under Note no 11. The amount once received will have to be paid to CEB and the difference between the accounts is explained by price escalation as per agreement.

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
<p>(a) As per the Section 90 (1) of the Inland Revenue Act No. 24 of 2017, A person who is an “instalment payer” shall pay tax by quarterly instalments if he derives or expects to derive assessable income during a year of assessment – from a business or investment. However, the Company had not paid the quarterly instalments during the year under review.</p>	<p>The primary objective of LCC is to procure coal of the required quality and quantity, in an efficient and timely manner, for coal-fired power plants in Sri Lanka. This is to ensure an uninterrupted power supply at minimum cost to the country. And also, net overhead costs are reimbursed (LCC no profit no loss) by the Ceylon Electricity Board (CEB). As per the following reason not in position to identified interest income in quarterly basis (from the performance security-etc)</p> <ul style="list-style-type: none">(1) Interest income is main income or not(2) If not, other income(3) Is Interest income transfer to the CEB(4) Variation of the income(5) Audited accounts <p>As per the Inland Revenue Act, LCC must ensure that all tax obligations, including those on interest income, are accurately assessed and paid before the due date and in future, we will be taking necessary action to implementing the observation accordingly.</p>	<p>Should be complied with the provisions in the Inland Revenue Act.</p>
<p>(b) As per the section 126 (1) of the Inland Revenue Act No. 24 of 2017, Every person chargeable with income tax under this act shall furnish to the Assistant Commissioner in accordance with subsection (2), a tax return in the specified form containing such particular as may be specified by the Commissioner General either in writing or by electronic means with in the stipulated time.</p>	<p>We have already submitted the return for year of assessment 2022/23 and 2023/24 Copy of the return attached for your information</p>	<p>Should be complied with the deadline according to the provisions of the Inland Revenue Act.</p>

However, the Company had not filed returns for the year of assessment 2022/2023 & 2023/2024 complying with the said provisions of the Act.

- (c) As per the section 26(1) of Value Added Tax Act no. 14 of 2002 (incorporating amendments up to 01.01.2014), the tax in respect of any taxable period shall be paid not later than the twentieth day of the month following the end of the taxable period. However, the Company had not yet paid the VAT as per the said provision. as at 31 December 2024 which was amounting to Rs. 554,171,424.

As outlined in Note 3.8.1 – Revenue Recognition – SLFRS 15 under the Notes to the Financial Statements, invoices may be recognized for VAT and revenue in different accounting periods due to timing differences in revenue recognition and VAT filing obligations. Specifically, under the terms of the CORAL ENERGY DMCC agreement for the 2022/2023 coal season, 80% of the payment was due at the time of coal usage, with the remaining 20% payable after 120 days. Also in light of prevailing foreign exchange (FX) constraints during the 2021/2022 and 2022/2023 coal seasons, we were unable to accurately determine the value of coal shipments at the time of filing VAT returns. Consequently, provisional figures were used for the input VAT schedules. Following a comprehensive internal review, we have now identified the root causes of the discrepancies between sales reported in VAT returns and the revenue recognized in the Financial Statements. The Company intends to amend the affected VAT returns accordingly to reflect the corrected figures and ensure alignment with the accounting records.

Should be complied with the provisions in the Inland Revenue Act

Additionally, the Inland Revenue Department (IRD) has issued a new assessment dated 20/06/2024, identifying an excess input VAT amounting to Rs. 26,306,145.00 (copy attached 1620 to 1910) as at the end of the first quarter of 2019. We are actively engaged in

discussions with the IRD regarding this and other outstanding tax matters. The Company will settle the final VAT liability upon acceptance of the amended VAT submissions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit (before tax) of Rs.84,444,941 neither pretax net profit nor loss in the preceding year, due to entering into an agreement with the Ceylon Electricity Board to reimburse the net overhead cost incurred by the Company since the year 2014. The reason for the improvement is increase of the finance income and deterioration of finance cost by Rs. 147,133,147 and Rs. 20,920,030 respectively in the year under review when compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Income/Expenditure	2024 Rs. million	2023 Rs. million	Increase/ (Decrease) Rs. million	Percentage (%)
Revenue	91,879	146,503	(54,624)	(37.29)
Cost of Sale	91,879	146,428	(54,549)	(37.25)
Registration and Other Income	11	19	(8)	(42.11)
Administration Cost	75	74	1	1.35
Finance Income	156	9	147	1633.33
Finance Cost	7	28	21	75

3 Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
The Company had paid a sum of Rs. 151,695,439 to the supplier as discharge port demurrage due to unloading the coals within the stipulated time period.	All payments to suppliers are made in accordance with the terms outlined in the respective signed agreements. This policy	Action should be taken to reduce the unusual delays and demurrages in future.

