

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 2021 comprising the statement of financial position as at 31 December 2021 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 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 Uncertainties Relating to Going Concern

Without qualifying my opinion, I draw attention to Note 2.1 of 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 Audit Scope (Auditors Responsibilities for the Audit of the Financial Statement)

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
Inventory	12,141,603	Inventory verification reports.	<p>The inventory balance as at 31 December 2021 was Rs. 12,141,603. However, the inventory verification report as at 31 December 2021 had not been presented for audit.</p> <p>Since there was no operation, We made provision for impairment under the instruction of earlier Auditor. Impairment of Inventories Rs.12,141,063. There is a calculation of impairment which was provided to you on 26.05.2022. The stock that has been impaired is not used but is in our Bandaragama premises.</p>	<p>1) Annual stock verification should be carried out.</p> <p>2) Resources of the organization should be utilized to get the maximum benefits.</p>
Property, Plant and Equipment	5,159,044	Fixed assets verification reports.	<p>The Cost of Property, Plant and Equipment as at 31 December 2021 was Rs. 5,159,044 and all of these were idled since 2013. Further, the fixed assets verification report as at 31 December 2021 had not been provided to audit.</p>	<p>1) Actions should be taken to carry out annual board of survey.</p> <p>2) Resources of the organization should be utilized to get the maximum benefits.</p>

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 328,912 and the corresponding profit in the preceding year amounted to Rs. 376,206. Therefore a deterioration amounting to Rs. 705,118 of the financial result was observed. The main reasons for the deterioration are increase in administration expenses and no other income for the year under review.

2.2 Ratio Analysis

Current ratio of the Company had decreased from 0.93 to 0.89 with compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The share capital of the company as at 31 December 2021 was Rs.25,001,000. Out of the total share capital Rs. 25,000,000 is related to the project of producing electricity poles which invested by Lanka Electricity Company (Private) Limited in 2012. In 2013 the Company had stopped producing the electricity poles due to failure in quality inspection and the Company had recorded a cumulative loss of Rs.25,962,616 as at 31 December 2021. However, no any operation had recorded for past few years and the year under review. Further, the business plan/proposal of the Company was not provided for audit.

Management Comment

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 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 25,962,616. Further, Company has undertaken a Special project called Solid waste Management Project in 2022 which costs Rs. 28.34 million and expects a profit of Rs. 6.5 million to mitigate the cumulative loss.

Recommendation

- 1) Action should be taken to improve the quality of electricity poles to achieve the objective of the organization.
- 2) Investment should be carried out with proper evaluation.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue

The cost of Property, Plant and Equipment as at 31 December

Management Comment

Since we have no operations, these assets are not utilized, but all these

Recommendation

Resources of the organization should

2021 was Rs. 5,159,044 and assets are fully depreciated. all of these assets were idled since 2013.

be utilized to get the maximum benefits.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Even though the Accounts should be rendered to the Auditor General within 60 days after the end of the financial year, the Company was unable to comply with that requirement as per Public Enterprise Circular No. PED/12 dated on 02 June 2003.	Management comment had not been received.	Should be complied with the provisions of the circular.

4.2 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.	LECO Projects (Private) Limited is a fully owned subsidiary of Lanka Electricity Company (Private) Limited with 100% Share Ownership. Therefore, the financial statement of LECO Projects (Private) Limited is amalgamated in Lanka Electricity Company (Private) Limited's consolidated financial statements and declared in the annual Report.	Should be complied with the provisions of the circular.

4.3 Corporate Plan

Audit Issue	Management Comment	Recommendation
As per the paragraph No. 5.1; of Public Enterprises Circular No. PED/12 issued on 02 June 2003, 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.	Should be complied with the provisions of the circular.