

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Maganaguma Emulsion Production Company Private Ltd for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Entities (SMEs’).

**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 for Small and Medium Sized Entities (SMEs’), 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 Observations on the preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per the section 13 of SLFRS for SME's - inventories, a cost of Rs.43.94 million Bitumen stock belong to the company which were under the custody of the Orumix Lanka from the year 2014 had not been physically verified as at 31 December 2021. Therefore, existence and the accuracy of the stock could not be verified in audit.	Investigation report is submitted	Should be act according to the section 13 of SLFRS for SME's.
(b) As per section 17 of SLFRSs for SMEs' Property Plant & Equipment, the residual value and the useful life of an assets shall be reviewed at least each financial year end and, if expectations differ from previous estimates the changes shall be accounted for as a change in an accounting estimates. However, company had not complied with this requirement in respect of fully depreciated assets at a cost of Rs. 29,356,041 million which are being used by the company.	Noted, this adjustment is not required due to the Liquidation of the company as per the Cabinet Decision No.23/0394/608/033.	Should be act according to the section 17 of SLFRS for SME's.
(c) The company had identified depreciation of Rs.359,736 on part of the machine in year 2020 contrary to the paragraph no. 17 and 20 of SLFRS for SME's property, plant & equipment and error had not been corrected in year 2020. Hence, accumulated depreciation had overstated and Non-current asset and retain earnings had understated by the similar amount.	Agreed.	Should be act according to the section 17 and 20 of SLFRS for SME's.
(d) As per section 33 of SLFRS for SME's - Related Party Transactions, Proper disclosures with regard to Related Party Transactions and nature of the related party relationship had not been made in the Financial Statements.	Agreed. Will be disclosed as required in Financial Statements 2022.	Should be act according to the section 33 of SLFRS for SME's.

## 1.5.2 Accounting Deficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) As per the financial statements of the company, for the year under review it was stated that shareholding of the Road Development Authority over the company were 50 percent and share value were Rs. 100. However, financial statements of the Road Development Authority for the year under review, it was stated that the controlling interest over the company were 99 percent and share value was Rs.1,000,100. Therefore, it was observed a difference of Rs. 1,000,000 between the value in equity investment shown in the financial statements of Road Development Authority and the company.	Comment not received	Actions should be taken to secure the government ownership and rights as well as figures need to be reconciled before certified the financial statements.
(b) The company had recognized Rs. 78,086,970 as receivable from Road Development Authority (RDA). However, as per the Financial Statements of RDA for the year ended 31 December 2021, payable balance to the company was only Rs. 61,885,785. Accordingly, a difference of Rs.16,201,185 was observed.	We have stated Rs. 78,086,970 in our books as per the transaction between this company and the RDA. We cannot comment on the amounts stated in RDA books. No adjustment required.	The reasons for the differences between the balances should be identified and steps should be taken to correct them.
(c) As per the Financial Statements of RDA as at 31 December 2021, plant rent and hire charges receivable from the company was Rs. 32,193,867. However, the Company had recognized such expenditure as Rs 8,724,040 as at the end of the year 2021,	We have stated Rs. 8,724,040 as per the transactions and the documents available at this company. We do not know as to where the RDA has shown a different amount in their books and the basis for calculating that amount.	The reasons for the differences between the balances should be identified and steps should be taken to correct them.
(d) The company had recognized Rs.731,154 as VAT receivable as at 31 December 2021, amounting to under trade and others payable in the Financial Statements. As a result current assets and current liabilities had been understated by that amount in the financial statements.	Agreed. Adjustments will be made in the 2022 financial statements.	Action should be taken to correct the differences.

