Lakdiva Engineering Company (Pvt) Ltd - 2019

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lakdiva Engineering Company (Pvt) Ltd 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 and notes to financial statements for the year then ended 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 presented in Parliament appear in this report.

According to the matters described in Paragraph 1.5 of this report, I do not express an opinion on the Company.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 could not obtain sufficient and appropriate audit evidence to provide a basis for my disclaimed 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 determines 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 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 the Audit (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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.

- An understanding of internal control relevant to the audit was obtained in order to design 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. 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 relating to the Preparation of Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	The Company, having presented fixed deposits valued at Rs. 2,000,000 as securities, had taken action to obtain overdraft facilities whenever necessary over a period of 10 years. However, that had not been disclosed in the financial statements contrary to Sections (a) and (b) of the Standard relating to the disclosure of financial instruments.	Acknowledged.	Accounting standards should be followed.
b)	The Company had not maintained a Register of Fixed Assets. The value of Rs. 29,677,302 shown in the financial statements by the end of the year under review comprised the value of miscellaneous fixed assets purchased since the year 2016 totalling Rs. 21,386,870 and the assets taken over by the Company until then to the cost of Rs. 8,290,423. Accordingly, those assets had been included in the cost without being depreciated contrary to Section 43 of the Sri Lanka Accounting Standard 16, and depreciation had been adjusted only on the purchased assets mentioned above.	Acknowledged	The accounting standard should be followed.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
Of the value amounting to Rs. 11,718,487 debited to the buildings account in the year under review, a sum of Rs. 7,790,834 had been spent on repairing the roof of the factory. As such, expenses incurred on repairs in the year under review had been understated by that amount, and hence, profit of the year and the value of fixed assets had been overstated by the same amount.	The expenditure incurred on repairing the roof of the factory had been capitalized in terms of Accounting Standard 16 as doing so would increase the useful life of the building thus causing a higher production capacity.	Accounting process should be done in accordance with the Standards.

1.5.3 Non-reconciled Control Accounts or Reports

Item	Value as per Financial Statements	Value as per Corresponding Reports	Difference	Comment of the Management	Recommendation
	(Rs.)	(Rs.)	(Rs.)		
Cost of materials directly adjusted for computing the cost of sales.	90,956,033	74,353,774	16,602,259	The value of spare parts purchased in the year has been shown as Rs. 90,956,033 in the ledger. As for those spare parts, a sum of Rs. 74,353,774 had been incurred on the production of busses in that year. The balance amount is included in the closing stock.	Action should be taken to rectify the difference.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

	Reference to Laws, Rules, and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
a)	Section 23 (a) of the National Environmental Act, No. 47 of 1980 as amended by Act Nos. 56 of 1988 and 53 of 2000.	Institutions providing services for vehicles should obtain a license. However, the Company had not taken action even by the date of audit on 31 December 2020 to obtain such a license.	Not commented.	The Act should be followed.
b)	Section 60 of the Inland revenue Act, No. 24 of 2017.	A company is legally liable to pay taxes. However, it was observed that the Company had not taken measures to fulfill that requirement up to the date of audit on 31 December 2020.	Not commented.	The Act should be followed.
c)	Payment of Gratuity Act, No. 12 of 1983.	Gratuity should be paid within one month from the date of retirement of an officer. However, 05 instances were observed in which a sum of Rs. 2,628,852 had been paid after a delay ranging from 205 to 323 days.	Not commented.	The Act should be followed.
d)	Factories (Amendment) Act, No. 33 of 2000			
	(i.) Section 39 (1).	Fire exit points should be provided for the workers of the factory. However, it had not been so done.	Not replied.	The Act should be followed.
	(ii.) Section 42 a(1).	Every factory should be equipped with fire extinguishers compliant	Not commented.	The Act should be followed.

		with the relevant regulations. However, the Company had not followed any of those procedures.		
(iii.)	Section 50(1).	A standard first aid box should be maintained at an easily accessible location. But, the Company had not drawn their attention thereon.	Not replied.	The Act should be followed.
e)	Procurement Guidelines, 2006.			
(i.)	Guideline 3.2	Spare parts worth Rs. 18,710,513 had been purchased from private companies to be used for repairs on busses in the year under review without evaluating bids obtained through national competitive bidding process.	Not replied.	The Procurement Guidelines should be followed.
(ii.)	Section 3.4.3	Registration of suppliers should be done for Procurement of items of small value or for purchases of items used frequently, for which advertising may be uneconomical, and a list comprising names of suppliers who are able to supply particular categories of Goods and Services should be prepared.	Not commented.	The Procurement Guidelines should be followed.
(iii.)	Guideline 4.2	A master procurement plan and a procurement time schedule had not been prepared.	Not commented.	The relevant Circular should be followed.

f) Public Enterprises Circular, No. PED/12, dated 02 June 2003.

