

Maganeguma Consultancy and Project Management Services Company (PVT) Ltd. -2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maganeguma Consultancy and Project Management Services Company (pvt) 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.

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 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 observation on the preparation of financial Statements

1.5.1 Internal Control over the preparation of financial statements

The Authority is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as general ledger, journal and journal vouchers, payment vouchers etc. may include under this heading.

Audit Issue	Management Comment	Recommendation
a. Accounting package that is being used does not perform real-time data synchronization, multifactor authentication, Role-based access controlled, etc. Also a bulk data entering system had been used to feed the data into the system by the company. However, it was observed that there is a possibility of data duplication and manual errors.	A customized ERP is being developed these days which is ongoing project.	Accounting Package with have necessary facilities should be implemented.
b. Documents to be used for efficient contract management such as Contract register, Retention register, etc had not been maintained by the company.	Noted the comment.	Contract document Should be maintained for proper contact administration.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
a. The revenue and expenses on construction contract had not been recognized by the company based on the stage of completion as required by the paragraph 22 of LKAS 11. Further, the gross amount due from customers and due to customers had not been	The contract revenue did not recognize, and incurred expenses presented as work in progress due to several	Should be adhered to the Sri Lanka Accounting Standards.

- recognized as an asset and a liability as required by the paragraph 42 (a) and 42 (b) of LKAS 11 on construction contract. reasons.
- b. The fixed deposit had not been measured at amortized cost as at 31 December 2021 as per the paragraph 5.2 of SLFRS 9. As a result, the fixed deposit shown in the financial statements as at 31 December 2021 had been understated by Rs.7,589,696 That presentation error will be corrected in the future. Shall be followed the instructions of Sri Lanka Accounting Standards.
- c. It was observed that the assets which were fully depreciated with cost of Rs. 29,345,886 are still being used by the company. However, no action had been taken to revalue in accordance with LKAS 16 property plant & Equipment and restate in accordance with LKAS 08-Accounting Policies, changes in accounting estimates and errors. Action has been already taken to revalue assets belongs. - Do -
- d. 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, the cost of assets amounting to Rs. 5,479,020 which were not used by the company as at 31 December 2021 had not been derecognized from the financial statement of the Company. Noted and action has been taken - Do -
- e. Disclosures such as accounting policies adopted in measuring inventories including the cost formula is used, total carrying amount of inventories and the carrying amount in classifications appropriate to the entity, amount of inventories carried at fair value less costs to sell and amount of inventories recognized as an expense had not been made in the notes to the financial statements as per the paragraph 36 of LKAS 2 Inventories Noted and will do the necessary disclosures in the year 2022. - Do -

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The value of materials used for production of the year under review was determined by adjusting the value of inventory purchased and the value of closing stock in the normal cause of business by the company and the company does not have a proper methodology to measure the actual materials used for the production. Accordingly the	Material usage for the production is measured by opening material stock plus purchases during that period and then minus the year end material stock.	Should be prepared a proper methodology to introduce to measure the actual materials used for the production.

accuracy of cost of materials amounting to Rs. 107,271,083 shown as consumed for the production could not be verified in the audit.

1.5.4 Unreconciled Control Accounts or Records

Item	Management Comment	Recommendation
As per Financial Statements balance due from the Road Development Authority was Rs.153.19 Mn and the same balance as per corresponding records was Rs.140.89 Mn. Therefore a difference of Rs.12.30 Mn was observed.	Action will be taken to rectify.	Reconciliation should be done periodically.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 17,795,397 and the corresponding profit in the preceding year amounted to Rs. 10,753,969. Therefore an improvement amounting to Rs. 7,041,428 of the financial result was observed. The main reasons for the improvement of the operating result are increase of cold mix manufacturing and trading income by Rs. 51.40 million and the income received from the Kuliypitiya – Padiwela road Project of Rs.13.60 million compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Item	2020 Rs.Million	2021 Rs.Million	Difference Rs.Million	percentage	Trend with the preceding year
Cold mix manufacturing and trading income	129.51	180.92	51.41	40	Increased
Interest income	25.33	19.85	-5.48	(22)	Decreased
Transport Income	17.33	25.80	8.47	49	Increased
Cost of cold mix manufacturing and trading	99.67	141.47	41.8	42	Increased
Cost on transport	13.12	17.94	4.82	37	Increased
Vehicle maintenance cost	0.49	2.31	1.82	372	Increased

Following observations are made.

- i) Since the preceding year's operations were below the average level due to various reasons including the covid-19 pandemic and that operations had become normal in the year 2021, the trend of main income and expenditure had changed considerably.
- ii) The reduction of the bank interest rates had affected to decrease Interests income of the company compared with the preceding year.

- iii) The reason for the increment in vehicle maintenance cost was repair charges of two double cabs were born during the year under review which were taken from Road Development Authority on a rent basis.

2.3 Ratio Analysis

	2021	2020
Current Assets Ratio	1.66	1.80
Quick Ratio	1.61	1.74
Gross Profit Ratio-percentage	25	23
Net Profit Ratio-percentage	10	9

Following observations are made.

- i) As per the Current Assets Ratio it is observed that the company had been maintained slightly below the range of acceptable level and Quick Assets ratio within the acceptable range for the year under review.
- ii) Gross profit ratio had been increased by 2 percent and Net profit ratio had increased by 1 Percent. It is observed that the increase of revenue was the main reason for such increase of the gross profit.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a. Delegation of authority by indicating limits of expenditure had not been approved by the board at the beginning of each financial year.	Applying general rules in order to perform the business.	Should be Delegated authority limits by the accounting officer of the company.
b. It was observed that no free hold or lease hold agreements between the company and the third parties for the company's premises which are located at head office, Atabage, Medayaya and Maho.	Those were requested from the RDA and reminded from time to time.	Agreements should be kept with relevant parties.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
a. Six primary objectives had been set out in the memorandum of association when incorporating the	The company is expecting to carry out consultancy and project management work in	The company should diversify its business to minimize the business risk.

company. However, the Company had carried out its business activities only under two primary objectives.

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| <p>b. The main income source of the company is manufacturing and trading of cold mix and 90 percent of it earned from the Road Development Authority. Accordingly, it was observed that the company does not have an operational independency or cluster of revenue sources.</p> | <p>In this year to diversify our business, a cold mix laying project was successfully completed in the year 2021</p> | <p>The company should diversify its business to minimize the business risk.</p> |
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3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>Although the company is a fully owned subsidiary of the Road Development Authority, approvals for the cadre, Salary structure and other allowances paid to the officers of the company had not been obtained from the director board of the Road Development Authority, Secretary of the Ministry or any other statutory bodies. Accordingly it was observed that the company has acted beyond the controlling power of the Authority and the Ministry.</p>	<p>The MNCPMSC is maintaining minimum staff to execute the business and operate with cost-effectiveness.</p>	<p>Approved SOR Should be introduced.</p>

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
<p>Corporate Plan had not been prepared by the Company.</p>	<p>Action will be taken to prepare these statements in future.</p>	<p>A corporate plan should be prepared in rolling basis for every four years.</p>

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
<p>Annual Action Plan had not been prepared by the Company.</p>	<p>Action will be taken to prepare these statements in future.</p>	<p>An annual action plan should be prepared.</p>