

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 2025 comprising the statement of financial position as at 31 December 2025 and the statement of profit or loss or other comprehensive income, statement of changes in equity and statement of cash flow 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 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2025, 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 1.5 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 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.

1.4 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.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Contrary to the paragraph 09 of the LKAS 2, raw materials and finished goods stocks worth of Rs.4,827,898 and Rs.6,729,463 respectively had been measured at cost, without taking into consideration of lower of net realizable value or the cost of such stocks. However, physical stock verification had not been conducted for such stocks during the year under review.	Agreed with the comment. Management is currently investigating the reasons for the stock differences. However, it is likely that these items have deteriorated due to prolonged storage without usage. Please note that since a full impairment provision has already been made for the entire stock, these shortages will not have any impact on the current year's profit or retained earnings.	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.
(b) The financial statements recognize a current income tax expense of Rs.1,002,364 and an income tax payable of Rs.1,053,665, notwithstanding the availability of unrelieved tax losses brought forward amounting to Rs. 6,193,396 as at 31 December 2025. These losses were sufficient to fully offset the current year's statutory income of Rs. 962,823, and therefore no current income tax liability should have arisen for the year. The tax expense of Rs.1,002,364 recognized primarily relates to default charges and interest pertaining to prior periods, as	According to information provided by the Inland Revenue Department, including the RAMIS and legacy outstanding confirmations, the total tax liability including default charges and interest amounts to Rs. 1,053,666.42. The relevant provision has been made in the books for this liability.	Recognizing tax liabilities, account strengthen financial statement review procedures, and enhance internal controls over tax reporting.

confirmed by the Inland Revenue Department and it is contrary to the provision of LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This matter indicates weaknesses in the financial statement review process and raises concerns regarding the effectiveness of internal controls over financial reporting.

- | | | |
|--|--|--|
| <p>(c) A professional fee amounting to Rs.115,200 relating to the previous financial year (2024) had been charged to the current year Statement of Financial performance contrary to the provision of LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. resulting in an overstatement of expenses and an understatement of profit for the year ended 31 December 2025 by the similar amount.</p> | <p>Agreed with the comment and necessary precautionary measures will be taken for future transactions.</p> | <p>Prior period errors should be adjusted retrospective.</p> |
| <p>(d) An amount of Rs. 118,515 relating to services obtained for the measurement of scrap materials which invoiced during 2025, had not been recognized in the financial statements contrary to the requirement of LKAS 37. As a result, liabilities and expenses were understated by the similar amount as at 31 December 2025.</p> | <p>Agreed with the comment. Please note that although the invoice is dated 16 December 2025, it was received by us only in late February 2026. Therefore, it was not possible to record the relevant accrual entry at that time. Further, the cost could not be estimated accurately as reliable information was not available.</p> | <p>Management should identify all uninvoiced services at each reporting date and recorded in the financial statements.</p> |
| <p>(e) Fully depreciated assets with a cost of Rs. 5,159,044, together with the related accumulated depreciation of Rs. 5,159,044, had been transferred to the warehouses of Lanka Electricity Company (LECO) and the premises of ANTE LECO Metering Company (Pvt) Ltd. However, these assets had not been derecognized from the books of account as required by LKAS 16.</p> | <p>Agreed with the comment. Please note that these assets were damaged due to prolonged use and were subsequently transferred to the Waskaduwa warehouse for disposal. No assets were transferred to Lanka Electricity Company. As these assets have been fully depreciated, there will be no impact on the financial position of the Company.</p> | <p>Management should ensure that disposed assets are derecognized from the fixed assets register in a timely manner and that the Fixed Assets Register is updated & maintained accurately.</p> |