### 1.5.3 Going Concern of the Organization

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the Cabinet Decision No. CP/23/0394/608/033 dated 20 March 2023, cabinet has decided to give an order to the secretary to the Ministry of Transport and Highways to take steps to liquidate three companies including this company. Therefore, the going concern of the company is doubtful. Further it was observed that a liquidator had been appointed without the consent of RDA.	The company has appointed a liquidator after following the proper procedure. The board has given the approval for the liquidation at its meeting on 29 August 2023.	Issue on going concern should be disclosed in the financial statements.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Payables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Long outstanding payable balance of ECB International amounting to Rs. 24,500,000 was remained unsecured for over 08 years as at 31 December 2021. However, confirmation regarding this balance had not been presented to the audit.	Company management has been taken decision to stop that outstanding payable until receive the judgment of the court case in commercial high court.	Accountant should obtain proper documentary evidence before recognize as payable.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Companies Act No. 7 of 2007 (i) Section 78	Every company shall, within 2 months from the date of allotment of any of its share and within two months from the date, on which a transfer of any such share is lodged with the company, complete and have ready for delivery the certification of all shares. However, the share certificates issued by the company as per the above requirement had not been submitted to the audit until the date of the report.	Comment not received.	Actions should be taken to secure the government ownership and rights.

(b)	(ii) Section 133 (1)	The Board of a Company shall call an Annual General Meeting of shareholders to be held once in each calendar year, not later than six months after the balance sheet date of the company and not later than fifteen months after the previous Annual General Meeting. However, Annual General Meetings had not been held since 2016.	Comment received	not	Actions should be taken for board of directors on noncompliance with regulations.
(c)	Section 3.1 of Public Enterprises Circular No. PED 01/2015 dated 25 May 2015.	Fuel allowance aggregating to Rs. 1,605,720 had been paid exceeding the entitled limits in the circular for following officers during the year under review.	Comment received	not	Actions should be taken to recover over paid fuel allowance and should adhere the public enterprise circular instructions.
(d)	Section 2 of Public Enterprises Circular No. PED 01/2015 dated 27 October 2016.	An officer who is entitled to an office vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs. 50,000. However, the company had paid of Rs. 3,140,000 exceeding the entitled limits for following officers of the company during the year under review.	Comment received	not	Actions should be taken to recover over paid transport allowance and should adhere the public enterprise circular instructions.
(e)	Section 38(1) b & 7 of National Audit Act No.19 of 2018.	The company is situated on a land of 2 acres and 9.83 perches belonging to the Urban Development Authority and its assessed value is Rs. 9,620,000. The lease agreement for the land was not submitted for the audit.	There is no separate lease agreement for the land.	not	Should be complied with the section 38(1) b & 7 of National Audit Act No.19 of 2018.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 6,634,114 and the corresponding loss in the preceding year amounted to Rs. 8,034,328. Therefore an improvement amounting to Rs. 14,668,442 of the financial result was observed. The reason for the improvement was increase in revenue income mainly from the sale of Bitumen Emulsion.

## 2.2 Trend Analysis of major Income and Expenditure items

Item	2021 Rs.	2020 Rs.	Difference	Percentage of the difference (%)
Revenue	237,749,677	83,442,327	154,307,350	185
Cost of Sales	183,194,950	70,428,335	112,766,615	160
Other Income	2,016,971	13,130,264	(11,113,293)	(84.6)
Personal Expenses	22,444,357	17,563,651	4,880,706	27.7
Administrative Expenses	7,033,385	5,613,843	1,419,542	25.2
Selling & Distribution Expenses	10,641,684	1,147,214	9,494,470	827.6
Finance Expenses	2,525,289	3,095,960	(570,671)	(18.4)

## 2.3 Ratio Analysis

	2021	2020
Current asset ratio	1.35	1.57
Quick asset ratio	1	1.05
Gross profit ratio- percentage	22.9	15.5
Net profit ratio- percentage	2.79	(9.6)

## 3. Operational Review

### 3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
The company's sales income in 2021 was Rs. 237,749,677, of which 93 percent, Rs. 222,507,426 were sales to the Road Development Authority. Accordingly, 93 percent of the company's operating profit Rs. 4,743,407 was earned from the sales made to the Road Development Authority.	There are very few buyers available for the company's products. The company had tried to sell the products to those few buyers. However they did not purchased anything during the year 2021.	Actions should be taken to expand the business in order to minimize the future potential losses occur.

