

Maganeguma Consultancy and Project Management Service Company (PVT) Ltd. - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maganeguma Consultancy and Project Management Service Company (pvt) Ltd for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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 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 Audit Observations on the preparation of Financial Statements 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)	The costs of the fully depreciated assets still being used by the Company was Rs.21,745,498. However, actions had not been taken to revalue in accordance with LKAS 16 property plant & Equipment and restate such fully depreciated assets in accordance with LKAS 08 – Accounting Policies, changes in accounting estimates and errors.	Noted and action has been taken to revalue all assets.	Company should revalue fully depreciated assets that are being used by the company in accordance with LKAS 16 or to restate in accordance with LKAS 08 – Accounting Policies, changes in accounting estimates and errors.
(ii)	In terms of section 67 of LKAS 16 – Property plant and Equipment, assets should be derecognized when no future economic benefits are expected from its use or disposal. However, cost of fully depreciated assets amounting to Rs. 2, 965,180 which were not used by the Company as at 31 December 2020 have not been derecognized from its financial statement and it shows as assets of the Company.	Noted and action will be taken after revaluation process.	Assets should be derecognized when no future economic benefits are expected from its use or disposal in terms of section 67 of LKAS 16 – Property plant and Equipment.

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
(i) The accounting policies stated as notes to financial Statements are not relevant to the Company as at 31 December 2020 in respect of Foreign currency translation, Dividend Income, Borrowing cost, Investment properties, Intangible asset and Capital Commitment.	Noted action will be taken.	Accounting policies should be constructed only for the transactions that are relevant to the financial statements for the year under review.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(i) As per the statement of financial position of the company as at 31 December 2020 the amount due from the Road Development Authority was Rs.97,131,281. However, as per the financial statements of the Road Development Authority, it was shown as Rs.73, 770,988. Hence, a difference of Rs. 23,360,293 was observed between two balances.	Reasons for the difference between RDA accounts and MNCPMSC books of accounts are attached herewith.	A comprehensive Reconciliation statement should be prepared mentioning the reasons clearly for the difference.

1.5.4 Un Reconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
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	(Rs.)	(Rs.)	(Rs.)		
Due amount to the Road Development Authority from the company for the weighing charges and the office building rent for the year under review was 5,087,218. However, no such amounts are shown in the accounting records maintained by the Road Development	5,087,218	0	5,087,218	Action has already been taken to reconcile the balances.	Reconciliation should be done on regularly basis in this regard.

Authority and no reconciliation had not been done by the company in this regard.

1.3 Accounts Receivable and Payable

1.3.1 Receivables

Audit Issue	Management Comment	Recommendation
Retention money and work bills on projects over five years outstanding totaling to Rs.35, 160,969 had not been recovered from the Road Development Authority.	Noted an action will be taken to recover them.	Company should take an action to get recovered the due balance from the RDA or offset against payable balances after being mutually agreed.

1.3.2 Payables

Audit Issue	Management Comment	Recommendation
(i) According to the financial statements submitted by the Company, the amount due to the Maga Neguma Road Construction Equipment Company an mobilization advance over five years outstanding amounting Rs.882,118 had remained unsettled.	Noted and action has been taken. However, we are waiting for supporting document to settle them.	Outstanding balances should be settled or write back to income of the company after following procedures formally.
(ii) Long outstanding payable balance amounting to Rs. 23,041,015 had remained un settle over five years as at 31 December 2020.	Noted and action will be taken.	Outstanding balances should be settled or write back to income of the company after following procedures formally.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) 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. 94,030 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 relevant authorities.
(b) The Section 2.1 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015.	As per the Circular, all inclusive monthly payable to chairman is Rs.75, 000. However, a sum of Rs.2, 400, 000 had been over paid to the chairman contrary to the entitled limits during the year under review.	As per the Board paper no. 001/02/2020, It was minuted that the Chairman's salary and other remuneration shall remain the same	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 relevant authorities.
(c) Section 5.1 of the Circular PED/12 dated 2 June 2003	Despite the direction given in the Section of the Circular, a corporate plan had not been prepared by the Company and not forwarded to the line ministry, Department of Public enterprise, General treasury and the Auditor General.	Noted	The company should adhere to circulars issued by the Public enterprises Department from time to time in this regard.
(d) Section 8.8 of the Circular PED/12 dated 2 June 2003	As per the Circular there should be a delegated authority indicating limits of expenditure that should approved by board at the beginning of each year. However, delegation authority had not been prepared	The MNCPMSC is maintaining minimum staff to perform their business in order to operate the company profitably. Hence All powers are vested with the Chairman & Board of Directors	Even though the company is maintained minimum staff authority should be delegated to operate company economically, efficiently and effectively.

