

Lakdiva Engineering Company (Pvt) Ltd -2018

1.1 Disclaimer of Opinion

The audit of financial statements of the Lakdiva Engineering (Pvt) Ltd (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements and 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.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

- (i) A Register of Fixed Assets had not been maintained by the company. Fixed Assets worth Rs. 8,290,423 as at 01 January 2018 had not been identified and accounted. Further, the assets worth of Rs.9,290,003 bought from 2016 had been accounted as fixed assets without being categorized under nature of the assets in the main ledger
- (ii) The Company had not conducted physical verification on physical stock as at 31 December 2018. By even using alternative methods, the audit could not satisfy itself with the accuracy of the stock worth Rs. 38,470,575 remained by that day.
- (iii) It was also observed that the company had not been registered for Income Tax, Nation Building Tax and Value Added tax .

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 Public Sector Accounting Standard 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 matters related to going concern and using the

going concern basis of accounting unless management either intends 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 sub 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 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My responsibility is to conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| Although the investment of fixed deposits in the year is Rs.2000, 000, Rs.3,641,432 had been mentioned under investment activities in the cash flow statement as | This wrong accounting method has been corrected again and account statements forwarded. | The answer cannot be accepted. Actions should be taken to correct the relevant accounting errors. |

cash outflow. Accordingly, Rs.1641.432 of cash outflow had been overstated under investment activities. Further, Rs.360,943 of interest income not received in cash, had been stated as cash receivables under investment activities in cash flow statement

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

| Reference to laws, rules ,regulations | Non- Compliance | Comments of the Management | Recommendation |
|---|---|-----------------------------------|---|
| National Environmental Act, No.47 of 1980 as amended by Acts, No. 56 of 1988 and No.53 of 2000; | A license should be obtained by the institutions involved in servicing vehicles. However, such a license had not been obtained by the Company even up to 22 November 2019, the date of audit. | Answer not given | Should act in such a way that fulfils the requirements of the relevant environmental Acts |

2. Financial Review

2.1 Financial Results

The financial result of the Company for the year under review was a surplus of Rs. 23,778,392 as compared with the corresponding surplus of Rs. 14,667,560 for the preceding year, thus indicating an improvement of Rs. 9,100,832. The increase in the income had mainly been attributed to improvement of income from the repairs on busses amounting to Rs. 38,012,938 the said improvement.

3. Operating Review

3.1 Management inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| (i) The Company was maintained at a land in extent of 23 acres located in Ekala, Jaela and the company does not hold the ownership of this land as well while it has not entered into a lease agreement or any other legal agreement with the owner of the land. | Will follow the correct procedure in future | Should ensure the legality of the property |
| (ii) In the instance of a bus coming for a repair, although the Engineering Division should prepare a full estimate and check the variations while the work is in progress and after the completion of the work, the engineering division had not prepared estimates or check the variations for the year 2018. | Will follow the correct procedure in future | Management should ensure that a proper Procurement procedure is followed. |

3.2 Operating Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|-----------------------------------|-----------------------|
| ----- | ----- | ----- |
| Rs. 77.96 million and Rs. 128.74 million had been stated in 2018 financial statements respectively as cost of sale and income. The | | |

following facts were observed in the performance appraisal of it.

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|---|---|---|
| <p>(i) In the instance a bus is brought to the company for repairing, It was observed that although a proper document should have been maintained by the Engineering Division; such a book had not been maintained. Therefore it was not possible for the audit to confirm the facts such as how long it took to complete the repairs of busses in 2018 and the date of completion of repairs and how long those busses were kept in each division. It was observed that the internal control regarding this remained weak.</p> | <p>Will follow the correct procedure in future.</p> | <p>Should properly manage the time periods of Relevant Works</p> |
| <p>(ii) Although 12 companies had been registered with the Company in 2018 for repairing busses the audit could not confirm the number of members required to determine the experience of such companies and the fields they were belonging to. Furthermore, for repairing buses in 2018 Rs. 4.82 million had been paid to contractors without following any procurement procedure.</p> | <p>Will follow the correct procedure in future</p> | <p>should properly As per section 4.2 manage the awarding of labour Contracts by following correct Procedures</p> |

3.3 Procurement Management

Reference to Laws, Rules, and Regulations, etc.

Comments of the Management

Recommendation

(i) As per section 3.2 of Procurement Guidelines-2006, aluminium sheets worth Rs.9,104,750 had been purchased in the year under review from a private company and this had been done without calling for and evaluating National Competitive Bids.

No answer has been given

Should be purchased as per allocation in Procurement Guidelines

(ii) As per sections 3.4.3, although a list of names of suppliers should have been registered for procurement of items of small value or for purchases of items used frequently, for which advertising may be uneconomical, no such step had been taken.

No answer has been given

Should take action to annually register the suppliers

(iii) As per section 4.2, no action had been taken to prepare a Master Procurement Plan and Procurement Time Schedule.

No answer has been given

Procurement Plan and Procurement Time Schedule should be prepared annually and approved and implemented.

4. **Accountability and Good Governance**

4.1 **presentation of Financial Statements**

| Audit Observation | Comments of the Management | Recommendation |
|---|-----------------------------------|---|
| <p>In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the financial statements and the draft annual report for the year under review should be presented to the Audit within 60 days from the closure of the year of accounts. However, the financial statements of the year 2018 had been presented on 18 November 2019 after a delay of 08 months and 20 days.</p> | <p>No answer has been given</p> | <p>Actions should be taken to present the Financial Statements on due date as per provisions in Financial Statement circulars</p> |