

**1. Financial Statement**

**1.1 Qualified Opinion**

The audit of the financial statements of the Maga Neguma Consultancy & Project Management Services Company (Pvt) Limited (“Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information 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 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 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 Auditor's Responsibilities 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 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

	<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Although all material information should be disclosed in the financial statements in terms of Paragraph 31 of Sri Lanka Accounting Standard No. 01 to enable users of financial statements to make economic decisions, details relating to the legal cases relevant to the legal expenses amounting to Rs.415,000, which had been accounted for, had not been disclosed through notes to the financial statements.	Action will be taken to rectify in the future.	All material information should be properly disclosed in the financial statements in accordance with the requirements of Paragraph 31 of Sri Lanka Accounting Standard No. 01 to enable users of the financial statements to make economic decisions.
(b)	According to Paragraph 32 of Sri Lanka Accounting Standard No. 01, assets and liabilities should not be offset unless permitted by a Sri Lanka Financial Reporting Standard but as at the end of the year under review, the receivable Value Added Tax balance amounting to Rs. 563,052 had been offset against the balance of trade and other payables under current liabilities in the Statement of Financial Position.	Action will be taken to rectify in the future	In terms of Paragraph 32 of Sri Lanka Accounting Standard No. 01, receivable Value Added Tax should not be offset against trade and other payables
(c)	Contrary to Paragraph 40(a) of Sri Lanka Accounting Standard No. 01, a third Statement of Financial Position as at the beginning of the preceding period had not been included in the financial statements in respect of adjustments relating to prior years.	The answer had not been received	Financial statements should be prepared in accordance with Paragraph 40(a) of Sri Lanka Accounting standard No.01 .

- (d) Although impairment losses should be recognized for receivable balances in terms of Paragraph 5.5.15 of Sri Lanka Financial Reporting Standard No. 09, the company had not recognized any impairment loss in respect of the sum of Rs. 27,533,113 receivable from related parties according to the financial statements as at the end of the year under review. Information relating to a balance of Rs. 17,361,580 out of these receivables had not been submitted for audit, and that amount, Rs. 14,061,567 represented balances outstanding for more than five years.
- The long-outstanding receivable balances mainly represent expenses incurred for road development projects of the Road Development Authority. While the institution was operating successfully, the company had recovered a significant portion of these receivable balances, and by now the outstanding amount has been reduced to the level referred to by you. The relevant supporting documents are available within the institution's premises, and you may inspect them.
- Impairment losses should be identified and accounted for in accordance with Paragraph 5.5.15 of Sri Lanka Financial Reporting Standard No. 09, and information relating to receivable balances should be furnished for audit.
- (e) Contrary to Paragraph 14(a) of Sri Lanka Accounting Standard No. 37, dividends amounting to Rs. 28,351,292, which had been provided in the year 2016 without obtaining approval through an ordinary resolution in accordance with the Board of Directors and the Articles of Association of the company, had continued to be shown under current liabilities during the year under review as well.
- As this institution has been established under the Companies Act, these dividends had been allocated to the shareholders prior to the year 2016. In accordance with the Inland Revenue Act prevailing at that time, the minimum dividend amounts allocated in each respective year prior to 2016 had been determined based on the profits earned during those years.
- Only provisions that comply with Paragraph 14(a) of Sri Lanka Accounting Standard No. 37 should be recognized under liabilities in the financial statements.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Although deferred tax should be accounted for in terms of Paragraphs 15, 24 and 58 of Sri Lanka Accounting Standard No. 12, the company had failed to recognize the deferred tax expense of Rs. 9,291,847 prevailing during the year under review and had instead adjusted a deferred tax income of Rs. 5,756,424 to the Statement of Comprehensive	As there appears to be a discrepancy in the calculations relating to the deferred tax asset and the annual deferred tax expense, we kindly request you to forward your detailed calculations to us, and accordingly, we expect to provide a response in due	Deferred tax liabilities or assets should be calculated in accordance with the provisions stipulated in Paragraphs 15, 24 and 58 of Sri Lanka Accounting Standard No. 12, and the deferred tax expense

Income. As a result, the profit for the year and other comprehensive income had been overstated by Rs.9,291,847 and Rs.5,756,424 respectively.

Further, although the company had a deferred tax liability of Rs.5,756,427 as at the end of the year under review, it had been accounted for in the financial statements as a deferred tax asset amounting to Rs.9,291,847. As a result, non-current liabilities had been understated by Rs.5,756,427 and current assets had been overstated by Rs.9,291,847 as at the end of the year under review.

- (b) According to the financial statements, the profit after tax for the year under review had been overstated by Rs.4,616,493 due to adding, instead of deducting, the tax expense of Rs. 2,308,247 in calculating the profit after tax.

course..

