Maganeguma Consultancy and Project Management Service Company (PVT) Ltd - 2019

1.1 Disclaimer Opinion

The audit of the financial statements of the Maganeguma Consultancy and Project Management Service 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 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.

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 Opinion

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

As described in paragraph 1.5, I was unable to confirm or verify by alternative means, material items included in the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows.

As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows.

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 Responsibility 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:

- 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 Financial Statements

1.5.1 Non-Compliance with The Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(i)	Contrary to the Sri Lanka Accounting Standards on revenue (LKAS 18) and the Conceptual Frame Work for Financial Reporting, the expenses/costs had been deducted from its revenue and presented net effect as an income by the company. As per the calculation made by the audit the gross income was Rs. 251.99 million. However, as per the financial Statements it was Rs. 102.13 million.	Noted action will be taken.	Income should be recorded in gross form as per the requirement prescribed by the Sri Lanka Accounting Standards No.18 and the Conceptual Frame Work for Financial Reporting.
(ii)	Contrary to the Sri Lanka Accounting Standard on presentation of Financial Statements (LKAS 01) and the Conceptual Frame Work for Financial Reporting, the expenses/costs had been deducted from its revenue and presented its net effect as expenditure. As per the calculation made by the audit, the gross expenditure was Rs. 217.10 million. However, as per the financial Statements it was Rs. 67.23 million.	Noted action will be taken	Expenditure should be recorded in gross form as per the requirement prescribed by the Sri Lanka Accounting Standards No.01 and the Conceptual Frame Work for the financial reporting.

(iii)	According to the Note 2.14 to the financial statements, the company measures the retirement benefits of gratuity at the end of every financial year by using the Projected Unit Credit Method (PUCM) as recommended by LKAS 19. However, that method had not been applied by the company when calculating the gratuity provision at the end of the year under review.	Noted action will be taken to rectify.	The company should measure the retirement benefits of gratuity as how the company is disclosed in the financial statements.
(iv)	As per the paragraph 51 of the Sri Lanka Accounting Standard on property, Plant & Equipment (LKAS 16), the useful life of the assets shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the charges shall be accounted in accordance with LKAS 08.However, useful life of the fully depreciated assets amounting to Rs. 19.45 million still in use had not been reviewed and accounted accordingly.	Noted	An action has to be taken to restate in accordance with LKAS 08 or to revalue in accordance with LKAS 16.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(i)	The audit observed that the company had been shown a sum of Rs.21.34 Million as cash at bank by set off the overdraft balance of the current account of Rs.4.58 million against the favourable balance of Rs. 26.61 million of a savings account. As a result, current assets and current liabilities shown in the statement of financial position had been understated by Rs.4.58 million.	Correct balance was presented to the financial statement. However there is difference due to unrealized cheques & unpresented cheques.	The balance of the servings account and the current account should be shown separately in the financial statements.
(ii)	According to the financial statement of the company, the retirement gratuity obligation and expense as at 31 December 2019 were Rs. 5,799,503 and Rs. 1,140,990 respectively. However, as per the calculation made by the audit, the retirement gratuity obligation and the expense for the year under review were of Rs. 6,126,203 and Rs. 1,467,690 respectively. Hence, there was a difference aggregating to Rs. 326,700 between balances.	Noted and Action will be taken	Accurateness of the financial Information should be maintained all the time.

(iii)	According to the Financial Statements of the company, the expenditure on employment Provident Fund was Rs. 5,754,623. However, as per the abstract of the Payroll it was Rs. 5,400,923. Hence, audit observed a difference of Rs. 353,700 between two balances.	Previously submitted figures by human resource division of MNCPMSC are not an accurate figure and as a result the audited accounts too difference in the amounts.	Management is responsible to make sure its accuracy of the Information submitted to the audit.

1.5.3 Reconciled Control Accounts or Records

Item	As per Financial Statements (Rs.)	As per corresponding Record (Rs.)	Difference (Rs.)	Management Comment	Recommendation
Difference between the amount due to the company from the RDA as at 31 December 2019 and the balance confirmed by the RDA.	154.49 million	127.41 million	27.08 million	We have requested a balance confirmation from Road Development Authority (RDA) however RDA had not provided us their balance confirmation. Due to that reason, we are unable to reconcile the reasons for the difference.	Intercompany Balances should be reconciled on regularly basis.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Receivables of work bills and retentions on projects aggregating to Rs. 44.95 million had remained without being recovered from the Road Development Authority over five years period.	We had with several meeting with RDA officers with relates to the work bills and retentions. Out of them Rs.8.6 million were soughed out and payments received for one bill and retention for that. They promised to sort out the balance payments	The receivables for work bills should be recovered without further delay.