### 3.2 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) As per the cabinet decision no.04/0848/004/013-I dated 27 August 2004 approval had been given to enter into joint venture partnership with chamber of construction industries and National Association of contractors. But, before obtaining the approval of the Cabinet of Ministers, Maganeguma Emulsion (Pvt) Company had been established according to the Road Development Authority's Board Decision No. 795/2004 dated 09 June 2004. However, approval of the Cabinet of Ministers, approval of the Treasury or the approval of the Line Ministry had not been taken.	Comment not received.	Actions need to take act according to the Cabinet Decision.
(b) Eventhough it had been decided to amend the Articles of Association of the Company, receive the majority of the right of the Company will be vested in treasury and the rest will be given to the Road Development Authority as per the cabinet decision No.13/0134/505/004 dated 18 February 2013, Company had not amended the Articles of Association accordingly.	Comment not received.	Actions should be taken to amend the Articles of Association of the company.

### 3.3 Transactions of Contentious Nature

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to Section 28(2) of the first schedule to the Companies Act No. 07 of 2007, although the Chairman is entitled to a casting vote in board meetings, the Chairman of a shareholders' meeting is not entitled to a casting vote in terms of 10(7) of the first schedule in the Companies Act. The casting vote vested in the Chairman in accordance with the Articles of Association applicable to the Act of 1982 has been cancelled in terms of 10(7) of the first schedule to the Companies Act No. 07 of 2007. Eventhough, the Road Development Authority voted against two resolutions taken at the Annual General Meeting of 2016 held on 20 February 2018, the chairman of the company had used his casting vote and approved those matters.	Comment not received.	Need to act according to the No 07 of 2007 Companies Act.



### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
It was observed in the field audit on 06 December 2023 that, Emulsion plant with a capacity of 10000Ltr per hour and 9 bowsers were currently idle and 3.6 million worth of stocks were at the plant premises without utilizing.	The company was in function in the year 2021 and all nine bowsers had been used in that year. Further, the company had handed over those bowsers to the RDA in September 2023 and they are no longer in the possession of this company. The stock valued of Rs. 3.6Mn is an asset of this company. This will be sold by the liquidation in due course.	Actions should be taken to utilize the plant capacity in effective and efficient manner in order to generate profits to the government.

### 3.5 Utilization of Resources of Other Organizations

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Majority of the capital contribution of the company was provided by Road Development Authority and the main buyer of the company's was Road Development Authority. Moreover Road Development Authority also owns a large percentage of the fixed assets used by the company's operations. However the Road Development Authority as a shareholder had not received any financial benefit.	Comment not received.	Actions should be taken to provide financial benefits to the RDA for the usage of government assets and funds.

### 3.6 Human Resources Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per the Public Enterprise's circular PED/12 dated 02 June 2003 section 9.2 company had not prepared Organization Chart and approved the cadre.	Comment not received	Action should be taken to follow the Public Enterprise Circular.

## 4. Accountability and Good Governance

### 4.1 Corporate Plan

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per the Public Enterprise's circular PED/12 dated 02 June 2003 section 5.1.1 State owned companies should prepare a Corporate Plan effectively for a period not less than three years. However, company had not prepared a corporate plan.	Comment not received	Action should be taken to follow the Public Enterprise Circular.

#### 4.8 Budgetary Control

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per the Public Enterprise's circular PED/12 dated 02 June 2003 section 5.2.5 organizations need to prepare its Annual Budget and Copies of the final updated Budget approved by the Board should be forwarded to the line Ministry, the Department of Public Enterprises, General Treasury. However, company had not been presented Annual Budget to the audit for the year under review.	Comment not received	Action should be taken to follow the Public Enterprise Circular.