

MagaNeguma Emulsion Production Company (Pvt) Limited - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maga Neguma Emulsion Production Company (Pvt) Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 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 2019, 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 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.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Contrary to section 27 of the Sri Lanka Accounting Standard No. 01 Preparation and presentation of financial statements and the Conceptual Framework for Financial Reporting, the Company has recognized its interest income on a cash basis. As per the calculation made by the audit, the fixed deposit interest income was Rs. 8,864,145. However, as per the Financial Statements of the company, it was stated as Rs.22,305,946. Hence, the audit observed a difference of Rs. 13,441,801 between these two balances.	It will be very difficult to recognize the interest income on accrued basis.	As per the Standard an annual interest should be included on accrual basis.

1.5.3 Unauthorized Transactions

Audit Issue	Management Comment	Recommendation
Company has allocated a liability for dividend from 2008 to 2015 amounting to Rs. 29,765,787 without consent of Annual General Meetings. Even by 31 December 2019 this amount is shown in the financial position statement as current liability without being settled.	This provision is made required from Inland revenue department.	Provision on dividend can be made only after passing resolution at the AGM.

1.5.4 Accounting Policies

Audit Issue	Management Comment	Recommendation
The costs of fully depreciated assets amounting to Rs. 28,809,423 are still being used by the company. However, an action had not been taken to restate such fully depreciated assets in accordance with the Sri Lanka Accounting Standard no 08 Accounting Policies, Changes in Accounting Estimates and Errors or to revalue them in accordance with Sri Lanka accounting standard no 16 Property, Plant and Equipment.	Noted and Agreed.	Adhere to the provision of Standards regarding the accounting of fully depreciated assets.

1.5.5 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
According to section 5(1) of the Gratuity Act No. 12 of 1983, the Company should pay a gratuity equivalent to a half month's salary of last drawn for each year of completed service for each employee who have been completed 05 years of service. However company pays one month salary as their policy but that policy had not been approved by the Commissioner General of Labor. Therefore it was observed that a sum of Rs. 1,686,925 had been overpaid by exceeding the entitled gratuity amount.	As the Policy of company one month basic salary is used for provision.	Company should be adhered to the existing laws, rules and regulations.

1.5.6 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
It was observed that there was a long outstanding payable balance to a company amounting to Rs. 24,500,000 had remained without being settled for over six years as at 31 December 2021 and no information was made available for the audit in this regard	The company management has been taken decision to stop that outstanding payable until receive the judgment of the court case.	The company should produce all the required evidence to audit for verify the balance.

1.5.7. Accounts Receivable and Payable

Audit Issue	Management Comment	Recommendation
According to the financial statements submitted to the audit by the company as at 31 December 2019, the amount due from the Road Development Authority was Rs.5,861,611 .However as per the	The financial statements balance of Rs.5,861,611 is the correct balance and that amount has paid by Road Development Authority during the financial year 2020.	Reconciliation should be done periodically and necessary action should be taken.

financial statements of the Authority it was shown as Rs.8,290,154. Therefore, a difference of Rs.2,428,542 was observed between two balances and reconciliation also had not been made available in this regard. Further as per the financial statements of the company a sum of Rs.1,471,358 had been shown as payable to the Authority. However as per the financial statements of the Authority as of 31 December 2019, the amount due from Company for hire charges was Rs.471,358. Hence a difference of Rs.1,000,000 was observed between the two balances and reconciliation had not been made available in this regard.

The presented financial statements balance was Rs.1,471,358 is correct balance. The said Rs.1,000,000 is recorded as an unpaid loan in the company accounts up to date. It is informed that no proper documents have been received from RDA mentioning the said amount as an equity contribution by the RDA to this company and this subject was never discussed at any Board Meeting thereafter. Therefore the said amount has been recorded as an unpaid loan since year 2004.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a loss of Rs. 30,865,549 and the corresponding loss in the preceding year amounted to Rs. 75,767,179. Therefore an improvement amounting to Rs. 44,901,633 of the financial result was observed. The main reasons for the improvement of the operating result were reductions of personnel expenses, administration expenses and finance costs by 49, 38 and 59 percent respectively. However, the revenue for the year had decreased by 89 percent compared with the preceding year since The Road Development Authority had not placed orders to the company as the main buyer of the company.

2.2 Trend Analysis of major Income and Expenditure items

Item	Year 2018	Year 2019	Change	Percentage of the change
Revenue from selling emulsion	82,632,917	8,739,704	(73,893,213)	(89)
Cost of Sales	78,596,910	12,247,620	(66,349,290)	(84)
Other Income	15,332,290	22,416,541	7,084,251	46
Personnel Expenses	63,083,966	32,125,005	(30,958,961)	(49)
Administrative Expenses	7,450,694	4,641,467	(190,773)	(2)
Selling Distribution Costs	4,578,807	307,258	(4,271,549)	(93)
Finance Costs	10,819,741	4,463,998	(6,355,743)	(59)

Following observation is made.

Personnel expenditure was decreased since a voluntary retirement scheme had imposed by the company. However, interest income which was recorded under the other income had increased by 46 percent as the interest rates were considerably higher than the preceding year.

2.3 Ratio Analysis

	2019	2018
Current Assets Ratio	1.83	1.63
Quick Ratio	1.19	1.29
Gross Profit Ratio-percentage	(40)	4.9
Net Profit Ratio-percentage	(353)	(91.7)

Following observations are made.

- i. As per the Current Assets Ratio, it was observed that the company had been maintained slightly below the range of acceptable level and Quick Assets Ratio had been maintained within the Acceptable range by the company as at the reporting date.
- ii. The gross profit ratio and the net profit ratio had drastically deteriorated since the revenue of the company declined compared to the preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Financial and Administrative Framework had not been prepared with the consent of the Road Development Authority and the line Ministry.	Noted and action will be taken.	Financial and Administration Framework should be prepared.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
A sum of Rs. 1,000,000 had been transferred by the Road Development Authority in the year 2004 as capital contribution to the company as stated in the records of the Road Development Authority. However, shares had not been issued by the company to the Authority as at 31 December 2019 and it shows only as a long-term liability in the financial statements. However, the Road Development Authority has recorded it as an equity contribution to the company.	The said 1,000,000/= is recorded as an unpaid loan in the company accounts up to date.	The Authority and the company should be resolved the issue.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
Human Resources Plan including an appropriate cadre and recruitment and promotions scheme had not been approved and implemented by the Company.	An approved Human Resources Manual is available.	Approval for the cadre and the recruitment and promotions system should be obtained from all the relevant authorities.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Submission of financial statements of the company delayed in almost two years from the due date.	No comment	Financial Statements should be Submitted to Auditor General on or before the 28 February of the following year.

4.2 Audit Committee

Audit Issue	Management Comment	Recommendation
Audit Committee had not been established by the company.	Noted and action will be taken.	Action should be taken to established audit committee.

4.3 Budgetary Control

Audit Issue	Management Comment	Recommendation
Annual Budget had not been prepared by the Company.	We have prepared a report for the following year.	Annual Budget should be prepared.