

LECO Projects (Private) Limited - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the LECO Projects (Private) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 reported 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting.

1.2 Basis for 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 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 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.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit issue	Management Comment	Recommendation
Withholding tax amounting to Rs.0.16 million had not been presented in the financial statements of the company for the year under review. As a result of this, finance income and trade and other receivables had been understated by same amount as at 31 December 2023.	Agreed with the Auditor's observations and remedial action will be arranged in due course.	Action should be taken to prepare financial statements correctly.

1.6.2 Documentary Evidences not made available for Audit

Item	Amount (Rs)	Evidence not available	Management Comment	Recommendation
The property, plant and equipment	5.2 million	Fixed assets verification report.	All these assets have Zero written-down value and were send to Waskaduwa central stores for storage.	Action should be taken to carryout annual board of survey to verify the physical existence.

1.6.3 Receivables

Audit issue	Management Comment	Recommendations
Trade and other receivable balance as at 31 December 2023 was Rs 9.47 million. Out of that balance Rs 9.41 million had been remained outstanding for over 5 years. It was observed that Company had not been taken sufficient actions to recover the debtors. Nevertheless Impairment of Rs 9.35 million had been made for above over five year balance.	Agreed with the Audit comment and relevant actions will be implemented in due course.	Action should be taken to recover receivable balance.

1.7 Non- compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc	Non- compliance	Management Comment	Recommendation
Section 52 of Article of the Association	A general meeting should be held by the company in each calendar year after not less than six months after the balance sheet date. However it was observed that company had not held annual general meeting in recent years.	Agreed with the audit observations, arrangements have already been made to hold regular Annual General Meetings as per the conventional procedures from the year 2024.	Action should be taken to held Annual General Meeting as per section 52 of Article of the Association

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 2.01 million and the corresponding Profit in the preceding year amounted to Rs.7.47 million. Therefore, a deterioration amounting to Rs. 9.49 million of the financial result was observed. The reasons for the deterioration were no other income in current year, increase of administrative expenses, decrease of finance income and material cost had increased due to unfavorable economic conditions.

2.2 Ratio Analysis

- a) Current ratio of the company had deteriorated from 1.25 to 1.20 with compared to the preceding year.
- b) Gross profit/ (loss) ratio of the company had deteriorated from 14.53% to (70%) with compared to the preceding year.
- c) Net profit/ (loss) ratio of the company had deteriorated from 26.3 % to (32.6 %) with compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

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 cumulative loss of Rs. 20.5 million as at 31 December 2023.

Management Comment

The main capital portion 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.

Recommendation

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

Audit Issue

The cost of Property, Plant and Equipment as at 31 December 2023 was Rs. 5.2 million and all of these assets were idled since 2013.

Management Comment

All these assets have Zero written-down value and were sent to Waskaduwa central stores for storage

Recommendation

Resources of the organization should be utilized to get maximum benefits.

4. Accountability and Good Governance

Audit Issue

Strategic plan, Action plan and Procurement plan for the year under review were not forwarded for audit.

Management Comment

Reports will be submitted in due course.

Recommendation

Strategic plan, Action plan and Procurement plan should be forwarded for audit.