

Lanka Leyland (Private) Ltd. and its affairs -2021/ 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Lanka Leyland (Private) Ltd. for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 tabled in Parliament, appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My Opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section in this 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 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 intends 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 Audit (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:

- Appropriate audit procedures were designed and performed identify and assess the risks 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 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 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
According to Cabinet Paper No.97/4111/13/011 of 14 July 1997, the land of 58 Acres in extent belonging to the Company, had been vested in the Ministry of Industries for establishment of an industrial city under the Regional Industrial Development Programme. Nevertheless, it had been indicated in the financial statements as an asset of Rs.626,473.	Even though the land belongs to the Company, it has been allocated for industrialists by the Ministry. We have provided your officers with deeds and photocopies.	The ownership of lands should be confirmed properly and brought to account.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)Section 5.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003	A Business Plan or a Corporate Plan was not available with the Company.	Even though a Business Plan was available, it had not been submitted as it was not requested for.	The Business Plan should be prepared in terms of Section 5.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003.
(b)Decision No.16.60 of the meeting of the Board of Directors held on 20 October 2017	Even though approval of the Board of Directors should be obtained for increasing the allowance paid to employees for performing duties every year from 01 October 2017, instead of doing so, the said allowance had been paid with an increase of 10 per cent in the current year.	The allowance had been increased by 10 per cent on approval of the Board of Directors.	The allowance for performing duties of employees should be increased in accordance with the Public Enterprises Circular.

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a loss of Rs.61,022,721 as against the profit of Rs.284,417,460 of the preceding year, thus observing a decline of Rs.345,440,181 in the financial result. The decrease in investment value of associated companies by Rs.62,768,750 had mainly attributed to this decline.

2.2 Trend Analysis of Major Income and Expenditure Items

- As compared with the preceding year, the investment value of associated companies had relatively decreased by Rs.62,768,750 representing 05 per cent.
- Interest income, which is the main source of income of the Company, had decreased by Rs.1,654,261 representing 27 per cent as compared with the preceding year.

2.3 Analysis of Ratios

The current assets ratio reflects a favourable position of the Company.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

Despite the fact that office premises were available within the Ministry of Industries and having repaired the office by incurring an expenditure of Rs.144,948 during the year 2020, instead of making use of it, the office had been maintained in a building obtained on rental basis and a rental of Rs.126,000 had been paid therefor in the year under review.

Comments of the Management

The annual lease agreement had been prepared for Rs.120,000 and provision had been made therefor.

Recommendation

Even though funds had been provided, the Company should spend them effectively.

3.2 Management Inefficiencies

Audit Observation

Incurring over Rs.5.4 million including payments for the Board of Directors of Rs.4,288,687 during the year 2020/2021 as administrative expenditure without an approved staff and any operating activity was observed to be an uneconomic expenditure. Moreover, the above expenditure comprised an annual vehicle rental of Rs.1,500,000 paid without proper approval on behalf of the Chairman of the Company.

Comments of the Management

The performance of the Company cannot be financially valued and an agreement was entered into with the Ashok Leyland Company for a joint venture to establish an industry for assemble of vehicles by manufacturing spare parts in Sri Lanka. Joint ventures have advantages such as employment opportunities for the local youth, saving of foreign currency and exchange of technology.

Recommendation

Operation of businesses should be carried out as due in terms of relevant circulars.