

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Lakdiva Engineering (Pvt) Limited for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 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 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 2022, 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:

- Appropriate audit procedures were designed and performed 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.
- 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 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 the Sri Lanka Accounting Standards

	<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Provisions for impairment losses had not been made in accordance with Sri Lanka Financial Reporting Standards No. 09 for trade receivables of Rs. 65,039,660, which had not been recovered for a period of 214 days to 1,095 days.	Measures will be taken to allow for damages in accordance with the relevant standard.	Accounting standards should be followed.
(b)	Although the actuarial technique or the projected unit credit method should be followed in determining the liability to pay gratuity in accordance with paragraphs 64, 65 and 66 of Sri Lanka Accounting Standards No. 19 on Employee Benefits, the company had not acted in accordance with the standards.	Gratuity fees are paid to employees who retire after serving the company in accordance with the Payment of Gratuities Act No. 12 of 1983.	Gratuity allocations should be made according to standards.

### 1.5.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The salary and wage expenses had been overstated by Rs. 5,704,490 due to daily contract salaries of the company employees being recorded twice.	Steps will be taken to correct the salaries of daily contract employees whose salaries and wages accounts had been recorded twice.	Salaries and wages should be accounted for accurately.

- (b) Even though it had been observed according to the assessment rates valuation report that an assessed value of Rs.989,079 should be paid for the year 2024, the profit for the year under review had been overstated by Rs. 904,039 and the balance payable had been understated by the same amount due to that company had identified that only Rs. 85,040 should be paid by the company as the payable balance.
- Discussions are carried out with the relevant Pradeshiya Sabha to obtain relief regarding the increase in assessment fees, and further action will be taken once the decision is received from that institution.
- Payments due in accordance with the law should be made promptly, and disclosures and adjustments in accounts should be made at the correct value.
- (c) An amount of Rs. 110,000 paid for the purchase of property, plant and equipment during the year under review had not been included in investment activities mentioned in the cash flow statement.
- The understatement of the balance amount of cash and cash equivalents amounting to Rs.110,000 by as per the cash flow statement will be corrected.
- The cash flow statement should be prepared by including all relevant values.
- (d) The salary and wages paid for the month of December 2023 amounting to Rs. 332,675 had been accounted for as salaries and wages for the current year, resulting in the profit for the current year being understated by that amount.
- Measures will be taken to adjust the salary and wage balance relevant to the previous year from this year and adjust it to the profit.
- Expenses should be accounted for correctly.

### 1.5.3 Documentary Evidences not made available for Audit

	<b>Item</b>	<b>Amount Rs.</b>	<b>Unprovided audit evidence</b>	<b>Management Comment</b>	<b>Recommendatio n</b>
(a)	Festive Advances	174,609	Detailed schedules regarding festival advances	Steps will be taken to prepare a detailed sub-document regarding the festival advance of Rs.174,609.	A detailed schedule of festival advances should be maintained and updated.

(b)	Refundable tender deposit	1,510,000	Schedules relating to refundable tender deposits	Steps will be taken to maintain the relevant sub-document.	A detailed schedule for tender deposits should be maintained and updated.
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
No information had been submitted for audit regarding the balance of Rs.6,336,262 receivable from the Service Center for the years 2021 and 2023 included in the accounts receivable balance as at the end of the year under review.	Since there is no information regarding the balance of Rs.6,336,262, I will take actions to investigate the relevant receivable balance and prepare a relevant document.	Actions should be taken to maintain the relevant schedules to confirm the balance due.

### 1.6.2 Payables

Audit Observation	Management Comment	Recommendation
Detailed schedules to verify the trade payables balance of Rs.16,081,469 coming from previous years were not submitted for audit even by date of the report.	I will act to prepare a supplementary schedule relating to the balance of Rs.16,081,469 coming from previous years.	Actions should be taken to maintain the Schedules regarding balances due.

