

LECO Projects (Private) Limited - 2020

1 Financial Statements

1.1 Opinion

The audit of the financial statements of the LECO Projects (Private) Limited for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit and loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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 (Audit Scope) 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 2.1, which indicates that the Company discontinued its core business activity of providing infrastructure facilities for electricity distribution during the financial year 2013. The Company has recorded a cumulative loss as at 31 December 2020 amounting to Rs. 25,633,704 (2019 – Rs. 26,009,910) and the Company made a profit before tax during the year amounting to Rs. 427,507 (2019 – Profit before tax Rs. 141,146). The Company has a negative net assets position as at 31 December 2020 amounting to Rs. 632,704 (2019 – Rs. 1,008,910) and net current liability position as at 31 December 2020 amounting to Rs. 632,704 (2019 – Rs. 1,008,910). Further Company's net assets are less than half of its stated capital resulting in a serious loss of capital situation in terms of section 220 of the Companies Act No. 07 of 2007.

Given the fact that the company discontinued its core business since 2013, material uncertainty exists as at the reporting date which may cast a doubt upon the entity's ability to continue as a going concern. However the Company's parent, Lanka Electricity Company (Private) Limited provide adequate financial support which has enable the company to continue as 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.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 376,206 and the corresponding profit in the preceding year amounted to Rs. 141,146. Therefore, an improvement amounting to Rs. 235,060 of the financial result was observed. The main reason for the improvement is receiving of debtor balance which was previously write-off.

3. Operational Review

3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| ----- | ----- | ----- |
| The share capital of the company as at 31 December 2020 was Rs. 25,001,000 and the total share capital had been invested by Lanka Electricity Company (Private) Limited. The Company had launched the pole manufacturing project in 2012. However the Company had stopped producing the electricity poles due to failure | The Company started the business in 2008. From 2008 to 2011, the company recorded profits. But due to certain technical failures the pole production was unsuccessful. As a result, from 2012 to 2015, the Company made losses. After year 2016 the management decided to | Appropriate actions should be taken by the Board of Directors regarding the operations of the Company. |

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|--|--------------------------------|
| in quality inspection and the Company had recorded a cumulative loss of Rs. 25,633,704 as at 31 December 2020. No any operation was observed for past few years and the management had not taken effective action to operate the Company. | undertake small jobs to wipe out the losses and few small jobs were taken to mitigate accumulative losses. However at present the Company maintains a small profit to operate the business activities as an entity and the above scenarios resulted in accumulated retained loss of Rs. 25,633,704.00. | |

3.2 Idle or underutilized Property, Plant and Equipment -----

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|---|---|
| The cost of Property, Plant and Equipment as at 31 December 2020 was Rs. 5,159,044 and all of these assets were idled since 2013. | Since we have no operations, these assets are not utilized, but all these assets are fully depreciated. | The useful lifetime of the assets should be reassessed and used in operations of the company. |

4. Accountability and Good Governance -----

4.1 Tabling the Annual Report -----

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|--|---|--|
| Annual Report had not been tabled in the parliament as per Public Enterprise Circular No. PED/12 dated 02 June 2003. | Management comment had not been received. | Actions should be taken to table the annual reports in parliament as required by the circular. |

4.2 Corporate Plan -----

| Audit Issue ----- | Management Comment ----- | Recommendation ----- |
|---|---|--|
| As per the Public Enterprises Circular No. PED/12 issued on 02 June 2003 paragraph No. 5.1; a Corporate Plan incorporates strategies regarding the future direction of the enterprise. The Company had failed to comply with the requirement. | Management comment had not been received. | The Company should comply with the provisions in the circular. |