The answer had not been received

should be correctly identified in the Statement of Comprehensive Income and the Statement of Financial Position

The tax expense should be correctly adjusted in calculating the profit after tax in the Statement of Comprehensive Income.

### 1.5.3 Going Concern of the Company

Audit Issue	Management Comment	Recommendation
<p>According to Paragraph 25 of Sri Lanka Accounting Standard No. 01, financial statements should be prepared on the basis of the going concern assumption and, where this is not applicable, it should be properly disclosed in the financial statements. However, in terms of Cabinet Decision No. CP/23/0394/608/033 dated 20 March 2023, a decision had been taken to amalgamate the three companies owned by the Road Development Authority and establish a single company, and the operations of the company had been discontinued since August 2023. Nevertheless, despite the existence of uncertainty regarding the going</p>	<p>Although the Cabinet decision referred to by you regarding the amalgamation of the companies owned by the Road Development Authority into a single company had not been communicated to us, the Road Development Authority and the Ministry had instructed that action be taken to liquidate the companies. Accordingly, this matter has been disclosed in the accounting</p>	<p>In terms of Paragraph 25 of Sri Lanka Accounting Standard No. 01, if the company's financial statements cannot be prepared on the basis of the going concern assumption, appropriate disclosure should be made and the financial statements should be prepared accordingly.</p>

concern status of the company, the financial statements for the year under review had been prepared and presented on the going concern basis.

notes and the financial statements have been prepared on that basis. Although business income could have been generated if operations had been carried out, operations had to be discontinued in accordance with the request made to cease all operational activities. However, until the company is liquidated, the institution has had to incur essential expenses required to maintain its existence.

#### 1.5.4 Related Parties and Related Party Transaction not disclosed

Audit Issue	Management Comment	Recommendation
<p>According to the company's accounts as at the end of the year under review, the balances receivable from and payable to the Road Development Authority amounted to Rs.24,307,200 and Rs.5,361,187 respectively. However, only a balance of Rs.4,047,571 payable by the Road Development Authority to the company had been included in those financial statements. Further, according to the company's financial statements as at the end of the year under review, the balance receivable from Maga Neguma Road Construction Equipment Company amounted to Rs.3,225,913. However, according to the letter No. MNRCE/FN/LO/2025/32 dated 16 June 2025 issued by Maga Neguma Road Construction Equipment Company, the balance payable to the company was Rs.1,353,604.</p>	<p>The balances reflected in our company's books have been included in the financial statements. However, we have identified and corrected most of the differences between the balances stated by the Road Development Authority and our records. At present, the Road Development Authority has not clearly indicated that there are errors in the balances identified. Furthermore, action has been taken to identify differences in the unreconciled balances, detailed information would be required in order to reconcile our balances with the accounting records of the Road Development Authority</p>	<p>An internal control system should be introduced to ensure and verify the accuracy of the balances included in the financial statements.</p>

Accordingly, the company had failed to identify these differences and rectify the receivable and payable balances in the financial statements.

### 1.5.5 Non-Compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
<p>Although provisions had been made under Section 8 of the Inland Revenue (Amendment) Act No. 10 of 2021 to set off 5 percent of the withholding tax deducted from investment interest against the annual tax expense, the company, in calculating the annual tax expense of Rs.2,308,247, had deducted 30 per cent amounting to Rs.21,929,918 as withholding tax on fixed deposit interest from the annual tax expense. As a result, the annual profit of the company had been overstated by Rs. 18,274,932..</p>	<p>As business tax losses are allowed to be set off against investment income, a business loss had been deducted from investment income during the year of assessment. When paying interest on fixed deposits, the relevant financial institutions deduct a 5% withholding tax and provide us with the relevant withholding tax certificates. Since the Inland Revenue Act permits such withholding tax, evidenced by the certificates issued by the financial institutions, to be treated as a tax payment and deducted from the tax payable, the statement made by you that the amount of Rs. 21 million had understated the profit would be incorrect.</p>	<p>Special attention should be paid to this matter during the system review carried out in terms of Section 38(1)(b) of the National Audit Act No. 19 of 2018, written instructions should be issued accordingly, and action should be taken in compliance therewith.</p>

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

Reference to Laws, Rules Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a) Section 133(1) of the Companies Act No. 07 of 2007.	<p>Although the Board of Directors of a company is required to convene an Annual General Meeting of shareholders once every year, the company had not held an Annual General Meeting of</p>	<p>Due to the COVID-19 pandemic that prevailed after the year 2019 and the protests carried out against the State mechanism, as well as the fact that</p>	<p>Action should be taken to hold General Meetings in accordance with the provisions of the Companies Act, and the annual accounts</p>

shareholders after the year 2019. the annual accounts, should also be which should have submitted for audit been audited and on the due dates received six months prior to holding an Annual General Meeting, had not been received in practice during previous years, it had not been possible to hold Annual General Meetings