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The cash and cash equivalents balance disclosed in the Statement of Financial Position as at 31 December 2025 amounted to Rs. 19,686,766, whereas the corresponding balance reported in the Cash Flow Statement was Rs.19,543,736, resulting in an unreconciled difference of Rs. 143,030 between the two statements.	Agreed with the comment. Interest income received and movement of the investments in fixed deposits were not correctly recognized in the Cash flow statement.	Cash balances are reconciled and any discrepancies are identified and rectified prior to the finalization of the financial statement.
(b) The total unreconciled difference in related party balances amounted to Rs.1,884,984, comprising a difference of Rs.1,530,624 between the Company's receivable balance from Ceylon Electricity Board and the corresponding payable balance reported by the Ceylon Electricity Board, and a difference of Rs.354,360 between the Company's receivable balance from Lanka Electricity Company (Private) Limited (LECO) and the corresponding payable balance reported by LECO.	Agreed with the comment. Necessary adjustments will be made in the financial year 2026.	Related party balances should be reconciled. Balance confirmations are obtained and necessary adjustments are made to ensure accurate financial reporting.
(c) According to the audit calculation, the advance income tax for the current year amounted to Rs.161,984 whereas only Rs.145,271 has been recognized in the financial statements. As a result, advance income tax is understated by Rs.16,713 leading to a corresponding understatement of current assets and interest income for the year.	Please note that the correct AIT value is Rs. 159,438 and accordingly the amount understated is Rs.16,407. This will be adjusted in the current financial year.	Should be reconcile advance income tax records, recognize the correct tax credit, and strengthen review controls to ensure accurate financial reporting.

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Note No. 2.1 to the financial statements, 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.19,021,671	Comments have not given by management.	Management should assess the Company's going concern status, ensure compliance with the Companies Act, implement a sustainable business recovery plan, and obtain

as at 31 December 2025 and recorded a loss after tax of Rs.39,542 for the year then ended. Although the Company has reported a positive net asset position of Rs. 5,979,329 as at 31 December 2025, 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, the Company continues to receive financial support from its parent company, hence the Company prepares the financial statements on a going concern basis.

documented long-term financial support from the parent company to address financial sustainability.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Trade and Other Receivables amounting to Rs. 9,458,986 as at 31 December 2025 had remained outstanding for a prolonged period and were fully impaired. No recoveries had been made as of the reporting date due to detailed debtor records, age analyses, and supporting documentation were not adequately maintained, which limiting the Company's ability to effectively monitor and recover the outstanding balances.	Agreed with the comment. Necessary actions will be taken to ensure the required information is maintained and all outstanding balances are cleared.	Action should be taken to recover all the outstanding receivable balances.

1.7 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	Although the net assets of the company falls below 50 percent of its stated capital, the board had not been call an extraordinary general meeting as per the said section.	Comments have not given by management.	The Board should immediately convene an Extraordinary General Meeting as required under the Companies Act, assess the Company's financial position, and decide on appropriate measures such as capital restructuring or winding up.

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 39,542 (after tax) and the corresponding profit in the preceding year amounted to Rs. 1,516,232. Therefore, a deterioration amounting to Rs. 1,555,774 of the financial result was observed. The main reason for the deterioration is the charge of Rs. 1,002,364 as income tax expense in the current year, comparing to preceding year.

2.2 Ratio Analysis

- Current ratio of the company had decrease from 1.28 to 1.26 with compared to the preceding year.
- Return on Equity had decrease from 25.2 per cent to (0.66) per cent when compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Lanka Electricity Company (Pvt) Ltd (LECO) invested its entire stated capital of Rs. 25 million in the LECO Project. However, project management failed to adopt an appropriate business strategy by relying on per-unit manufacturing arrangements with existing concrete pole suppliers, who were also competitors serving the Ceylon Electricity Board (CEB) and Telecom. Management did not adequately assess the competitive market environment or the	Noted. Management is reviewing the company's existing operations and will decide whether to continue the business or cease operations and proceed with winding up the company.	Action should be taken to review the project's strategic decisions, strengthen project governance, and implement measures to prevent similar investment failures.
---	--	---

suppliers' conflicting interests. Consequently, technically defective poles were supplied and subsequently rejected by CEB and Telecom. This strategic failure resulted in the project becoming commercially unviable, causing the complete loss of the company's investment of Rs. 25 million.

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 presented for audit.	Report s will be submitted in due course.	Strategic plan, Action plan and Procurement plan should be prepared on a timely basis.