LECO Projects (Private) Limited - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the LECO Projects (Private) Limited 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 or 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 1.6 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 1.6 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 Material Uncertainty related to Going Concern

I draw attention to Note No. 2.1 to the financial statements, which describes that the Company discontinued its core business activity of providing infrastructure facilities for electricity distribution during the financial year 2013. As disclosed in the note, the Company has incurred a cumulative loss of Rs. 18,982,129 as at 31 December 2024 (2023 – Rs. 20,498,361) and recorded a profit before tax during the year amounting to Rs. 1,516,232 (2023 – loss before tax of Rs. 2,014,248). Although the Company has reported a positive net asset position of Rs. 6,018,871 as at 31 December 2024 (2023 – Rs. 4,502,639), its net assets remain less than half of its stated capital, indicating a serious loss of capital situation as defined under Section 220 of the Companies Act No. 07 of 2007. These conditions, along with the discontinuation of its core business activity, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. However, as disclosed in the same note company's parent Lanka Electricity Company (Private) Limited, provide adequate financial support which has enabled 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 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

1.6.1 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
According to the paragraph 09 of the LKAS 2, inventories shall be measured at the lower of cost or net realizable value. However, raw materials and finished goods stocks of Rs.4,827,898 and Rs.6,729,463 respectively had been measured on cost, without taking into consideration of net realizable value of the stocks. Further, physical stock verification was not conducted for raw materials and finished goods during the year under review.	The auditor's observations have been duly acknowledged. In accordance with the resolution passed by the Board of Directors during the meeting held on 9 May 2025, a Board of Survey (BOS) committee will be appointed to verify and report on the assets, inventories, and stock items owned by LECO	Ensure inventories are valued at the lower of cost or net realizable value in line with LKAS 2 and conduct regular physical stock verifications to ensure accuracy and compliance.

	Project Private Limited. Subsequent actions will be implemented accordingly.	

1.6.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Fully depreciated assets had been transferred to the warehouses of the Lanka Electricity Company (LECO) and premises of the ANTE LECO Metering Company (Pvt) Ltd. However, the cost of property, plant and equipment and accumulated depreciation of Rs.5,159,044, had not been removed from the books of Account.	The Auditor's observations have been acknowledged. The disposal process will be carried out efficiently and in compliance with all relevant regulations.	Should remove assets disposed from the books in a timely manner to ensure accurate presentation of property, plant, and equipment in the financial statements, in accordance with accounting standards.
(b)	Withholding tax receivable amounting to Rs. 106,134 had been incorrectly classified as finance cost instead of being recognized as a receivable for the year under review. As a result, finance cost had been overstated, and trade and other receivables had been understated by the similar amount as at 31 December 2024. Consequently, the profit for the period was understated	The amount was incorrectly recorded as an expense instead of being classified as a current asset. Immediate corrective action is being taken to correct this misclassification.	Reclassify the withholding tax receivable to the correct account and proper review process should be in place to ensure accuracy of financial reporting.

1.6.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Company discontinued its core business activity of providing infrastructure facilities for electricity distribution during the financial year 2013, the Company has incurred a cumulative loss of Rs. 18,982,129 as at 31 December 2024 comparing to cumulative loss of Rs.20,498,361 for year 2023 which resulted to decrease the cumulative loss by Rs. 1,516,232 due to profit earned from finance income by the	The Board of Director has deliberated on this matter extensively. As a permanent resolution to this deviation, and in accordance with the resolution passed on 9 May 2025, the company is currently undergoing the winding-up process.	The Board should evaluate the Company's financial position and take necessary action under Section 220 of the Companies Act, such as restructuring or winding up. An action plan should be developed to address the capital deficiency,

company. Although the Company has reported a positive net asset position of Rs. 6,018,871 as at 31 December 2024 comparing to the amount of Rs. 4,502,639 in year 2023, its net assets remain less than half of its stated capital, indicating a serious loss of capital situation as defined under Section 220 of the Companies Act No. 07 of 2007. These conditions, along with the discontinuation of its core business activity, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.	Necessary measures will be promptly implemented to ensure compliance and facilitate an orderly dissolution.	ensuring compliance with statutory requirements and seeking professional advice where necessary.

1.7 Accounts Receivable

Audit Issue	Management Comment	Recommendation
Trade and Other Receivables amounting to Rs.9, 454,718 as at 31 December 2024 were in outstanding for long period. Out of that Rs. 7,412,245 (approximately 78%) was receivable from external (others) parties. However, name list of debtors, age analysis, supporting documents and source evidence were not maintained by the company and as such company is unable to initiate the recovery process. Lack of a proper document management and retention system and inadequate monitoring of documentation requirements reflects the weakness internal controls over documentation.	The Auditor's observations have been acknowledged, and necessary measures to clarify and identify the debtors will be completed during the company's winding-up process.	An immediate action should be taken to recover all the outstanding receivable balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 220 of the Companies Act, No. 07 of 2007	According to this section, when a company's net assets fall below 50% of its stated capital, the board shall call an extraordinary general meeting to	The Board of Director has deliberated on this matter extensively. As a permanent resolution to this deviation, and in	The Board should immediately convene an Extraordinary General Meeting as required under the

fulfil the requirements of the company act. Although, the Company's net assets remained below the required level, no such meeting was held. Moreover, although the Company discontinued its core business operations in 2013 and discontinued the non-core operation activities in 2023, no action have been taken to wind up the Company for over one year period.	accordance with the resolution passed on 9 May 2025, the company is currently undergoing the winding-up process. Necessary measures will be promptly implemented to ensure compliance and facilitate an orderly dissolution.	Companies Act, assess the Company's financial position, and decide on appropriate measures such as capital restructuring or winding up.

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1.5 million and the corresponding loss in the preceding year amounted to Rs. 2 million. Therefore, an improvement amounting to Rs. 3.5 million of the financial result was observed. The main reason for the improvement is the absence of all operational activities, eliminated the gross loss incurred in the prior year.

2.1.1 Ratio Analysis

a) Current ratio of the company had increased from 1.2 to 1.3 with compared to the preceding year.

b) Return on Equity had increased from (44.7) per cent to 25.2 per cent when compared to preceding year due to eliminated the gross loss incurred by absence by of all operational activities.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Production of the electricity poles which is the main business of the company, had been stopped by the company due to failure in quality inspection in the year 2013. Thereafter, the Company had not restarted producing the electrical poles by improving quality of the poles or identified any other suitable business up to the end of the year under review. Further, Company had recorded a	The main capital potion is (Rs.25, 000,000.00) related to the said pole contraction project, hence the related cumulative loss has also been recorded. Further, actions will be implemented early.	Management should take an appropriate decision on loss making company.

cumulative loss of Rs. 18.98 million as at 31 December 2024.

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 2024 was Rs. 5.2 million and all of these assets were idled since 2013.	All these assets have Zero written-down value and were send to Waskaduwa central stores for storage	An appropriate decision should be taken on idle assets..

4. Accountability and Good Governance

4.1 Corporate Plan & Annual Action Plan

Audit Issue	Management Comment	Recommendation
Strategic plan, Action plan and Procurement plan for the year under review were not forwarded for audit.	Report s will be submitted in due course.	Strategic plan, Action plan and Procurement plan should be forwarded for audit.