Therefore, it was observed that the said expense was uneconomical to the Company.

also applies to discharge port demurrage, which is settled only after both parties have mutually agreed upon the laytime calculations. In the case of demurrage, CEB released the funds after reviewing and accepting the reasons for the delay, as well as reaching an agreement on the laytime computation.

It is important to note that due to the southwest monsoon season affecting the west coast, coal supply operations are restricted to a seven-month window—from September through April of the following year. This seasonal limitation presents a significant challenge in securing the total coal requirement without delays.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(a) The Company had selected bidder “Black Sand Commodities L.L.C” through procurement process to supply coal 2,250,000 MT for the season 2023/2024 and 2024/2025 and both parties had entered in to the agreement on 20 October 2023. Above coal supplier had supplied only 914,495 MT by 16 shipments for the season 2023/2024. Due to geopolitical issues, entailing sanctions on the Company’s ultimate shareholders JSC Suek (Russia). Potencia L.L.C FZ had been nominated by the above supplier to supply balance quantity of 1,390,342 MT and the Company (LCC) had granted approval to the nominated Company to continue above coal supply. Subsequently, supplementary agreement was signed on 19 March 2024 between the Company and Potencia LLC FZ.</p>		

- | | | |
|---|--|---|
| (i) Potencia L.L.C FZ (nominated supplier) had registered for the business activities of quality standardization and measuring consultancy, wholesale of fuels, greases, lubricant and oils. However, above supplier had not obtained the registration for engaging the coal supply. | LCC has fully complied with all applicable legal procedures and directives issued by the relevant authorities. The novation and appointment of Potencia LLC were carried out solely based on the approval of the Cabinet of Ministers, in accordance with the advice of the Attorney General. Neither the contract agreement nor the approvals granted made any reference to evaluating the qualifications or prior experience of the assignee. Therefore, the criteria outlined in the standard coal supplier registration process are not applicable in this instance. | Should evaluate the prior qualifications & experience and capability of the supplier in each & every procurement. |
| (ii) Business license had been issued for the above supplier for the period from 03 June 2022 to 02 June 2024. However, 1,390,342 MT of coal for the season of 2023/2024 and 2024/2025 had been supplied without valid business license. | In this regard, the business registration and key corporate details of Potencia LLC including the company address and director information were authenticated by the Sri Lankan Embassy in the UAE to facilitate the signing of the addendum. Furthermore, the Bank of Ceylon (BOC) independently verified these documents through the same Sri Lankan authority to ensure the legality of coal-related payments and to confirm that no sanctions or embargoes apply to Potencia LLC. | Should establish supplier license verification and monitoring process to prevent engagement with unlicensed service provider. |
| (iii) Even though the official address of above nominated supplier was Business Center 1, M floor, The Meydan Hotel, Nad Al Sheba, Dubai, U.A.E, such an office was not available in the said premises at that time in accordance with the e - mail received from Maydan Hotel, Nad Al Sheba, Dubai to the audit. | Please refer the above answer (ii), we have also formally requested, via email, clarification and an explanation regarding the said query for further verification and transparency. | Action should be taken to verify the address changes. |
| (iv) Black Sand Commodities (BSC) had requested to nominate Potencia LLC FZ to supply the above balance quantity as per the board resolution made by BSC on 8 March 2024 and the cabinet approval had been granted on 18 March 2024 to novate the responsibility to supply of above quantity, However, above | This supply formed part of Black Sand Commodities' ongoing contract, and it was essential to continue operations without interruption to ensure the required coal quantities were delivered on time. It is important to note that, at the time, three coal vessels were already entered to Sri Lanka's unloading | Should get the prior approvals from the relevant authorities before proceed. |

nominated supplier had started to supply of coal on 27 January 2024 before the date of approvals.

anchorage, arranged by BSC. As the assignee of BSC, Potencia LLC assumed responsibility for supplying the remaining coal quantity under the contract. However, LCC did not act independently or authorize any payments without first obtaining the relevant legal and governmental approvals.

(v) Although the special Cabinet Appointed Procurement Committee (SCAPC) had not recommended to register Potencia LLC FZ as coal supplier, the legal opinion given to register above supplier even failure to fulfil requirements of submission of financial statements for previous three years, earn USD 150 million turnover in the year and minimum three years' experience for previous coal supplies.

Noted

Action should be taken to evaluate the prior qualifications & experience and capability of the supplier in each procurement.

(vi) Even though Potencia LLC FZ had been nominated by Black Sand Commodities LLC to supply balance quantity of coal in compliance with section 3.20 of bid document, such provisions had not been made available in the above clause to nominate third party.

LCC Followed the direction of AG's department given through the Ministry of Power.

The selection of suppliers must also comply with the bidding documents.