(i.)	Section 2.2.3.	An Internal Audit Unit had not been established to examine the internal affairs of the Company.	Not commented.	The relevant Circular should be followed.
(ii.)	Section 8.3.3	A sum of Rs. 3,048,431 had been paid as incentives during the year under review sans an approved scheme for paying incentives.	Not commented.	The relevant Circular should be followed.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 23,956,337 as compared to the corresponding profit of Rs. 23,778,392 in the preceding year, thus observing an improvement of Rs. 177,945 in the financial result. This improvement had mainly been attributed by the increase in revenue.

2.2 Analysis of Trends in the Main Items of Revenue and Expenditure

The revenue earned through the repair of buses in the year under review amounted to Rs. 187,762,153 which indicated an improvement of 46 per cent as compared to the preceding year. Furthermore, sales cost of the Company had also grown by 66 per cent as compared to the preceding year.

2.3 Ratio Analysis

Current ratio of the year under review was 1:4.05, and the current ratio of the preceding year was 1:2.31. The gross profit ratio of the year under review was 31 per cent as compared to that of the preceding year being 39 per cent.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
a)	The Company had incurred a sum of Rs. 887,360 on the construction of an emission testing center. However, that sum had become uneconomic as the project had not been implemented.	Not commented.	Projects should be implemented after properly planning, thus incurring expenses.
b)	The sum of Rs. 3,927,653 incurred by the Company on the construction of new lavatories, had been capitalized and depreciated at the time of being spent without taking action in terms of Section 16 of the Sri Lanka Accounting Standard 16 to depreciate the assets from the time of their first use.	Acknowledged.	The Accounting Standard should be followed.

3.2 Procurement Management

Audit Observation	Comment of the Management	Recommendation
Action had been taken to sell the scrap mental and aluminium, and spare parts of the Greatwall busses. However, the amount of scraps had not been identified by the Company prior to commencing the procurement process. Scrap metal and aluminium valued at Rs. 4,525,630 had been sold during the year under review, but the quantities sold could not be verified. The Audit was not provided with information relating to the decision taken in regard of publishing procurement notices on the said sale, publishing notices on extensions given to submit tenders, selection of buyers, evaluation of bids, and award of tenders.	Not commented.	Scrap items should be sold under a proper methodology.

3.3 Deficiencies in Contract Administration

	Audit Observation	Comment of the Management	Recommendation
a)	The Company had entered into an agreement on 03 September 2019 with a private company for completing the construction of buildings within a period of 03 months at a value of Rs. 4,025,903. However, concrete had not been laid properly on the floor, and the wall had cracked from ceiling to the floor with tiles. Furthermore, matters such as, using coconut timber for rafters and reepers instead of using No. 01 timber as per the estimate for the roof, doors made of substandard timber, parts of the ceiling had detached, a wood stick had been used in the roof after being painted to give the impression that concrete had been used, and failure in properly disposing the waste into the gullies, were observed. Despite those deficiencies, a sum of Rs. 3,632,430 had been paid to the company relating to this contract, in addition to the sum of Rs. 105,000 also paid as consultancy fees without an agreement.	Not commented.	The constructions should be done in accordance with the Procurement Guidelines.
b)	The Company had entered into an agreement on 03 September 2019 with a private company for completing the construction of buildings within a period of 03 months at a value of Rs. 4,025,903. But, tiles had not been properly applied as per the standard, and doors had not been fixed as well. Parts of the ceiling had become stripped.	Not commented.	Payments should be made after verifying that constructions had been made properly.

3.4 Utilization of Resources of the other Institutions

Audit Observation	Comment of the Management	Recommendation
The Company had been maintained at a land in extent of 24 acres owned by the Sri Lanka Transport Board and located in Ja Ela. However, a written agreement had not been entered into with the owner of the land relating to the use of land.	Not commented.	An agreement should be entered into with the owner of the land.

3.5 Human Resource Management

	Audit Observation	Comment of the Management	Recommendation
a)	Approved cadre of the Company was 121 as at 31 December 2019, and of them, 96 had been employed on permanent basis whereas 07 had been appointed on contract basis. Making appointments to the post of General Manager had not been done since the inception of the Company. Appointments had been made only for 02 of the 06 posts approved for Factory Engineer and Forman on contract basis.	Not commented.	Appointments should be made in accordance with the approved cadre.
b)	The Company repairs busses on contract basis, and during the year under review, 40 members had been registered under 18 contract teams. As for making payments to those contract teams, 04 employees had been paid for 09 hours per day at an hourly rate of Rs. 150. However, a team engaged in repairs comprised of only 02-03 members.	Not commented.	Repairs should be done by deploying the specified team of employees.
c)	Approval on the new employee structure of the Company had been given through the Letter, No. DMS/1623 of the Department of Management Services dated 03 October 2018. However, action has not been taken so far to prepare and approve a Scheme of Recruitment.	Not commented.	The Scheme of Recruitment should be approved and appointments should be made in accordance therewith.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
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 have been presented to the Auditor General within a period of 60 days after closure of the year of accounts, but financial statements for the year 2019 had been presented to the Audit after a delay of 08 months and 26 days on 24 November 2020.	Not commented.	The Circular should be followed.