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| | | by the company. | and all expenditures is monitored & approved by the Chairman accordingly. |
| (e) | Section 5.2 of the Circular PED/12 dated 2 June 2003 | An annual budget had not been prepared by the Company although updated annual budget should be forwarded to the Line Ministry and Auditor General at least 15 days before the commencement of each financial year. | As per the Board paper No. BP013/02/2020, Annual Budget for the year 2020 was presented to the board and obtained Board approval to the same. |
| (f) | Section 7.4 of the Circular PED/12 dated 2 June 2003 | To ensure the decisions for effective operations an Audit Committee should be established. However, the Company had failed to do so. | Audit Committee should be established by the company. |
| (g) | Section 9.2 and 9.3 of the Circular No PED/12 dated 2 June 2003 | There should be a Human Resources Plan including an appropriated cadre and recruitment and promotions system. However the Company failed to obtain the approval for the cadre and the recruitment and promotions system. | Board Approved cadre has been sent to MSD through the Line ministry. However, we are yet to get it sanctioned by them. Still we are waiting for the same. |

2. **Financial Review**

2.1 **Financial Result**

The operating result of the year under review amounted to a profit of Rs. 10,753,969 and the corresponding profit in the preceding year amounted to Rs. 24,085,401. Therefore a deterioration amounting to Rs. 13,331,432 of the financial result was observed. The main reason for the deterioration of the operating result is decrease the revenue by 32 percent compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Significant changes can be identified of the following income and expenditure items compared with the preceding year.

Item	Percentage of the changes	Nature of the changes
Cold mix Income	31	Decrease
Transport income	27	Decrease
Interests Income	15	Decrease
Manufacturing Cost of cold mix	19	Decrease
Administration overhead	118	Increase
Staff salaries and other allowances	29	Decrease

2.3 Ratio Analysis

	2020	2019
Current Assets Ratio	1.80	1.85
Quick Ratio	1.74	1.82
Gross Profit Ratio	23%	30%
Net Profit Ratio	8.95%	13.85%

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 decreased by 7 percent and Net profit ratio had decreased by almost 5 Percent. It is observed that the increment of administration overhead and a significant deterioration of interest income were the main reasons for such reduction of the annual profitability.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
It was observed that there were no a rental agreements between the company & relevant parties for the assets being used by the company.	Noted and action has been taken to enter into the agreement however RDA has not provided yet.	Company should enter into an agreement with relevant parties in this regard .

4. Accountability and Good Governance

4.1 Submission of Financial Statements

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

4.2 Corporate Plan

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

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
The Company had not been prepared an Action Plan.	Noted	Annual Action Plan should be prepared and review its progress periodically by the management of the Company.

4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal Audit Unit for the company had not been Established.	No comments	An Internal Audit Unit for the company should be Established.

4.5 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.

4.7 Budgetary Control

Audit Issue	Management Comment	Recommendation
An annual budget had not been prepared by the Company	As per the Board paper No. BP013/02/2020, Annual Budget for the year 2020 was presented to the board and obtained Board approval to the same.	Annual Budget should be prepared as a tool of control and reviewed periodically to achieve the objectives of the company.