(vii) Potencia L.L.C. FZ had granted authority to its two Directors to act on behalf of their Company. However, the said Directors were the shareholders of the Company with 50:50 percent shareholdings from total no. of shares 100 amounting to AED 100,000 in rupee value of 8,840,000 (approximately) and the ownership of the Company (Potencia L.L.C) had been entitled to the above two Directors, who were Sri Lankan nationals. This situation was contentious in nature.

Please refer the above answer (ii), we have also formally requested, via email, clarification and an explanation regarding the said query for further verification and transparency.

Should evaluate the qualifications of the each and every supplier in accordance with the each bidding document.

(b) The Company had invited to bidders to submit the bids on or before 02 April 2024 to supply 2,250,000 MT coal for the season 2024/2025 and 2025/2026.

Six bids were received before 02 April 2024. As per the SCAPC decisions, bidding period had been extended up to 08 July 2024 by four times. Further, current supplier- Potencia L.L.C. had submitted a proposal on same date of 08 July 2024 to supply 2,250,000 MT coal at rate of USD 121.82. Accordingly, Technical Evaluation Committee had recommended to award the contract to Adithya Birla Global Trading (Singapore) Pte Ltd to supply above quantity of coal at the rate of USD 135.59 without considering the proposal received from Potencia LLC. As per the cabinet decision on 05 August 2024, Sub Committee had been appointed to examine the above procurement process and to obtain the comprehensive report with its recommendations. Cabinet appointed Sub Committee had recommended to cancel the tender process invited on 20 February 2024 opened on 08 July 2024 for supplying of 2,250,000 MT coal as per the clause 2.7.1 of bid document and recommended to award tender to the current supplier Potencia L.L.C to supply the above quantity at the rate of USD 121.82 per MT. Noncompliances as per the procurement guideline and Manual 2006 were as follows;

- | | | |
|--|--|--|
| <p>(i) As per the paragraph 3.12 of procurement manual, prequalification is generally required for large and complex works, turnkey plants, private sector infrastructure projects, some special goods and complex information technology systems. However, the pre bid qualifications had not been submitted by Potencia LLC-FZ as per the requirement of above paragraph, although the selected supplier had been fulfilled above requirement.</p> | <p>Potencia LLC-FZ was assigned by Black Sands Commodities FZ-LLC due to sanctions imposed by the United States, stemming from the geopolitical situation at that time. All related actions were undertaken by the Lanka Coal Company (LCC) in line with the directives issued by the Line Ministry, based on approvals granted by the Cabinet of Ministers. The process adhered to due procedure, incorporating guidance from the Attorney General's Department and recommendations from the Cabinet Sub-Committee appointed by the Cabinet of Ministers. Therefore, any lapses noted in this observation will be taken into account and addressed in future procurement processes.</p> | <p>Should be complied with the provision in the National Procurement Guideline and Manual.</p> |
| <p>(ii) As per the paragraph 5.3.11 (a), a bid security in the prescribed format must be submitted by all the bidders. However, Potencia LLC-FZ had not submitted the bid security for the supply of Coal 2,250,000 MT amounting to USD 2,740,950 at FOB rate of USD 94.82 per MT and based freight of USD 27 per MT.</p> | <p>Potencia did not participate in the tender process, as they are not a registered supplier. Despite this, they submitted a proposal directly to the Ministry. Since Potencia was not involved in the official tender process, we cannot require them to provide or retain bid security. Therefore, all matters related to their proposal are being handled solely by the Ministry and the Cabinet of Ministers.</p> | <p>Should be complied with the provision in the National Procurement Guideline and Manual.</p> |
| <p>(iii) As per the paragraph 5.4.10 (c), Performance security in an appropriate amount of not less than 10 percent of the estimated contract sum may also cover warranty obligations. However, the Company had not obtained the performance security equivalent to the 10 percent from the total contract value. Further, at the inception, performance security had been covered by the Company against to the payable of previous supplies to Potencia LLC-FZ (i.e the cash deposit taken from the previous</p> | <p>Given below the breakup of available funds against Performance security USD 27,409,500.00</p> | <p>Should be complied with the provision in the National Procurement Guideline and Manual.</p> |

supplier as bid security, payable to Black Sand Commodities for returning due to sanction issue and the value equivalents to be settled the last three or four shipments supplied by Potencia LLC).

Funds Held for Performance Security		US\$
Using Performance Security		13,950,000.00
Funds retained due to sanction (10% of MT TANJUNTA DEPRESSION)		5,418,645.00
<u>Balance outstanding payments to be done - 2023/2024 Season</u>		
BY TANJUNTA	884,248.82	
BY BELA RING-IN	1,002,159.93	
BY GENGA	798,493.24	
BY PANGAREH	831,138.69	
BY TANJUNTA DEPRESSION	754,795.87	4,280,836.55
<u>Balance payments of 2024/2025 Season</u>		
BY BELA RING-IN	1,502,619.88	
BY TANJUNTA DEPRESSION	1,220,765.57	
BY BELA RING-IN	1,219,521.71	3,942,907.16
TOTAL AVAILABLE FUNDS FOR PERFORMANCE SECURITY		27,562,388.77

The performance security has been fully covered by the company, following the supplier's request letter and with the consent of the CEB.

