

Expressway Transport Company (PVT) Ltd. - 2015

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Expressway Transport Company (PVT) Ltd. for the nine months period ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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, 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 to 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.

Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial position of the Company as at 31 December 2015, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the nine months period in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Disclaimer Opinion

My opinion is disclaimed 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 insufficient to provide a basis for an 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 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.

1.5 Audit observation on the preparation of financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Authority is 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.

Audit Issue	Management Comment	Recommendation
<p>a. As per the financial statements of the company, the total revenue for the period of 9 months ending 31 December 2015 was Rs. 78.5 million. However, out of that Rs. 28.8 million had only been get confirmed on through source document - “passengers handing over sheets to the busses” (ETC sheets) .However, duplicate of the tickets were not provided to audit to verify the accuracy of those income. The remaining amount of income had been accounted through the bank deposits. Therefore the accuracy and completeness of the income was unable to confirm in audit.</p> <p>Further, the income accounted on bank deposits had been accounted on net basis deducting the expenses on fuel; commissions, toll charges and parking fees and evidence for those expenses were not made available for audit. Hence, the accuracy and completeness of the cost of sales was unable to confirm in audit</p>	<p>Agreed with the auditor's comment.</p>	<p>Income should be identified on gross basis and verified using its relevant source documents.</p>
<p>b. Even though the fuel charges for buses should exceed the toll gate charges on expressways, the total toll gate charges for the period under review was Rs. 7.92 million while the fuel charges was Rs. 4.84 million. Therefore the accuracy of recording transactions on expenditure could not be accepted.</p>	<p>Agreed with the auditor's comment.</p>	<p>Internal control should be strengthen on recording transaction</p>

Meanwhile, it was observed that in contrary to the Sri Lanka accounting standard no 01 income for the period under review had been identified in two basis.

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| c. | It was observed that the company had not maintained a real time updated ledger to enable to show the flow of transactions occurred for the period of 9 months ending 31 December 2015. | Agree with the auditor's opinion. | Ledger should be maintained to record transactions in daily basis. |
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1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
a. As per paragraph 36 of the Sri Lanka Accounting Standards No. 01, when an entity changes its reporting date in preparing financial statements the entity should disclose the reason for using such less or more period than one year period and should also be disclosed that the comparative figures are not completely comparable. Even though the company had changed the reporting period, those facts had not been disclosed in the financial statements.	Agree with the auditor's opinion.	Adhere to the Sri Lanka Accounting Standard.
b. In accordance with the paragraph 26 of Sri Lanka Financial Reporting Standards No. 16 - the financial lease liability and the assets which arisen from the lease should be identified as the present value of the lease payments. However the Company had not been identified its minimum lease liabilities and assets as per the standard requirement.	Agree with the auditor's opinion.	Adhere to the Sri Lanka Accounting Standard.
c. The note no 3.12(12) to the financial statements, it was stated that the defined benefit obligation can be identified in terms of present value at the reporting date but the company had not been complied with the standard.	Agree with the auditor's opinion.	Adhere to the Accounting policies prescribed by the Company.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Expenditures on salaries in the financial statement for the period under review had been overstated by Rs. 2.29 million since that expenditure were not relevant to the period and erroneously classified.	Agree with the auditor's opinion.	Transactions should be recorded with relevant period.

1.5.4 Documentary Evidences not made available for Audit.

Item	Amount (million)	Evidence not Available	Management Comment	Recommendation
(i) Expenditure	19.89	Payment vouchers	Agree with the auditor's comment.	Evidence should be furnished to auditors to verify transactions & balances.
(ii) Expenditure incurred for salary, Advance payment, loan given	1.99	Payrolls and registers	Do	Do
(iii) Purchasing tires, tubes, repair charges and Vehicle Rent and expenditure for fuel and insurance cost.	11.05	Supplier's invoices and insurance certificate	Do	Do
(iv) Central Bank- Treasury Current Account	10.86	Agreement, Board decision or any other document relating to the balance.	Do	Do

2. Financial Review

2.1 Financial Result

The operating result of the period under review amounted to a loss of Rs.15.13 million and the profit for the preceding equalant period amounted to Rs.21.64 million (Rs.28.85*3/4). Therefore an deterioration amounting to Rs.36.77 million of the financial result was observed. The main reasons for the deterioration of the operating result were decreased of revenue by Rs. 3.70 million and increased cost of sales by Rs.26.37 million compared with the preceding period after being adjusted in prorata basis.

2.2 Trend Analysis of major Income and Expenditure items

Item	For months 2015	nine in Adjusted to nine months	2014/15	Changes in percentage	Trend with the preceding year
Revenue	78,760,637	82,459,704	(4)	Decreased	
Cost of sales	70,455,661	44,082,356	60	Increased	
Administrative expenses	6,454,940	942,423	585	Increased	
Fuel for buses	4,843,111	36,656	13,112	Increased	
Bus repair charges	8,108,982	4,809,891	69	Increased	
Operation salaries	9,115,029	4,806,158	90	Increased	
Toll charges	7,916,200	4,450	237,090	Increased	

It was observed that in a situation of non-recording of all the transactions which belong to each period consistently and perfectly, it will be meaningless of analyzing trends with regard to the above items.

2.3 Ratio Analysis

	2015	2014/15
Current Assets Ratio	0.36	0.70
Gross Profit Ratio-percentage	10.54	46.54
Net Profit Ratio-percentage	(19.2)	21.9

Following observations were made.

- I. As per the Current Assets Ratio it was observed that the company had been insufficient working capital to pay off its short-term debt because it has a larger proportion of liabilities relative to the value of its current assets.
- II. Gross profit ratio had decreased by 36 percent and Net profit ratio had decreased by 41 Percent. It was observed that the decrease of revenue and increase of the cost of sales was the main reasons for such decrease of the gross profit.

However, an accurate calculations couldn't be done because of all the transactions had not been recorded. Therefore accuracy of those indications couldn't be confirmed.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
It was delayed more than five years to submit financial statements to the Auditor General	Comment not received	Financial statement should be submitted within stipulated time frame.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
Corporate Plan had not been prepared by the Company to cover the period under review.	Action will be taken to prepare these statements in future.	A corporate plan should be prepared.

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
An Internal Audit unit had not been established in the company to make strength internal controls and to oversight to procedures.	Comment not received	An Internal Audit unit should be established.

4.4 Audit Committee

Audit Issue	Management Comment	Recommendation
An audit committee had not been established as of the date of this report.	Comment not received	An audit committee should be established.

4.5 Budgetary Control

Audit Issue	Management Comment	Recommendation
An Annual Budget had not been prepared by the company to cover the period under review.	Comment not received	An Annual Budget should be prepared.