

## **LECO Projects (Private) Limited - 2022**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the LECO Projects (Private) Limited (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 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 2022, 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 Uncertainties Relating to Going Concern**

Without qualifying my opinion, I draw attention to Note 2.1 to the financial statements.

#### **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 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 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 Observations on the preparation of Financial Statements

### 1.6.1 Documentary Evidences not made available for Audit

Item	Amount (Rs)	Evidence not available	Management Comment	Recommendation
(a) Inventory	11.6 million	Inventory verification reports.	The inventory balances as at 31.12.2022 was Rs 11.6 million and the list of inventory items are submitted to you for necessary audit purpose. These inventory items comprise of raw materials and finished poles (quality failed) and those are stored at Bandaragama and Peliyagoda premises. LPL had no staff and no other way to verify these materials but somehow we will take steps to verify the materials in future with at least the support of LECO staff.	1) Annual stock verification should be carried out. 2) Resources of the organization should be utilized to get the maximum benefits.
(b) Property, Plant and Equipment	5.2 million	Fixed assets verification reports.	Cost of Property Plant and Equipment as at 31.12.2022 is Rs 5.2 million and the fixed asset register in excel format already submitted to you for audit information. These assets such as loose tools, plant and machinery are stored at Bandaragama premises. Molds are corroded now and dumped at Waskaduwa stores. LECO Projects (Pvt) Limited (here after called LPL) has no staff and no other facilities to verify frequently and we look forward to cover the verification with other staff of LECO and do needful.	Action should be taken to carry out annual Board of Survey.

## 1.6.2 Receivables

<b>Audit issue</b>	<b>Management Comment</b>	<b>Recommendations</b>
Long outstanding Trade and other receivable balance as at 31 December 2022 was Rs 9.3 million. Even though Company had identified Rs 1.5 million and Rs 0.3 million as receivables from Ceylon Electricity Board (CEB) and the Lanka Electricity Company (pvt) Ltd respectively, those entities had not recorded as payables in their Financial Statements.	We have taken utmost efforts to recover CEB dues even after long time and we have made a discussion with DGM/ CEB Ratnapura last August 2022. As a result of that CEB agreed to measure the constructed lines.	Action should be taken to recover the long outstanding receivables.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a Profit of Rs. 7.5 million and the Loss in the preceding year amounted to Rs. 0.3 million. Therefore an improvement amounting to Rs. 7.8 million of the financial result was observed. The main reason for the improvement is recognition of income from solid waste management project for the year under review.

### 2.2 Ratio Analysis

Current ratio of the Company had increased from 0.89 to 1.25 with compared to the preceding year.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Producing electricity poles was one of the main businesses of LECO Projects (pvt) limited. In 2013 the Company had stopped producing the electricity poles due to failure in quality inspection. 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 cumulative loss of Rs. 18.5 million as at 31 December 2022.	The Management decided to undertake new projects from outside the LECO and we have identified two major projects to commence in 2024. Therefore, we have prepared budget and action plan for the year 2024.	Action should be taken to restart poles production by improving quality or identify any other suitable business.

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

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The cost of Property, Plant and Equipment as at 31 December 2022 was Rs. 5.2 million and all of these assets were idled since 2013.	Assets such as loose tools, plant and machinery are stored at Bandaragama premises. Molds are corroded now and dumped at Waskaduwa stores.	Resources of the organization should be utilized to get the maximum benefits.