Instead of settling the balance payments, the decision to hold the said funds as performance security is more economical for the company. This is because settling the balance payments would require obtaining a bank loan, which would incur additional financing costs

(iv) Potencia LLC-FZ who was existing supplier of supplying the balance quantity of coal under the LLC/prop/23/1 (Previous supply) had submitted proposal for supplying of 2,250,000 MT for the next season 2024/2025 and 2025/2026 at 121.82 USD per MT at the time of closing of extended bidding time period on 08 July 2024. However, the TEC had evaluated 06 bids without evaluating the above proposal. Further, Cabinet appointed subcommittee had evaluated the lowest substantive bid submitted by Adithya Birla Global Trading Singapore selected through the bidding process with the proposal submitted by Potencia LLC-FZ. However, price of the coal submitted by bidding procedure and proposals had been evaluated contrary to the one of procurement principle of integrity as per the procurement guideline.

We have acted in accordance with the directions provided by the Line Ministry, based on the recommendations of the Cabinet-appointed Sub-Committee and the subsequent Cabinet decision

Should be complied with the provision in the National Procurement Guideline and Manual.

(v) The Company had cancelled the above evaluated term procurement due to higher unit price of coal in lowest bidder comparing with existing supplier's unit price of coal and existing supplier who is unregistered supplier in the Company had been selected based on their price proposal as per the recommendation given by the cabinet appointed subcommittee. However, the procurement had been awarded to the existing supplier without recalling the bids for above procurement

We have acted in accordance with the directions provided by the Line Ministry, based on the recommendations of the Cabinet-appointed Sub-Committee and the subsequent Cabinet decision. Should be complied with the provision in the National Procurement Guideline and Manual.

(vi) The Company had made the payments to the coal suppliers by using the method of Letter of Credit (LC) as per the previous bid documents. Subsequently, payments had been made via other payment methods i.e differed payment/ the non-resident rupee account (NRRA)/Escrow/Sri Lankan rupee (LKR) or any other payment modalities and payment terms, by deviating from the procurement guidelines based on the approval given by the cabinet memorandum dated on 21 November 2022 due to the urgent and exceptional situation instead of the letter of credit. Accordingly, the Company had made the payments to the suppliers via Telegraphic Transfer (TT) method continuously based on the above cabinet approval. However, the Company had not paid their attention to the highly secured payment method such as LC other than TT which is not secured method comparing to the LC method, since a fully guarantee is received from the bank under the LC method than the TT.

Noted. While the Letter of Credit (LC) method offers security to both the supplier and the buyer, it should be noted that the Telegraphic Transfer (TT) payment method is more secure and cost-effective for the buyer. This is Should be complied with the provision of the National Procurement Guideline and Manual as the LC method is more secure, especially in international trade scenarios.

LC CHARGES PER SEASON

LC- Char ges	B O C	LC commis sion per 1st Quarter	Per Ship ment	Total ship ment s	Total Commi ssion USD
			57,4		
LC- SIGHT		57,458 .94	58.9 4	38	2,183, 439.72
TOTAL LC COMMISION FOR SEASONS USD					2,183,4 39. 72

TELEGRAFIC TRANFER CHARGES FOR SEASON

	Per Shipm ent	Tot al shi pm ent s	Total Commi ssion USD
TT Charges	81.01	38	3,078.38
TOTAL T.T COMMISION FOR SEASONS USD			3,078.38

further detailed in the following table.

Accordingly, the TT payment method offers greater advantages compared to the LC payment method.

- (vii) Even though the coal price was reduced than the price of selected lowest bidder, sufficient appropriate evidence and information were not made available to the audit regarding to the efficiency of coal based energy generation comparing with previous coal supply and current coal supply up to the date of audit (31 May 2024) to assess the efficiency and quality of coal.
- The required coal specifications for the Lakvijaya Power Plant are clearly stipulated in the Bid Document. In cases where the supplied coal deviates from the specified standards, there are seven key parameters for which quality and quantity-based price adjustments are applied. These parameters and their respective adjustment formulas are detailed in the bid document. Therefore, even if the coal originates from a different region, any deviation in quality will be addressed through the price adjustment mechanism based on the actual quality supplied. Therefore, there is no price difference due to the change in the source of supply, as the pricing mechanism accounts for variations in quality regardless.
- Should carry out the testing on coal to assess efficiency and quality of coal. And such documentary evidence should be submitted to the audit.