1.6.2 Payables

Audit Issue		Management Comment	Recommendation
(i)	Mobilization advance amounting to Rs. 882,118 had remained without being settled to the Maga Neguma Road Construction & Equipment Company over five years period.	Request letters sent to MNRCE company to submit supporting documents for their mobilization advance Rs. 882,118 to settle the payment. However they have not yet received the relevant documents to make payment.	Mobilization advance for works should be settled without further delay.
(ii)	Retention money payables on certain projects amounting to Rs. 24.93 million had remained without being settled over five years period.	Action will be taken to settle Retention money to sub-contractors after receiving money from RDA with regard to this project.	Retention money payables should be settled without further delay.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	The government Procurement Guideline			
(i)	The Section 4.2.1	The Procurement master plane had not been prepared for the Company.	Noted	A master procurement plane should be prepared accordingly.
(ii)	The Section 4.2.2	A procurement time schedule had not been prepared.	Noted	A procurement time schedule should be prepared accordingly.
(iii)	The Section 4.3	A total cost estimate had not been prepared.	Noted	A total cost estimate should be prepared as per the requirement prescribed by the aforesaid section.
(b)	The Section 2.1 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015.	Contrary to the entitled limits, monthly allowances and sitting allowances aggregating to Rs. 4.53 million had been over paid to the Chairman	As per the Board paper no. 001/02/2020, It was motioned at the board	The company should adhere to circulars issued by the Public enterprises Department from time to time or have to prepare a separate procedure and get the approval from the

		and Non - Executive Directors.	meeting to conduct the director fees payable	General Treasury.
(c)	The Section 3.1 of the public Enterprises Circular No. PED 01/2015 date 25 May 2015.	Contrary to the Circular provisions, the Company had been paid fuel allowances aggregating to Rs. 820,678 to the officers of the Company by exceeding the entitled limits.	Noted	The company should adhere to circulars issued by the Public enterprises Department from time to time or have to prepare a separate procedure and get the approval from the General Treasury.
(c)	The Section 3.3 of Public Enterprises Circular No. PED 01/2015 dated 25 May 2015 as amended by the Public Enterprises Circular No. PED 01/2015 (i) dated 27 October 2016.	Contrary to the Circular provisions, Vehicle and travelling allowances aggregating to Rs. 724,813 had been paid during the year 2019 to the officers exceeding the entitled limits.	Noted	The company should adhere to circulars issued by the Public enterprises Department from time to time Or have to prepare a separate procedure and get the approval from the General Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 24,085,401 and the corresponding profit in the preceding year amounted to Rs. 12,777,133 Therefore an improvement of operating result amounting to Rs. 11,308,268 of the financial result was observed. The main reason for the improvement of the operating result is increase the operating income by 247 percent compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Cold Mix plant income and transport income for the year under review had increased when comparing with the preceding year by 24 percent and 11 percent respectively.

Expenditure on personal emoluments and sales and marketing expenditure had increased by 16 percent and 534 percent respectively when comparing with the preceding year.

2.3 Ratio Analysis

	2019	2018
Current Assets Ratio	**1.85**	**1.79**
Quick Ratio	**1.82**	**1.76**
Gross Profit Ratio	**30%**	**21%**
Net Profit Ratio	**13.85%**	**22.25%**

As per the Current Assets Ratio calculated, it is observed that the company had been maintained slightly below the range of acceptable level and Quick Assets ratio is maintained by the company within the Acceptable range for the year under review.
Gross profit ratio had been increased by 9 percent while Net profit ratio was being decreased by almost eight Percent. It is observed that the increment of sales and marketing expenditure and a significant loss of sundry income were the main reasons for such reduction of the annual profitability.'

3. Accountability and Good Governance

3.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
Submission of financial statement of the company had been delayed in twelve days from the due date.	No comment	Financial Statement must be submitted on due date to the Auditor General.

3.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
The Company had not been prepared a Corporate Plan.	Not prepared for the year 2019	The management of the Company should be prepared a Corporate Plan in rolling basis for every four years.

3.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
The Company had not been prepared an Action Plan.	Not prepared for the year 2019	Annual Action Plan should be prepared by the management of the Company.

3.4 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal Audit Unit for the company had not been Established.	Not prepared for the year 2019	An Internal Audit Unit for the company should be Established.

3.5 Audit Committee

Audit Issue	Management Comment	Recommendation
Audit and management committee had not been established by the company with the concurrent of the line Ministry and the Road Development Authority.	Not yet Established	Audit Committee and management committee should be established.