- (b) Paragraph 6.1 (i) of the Operations Manual introduced by the State Enterprises Circular No. PED/01/2021 dated 16 November 2021
- Although best practices in financial management should be followed to implement a proper financial management system and to ensure value for money in resource management, the company had maintained a minimum balance of Rs.115.45 million in its current bank accounts during the year 2024, while the balance as at the end of the year amounted to Rs.121.74 million. Accordingly, the company had failed to utilize the excess funds in a productive manner.
- As arrangements are being made to transfer the assets to the Road Development Authority, The institution is not in a position to make long term investments. Therefore, all accumulated funds have been deposited in current accounts for the purpose of settling liabilities promptly and transferring the remaining funds to the Road Development Authority.
- Instructions should be issued in compliance with Section 38(1)(b) of the National Audit Act No. 19 of 2018 regarding the effective investment of excess funds, and action should be taken accordingly

## 2. Financial Review

### 2.1 Financial result

The operating result of the year under review amounted to a profit of Rs.9,995,804 and against the loss in the preceding year amounted to Rs.20,657,244. Therefore an improvement amounting to Rs.30,653,048 of the financial result was observed. The reason for the improvement is the operational expenditure was reduced in Rs.53,125,129 and earning of financial income of Rs.73,099,726 even without a revenue and cost of sale.

### 2.2 Trend Analysis of major Income and Expenditure items

- A decrease of 100 percent was observed in revenue and other income during the year under review compared with the previous year, and correspondingly, the cost of sales had also decreased by the same proportion.

- An 86 percent decrease in finance costs was observed during the year under review compared with the previous year. The reduction in interest on bank overdraft facilities had also contributed to this decrease.

### 2.3 Ratio Analysis

- The company current assets ratio and Quick assets ratio for the year under review decreased from 5.70 to 4.49 and from 5.69 to 4.48 respectively when compared to the previous year.

## 3. Operational Review

### 3.1 management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) Although the workforce was required to be reduced by introducing a Voluntary Retirement Scheme in accordance with the Cabinet Decision No. CP/23/0394/608/033 dated 20 March 2023 due to the lack of sufficient business opportunities, all 47 employees of the company had been retired under the Voluntary Retirement Scheme, and subsequently, 25 employees from among those voluntarily retired had been re-recruited on an assignment basis to assist in the liquidation of the company in accordance with the Board Decision dated 11 August 2023. The basis for the selection of the 25 employees who were re-recruited had not been furnished for audit, and the process of liquidating the company had also not been commenced even up to 31 December 2024. Further, during the year under review, a sum of Rs. 21,011,338 had been paid as salaries and allowances in the year 2024 to twenty-two employees who had been re-employed.</p>	<p>Although the audit query stated that this institution had also been decided to be closed down on the basis of liquidating three companies belonging to the Road Development Authority due to the lack of sufficient business opportunities arising from the financial crisis prevailing in the construction sector, I wish to point out that this statement is not factual, and that this decision had been taken due to the submission of such incorrect information without informing this institution. It is a matter of great concern that, as auditors, your audit observations have failed to address the parties responsible for submitting misleading information to the Cabinet, which was detrimental to the continued existence of our institution. However, in accordance with that decision, the Road Development Authority informed this institution, which had been operating successfully, to retire all employees and take immediate steps to close down the institution. Accordingly, with the cessation of services by all employees and until the</p>	<p>Accurate and timely information should be submitted for Cabinet decision-making, and such decisions should be implemented in accordance with proper procedures. Disciplinary action should be taken against the responsible parties who failed to comply with these requirements.</p>

implementation of the closure process, a minimum number of employees had been re-engaged on an assignment basis with the approval of the Board of Directors.

- (b) The company's head office is being maintained within premises belonging to the Road Development Authority, and provisions for building rent are made each year based on the invoices issued by the Road Development Authority. Although a sum of Rs.1,932,307 had been provided for rent in the year 2024 as well, a rental agreement had not been entered into between the Road Development Authority and the company.
- While this institution was operating successfully, we had made requests in this regard over several years. As a result, although we did not make the rental payments referred to by you in cash, the Road Development Authority had deducted those amounts from the monies receivable by our company. Certified bills relating to previous years have been submitted. Since the Road Development Authority issues the invoices, requests will be made to inform the relevant parties in this regard.
- A proper agreement should be entered into, and action should be taken to pay the rent and maintain accurate accounts in accordance with the terms and conditions thereof