Lanka Leyland (Private) Limited - 2023/2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lanka Leyland (Private) Limited for the year ended 31 March 2024 comprising the statement of financial position as at 31 March 2024 and the statement of financial performance, 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 reported 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 March 2024, 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 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 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 Institute.

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 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 Company'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 Institute has performed according to its powers, functions and duties; and

- Whether the resources 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 Sri Lanka Accounting Standards

	Non-compliance with the reference to particular Standard	Management Comments	Recommendation
(a)	The cash flow statement had been prepared taking into account the profit after tax amount of Rs.353,381,044 instead of net profit before tax and from the income tax liability for the year amount of Rs.2,431,508, the income tax actually paid amount of Rs.2,427,306 had been deducted and the difference of Rs.4,122 was adjusted as cash flow generated under operating activities.	Agree. Action will be taken to correct in the future.	Cash flow statement should be prepared as per accounting standard.
(b)	The amount of Rs.6,428,125 remitted to the treasury on account of the company's profit was not included in the cash flow statement as cash inflows.	Disagree. Under Note No. 04, a sum of Rs.6,428,125 has been shown under financial income and a sum of Rs.6,428,125 has been shown under administrative expenses. Further, this does not affect the financial statements.	Should be included in the statement of cash flows.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comments	Recommendation
(a)	The amount of Rs.6,428,125 paid to the treasury on the profit of the company had not been accounted for as dividendd but had been accounted as administrative expenses.	Disagree. A sum of Rs.6,428,125 has been recognized as dividend income in the adjustment of cash flow statement and Rs.6,428,125 has been shown as outflow under financing activities. Accordingly, the cash flow statement is not affected.	This dividend payment should be shown in the statement of change in equity.

(b)	According to Cabinet Paper No. 97/4111/13/011 dated 14 July 1997, the company's 58 acres of land had been assigned to the Ministry of Industry for the establishment of an industrial estate under the Industrial Estate Development Programme. Accordingly, even though the company did not have the legal right or occupation right for the said land, this land had been listed under non-current assets at a value of Rs.626,473 under property, plant and equipment in the statement of financial position of the year under review.	Agree. It was not possible to get any information related to the above land from the previous governing authority. There is also a legal activity related to company secretary. Also, this value has long been shown in property, plant and equipment in financial statements.	The entity must have written evidence of ownership of the assets shown in the financial statement.

1.5.3 Lack of Written Evidences for Audit

Item	Amount Rs.	Audit Evidences not Submitted	Management Comments	Recommendation
Gratuity Allowances	1,514,896	Schedules	Agree. No sub-document related to this has been received from the previous governing authority and there is also a case for this. Appropriate adjustments will be made in future based on the decisions of the management as per the decision of the case.	Schedules should be submitted regarding provision of gratuity.

1.6 Non-Compliance with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules and Regulations	Non-Compliance Rs.	Management Comments	Recommendation
(a)	Section 16(2) of the National Audit Act No. 19 of 2018	Although the annual performance report should also be submitted to the Auditor General along with the financial statements, the company had not done so.	Agree. The Annual performance report was not prepared. The current management is expected to identify and implement three projects and after the operational activities of the projects begin the performance report will be prepared.	Arrangements should be made to submit annual performance reports.

(b)	**Companies Act No. 07 of 2007**			
	(i) Section 131 (1)	Although the company must submit an annual report to the registrar of companies every year, the company had not submitted an annual report in accordance with the said section since 2018.	Agree. The previous governing authority has not done these tasks and it will be rectified in the future under the new governing authority.	Companies Act should be followed.
	(ii) Section 132	The statement of directors and the certificate signed by a director and the company secretary to be sent to the registrar of companies along with the annual report had not been sent to the registrar of companies since 2018.	It has not been possible to present the change in the company's board of directors to the company registrar's office until now, due to the fact that the former director of the company, the representative of the treasury, did not tender his resignation properly.	Companies Act should be followed.
(c)	Public Enterprise Manual No. 01/2021 dated 16 November 2021			
	(i) Section 2.3	Although the company's corporate plan, action plan and annual budget should be submitted to the Director General of the Department of Public Enterprises or the Director General of the National Budget Department, the company's corporate plan, action plan and annual budget had not been submitted in accordance with the said rules in the reviewed year.	The all plans such as company's corporate plan, action plan, and annual budget have all been sent to the Ministry of Industry and will be sent to the Department of Public Enterprises in the future.	Action should be taken as per the circular.
	(ii) Section 6.6	• Although the draft financial statements should be submitted to the Auditor General with the annual report within 60 days of the end of the financial year, the	Agree. Will be rectifying in the future.	The financial statement should be submitted as per the circular.

	company's financial statements were submitted to the Auditor General after a delay of 30 days. Further, the draft annual report was not submitted with the financial statements. • Although the annual report should be tabled in Parliament within 05 months after the end of the financial year, since 2017, the company's annual reports have not been tabled in Parliament.		

1.7 Cash Management

Audit Observation	Management Comments	Recommendation
The management board of the company has not done any activities in the last few years to achieve the objectives of the company and a sum of Rs.31,621,843 received from the interest income of fixed deposits and the dividend income of shares had been incurred as administrative expenses during the last 6 years.	Agree. 3 new projects have been identified and implemented under the new management and a feasibility study is being conducted for the first two projects. Accordingly, it is expected that the administrative expenses of the institution will be borne by the income generated through it.	Actions should be taken to implement the objectives of the organization.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 353,381,044 and the corresponding loss in the preceding year amounted to Rs. 55,368,643. Therefore an improvement amounting to Rs. 408,749,687 of the financial result was observed. The main reason for the improvement is the increase in the share prices.

2.2 Trend analysis of major Revenue and Expenditure Objects

Compared to the previous year, the increase in the Fair Value gain on investment in Associate in the year 2024 had been Rs. 427 million.

2.3 Ratio Analysis

It was observed that the current ratio of the year under review is 20.36 per cent which was higher than previous year's ratio of 19.41 per cent.

3. Accountability and Good Governance

3.1 Annual Action Plan

Audit Observation	Management Comments	Recommendation
Although a sum of Rs.93,000,000 has been allocated for 3 projects planned to be started and implemented in the year under review by the annual action plan, those tasks were not carried out during the year under review. It was also observed that two projects do not belong to the company's role.	Disagree. The board of directors of the company has been given scope to engage in business of their choice, because the rule of overreach of power in the Companies Act No. 7 of 2007 has been completely removed.	The company must comply with the objectives set out in its Memorandum of Association (MoA).

3.2 Audit Committee

Audit Observation	Management Comments	Recommendation
Section 4.2 (h) of Public Enterprise Manual No. 01/2021 dated 16 November 2021. Although audit and management committee meetings should be held every 03 months, the company had held only 01 audit and management committee meeting during the year under review.	Agree. This situation arose because there was no representative of the Treasury and since the appointment of a representative of the Treasury again, the audit and management committee meetings have been held as scheduled.	Action should be taken as per the circular.