## 1.7 Non-compliance with laws, rules, regulations and management decisions, etc.

Non-compliance with laws, rules, regulations etc.	Non-compliance Rs.	Management Comment	Recommendation
(a) Sections 16 and 27 of the Employees' Provident Fund Act, No. 46 of 1980, as amended by Act No. 03 of 1982	The employer should pay the employee contributions to the fund on or before the last day of the following month for each month and	These surcharges had to be paid due to the delay in receiving funds for the institution in 2024, the delay in making payments due to the sudden floods and road blockages that	Actions should be taken to pay the contributions on the due dates as per

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|     | <p>surcharges are levied for late payments. The company had paid Rs. 60,585 as surcharge during the year under review on late payment of contributions to the trust fund.</p> | <p>occurred that year. I will take actions to prevent such delays in the future.</p>   | <p>the Act.</p>   |  |
| (b) | <p>Sub-section 158 (1) (b) of the Pradeshiya Sabha Act, No. 15 of 1987</p>  | <p>In the case of non-payment of any tax, the Pradeshiya Sabha is in possession of the power to seize and sell all and every movable or immovable property of the person who has defaulted on payment of the tax and take steps to collect the tax and collection fees. A notice of seizure of movable and immovable property had been sent against the company due to non-payment of assessment tax of Rs. 1,730,887 for the years 2024 and 2025.</p> | <p>The discussions are underway currently with the relevant Pradeshiya Sabha to obtain relief regarding the increase in assessment fees and I will take further action once I receive the decision from that institution.</p> | <p>Actions should be taken to pay the assessment fees in accordance with the Act.</p>                                    |
| (c) | <p>Gazette Extraordinary No.1533/16 dated 25 January 2008 and National Environment Act No. 47 of 1980</p>   | <p>Even though an environmental protection license should be obtained by following a recognized and approved method for the disposal of waste, plastic and electronic waste, the company had not taken actions to obtain the environmental protection license for the year under review.</p>   | <p>Relevant discussions have been held with the Divisional Secretariat to obtain an environmental protection license. I will take actions to expedite the activities to be carried out within the relevant institution.</p>   | <p>An environmental protection license should be obtained in accordance with the Act and other relevant regulations.</p> |
| (d) | <p>Public Enterprises Circular No. 1/2015 (II) dated 14 January 2022</p>  | <p>Fuel worth Rs.358,360, exceeding the amount of fuel due to the</p>  | <p>I will act to investigate the fuel that was provided to the Chairman and General</p>   | <p>Actions should be taken to</p>  |

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|     | Chairman and General Manager of the company, had been supplied contrary to the circular, amounting to Rs.237,915 and Rs.120,445 respectively. | Manager for the institution's duties and the fuel that was provided contrary to that.   | provide fuel allowances and make payments for fuel in accordance with the circular.  |  |
| (e) | Chapter 05 of the Guidelines on Corporate Governance for State-Owned Enterprises dated 16 November 2021                                       | Although the Corporate Plan, Operational Plan and Annual Procurement Plan approved by the Board of Directors should have been submitted to the Department of Public Enterprises 15 days before the commencement of the financial year, the draft annual report within 60 days after the end of the financial year and the annual report within 150 days after the end of the financial year, actions had not been taken to submit them. | Since there was a Cabinet memorandum to dissolve the institution in 2024, the Board of Directors of the institution had been dissolved. Accordingly, it was not possible to submit the relevant plans to the Department of Public Enterprises. I will take actions to submit the relevant reports within the time limit in the future. | The relevant documents should be submitted on the due dates as per the guidelines.                           |
| (f) | Section 756 (6) of the Financial Regulations as amended by Public Finance Circular No. 01/2020 dated 28 August 2020                           | Although the physical completion of board of the survey activities for the relevant financial year should be done before January 15 of the next financial year and the board of survey report should be submitted to the Auditor General before March 31 of the next financial year, the company had not submitted the board of survey reports for the year 2024 even by 06 November 2025.  | I will conduct the board of survey on the due dates and submit the report to the Auditor General.  | The board of survey should be surveyed as per the circular and its reports should be submitted to the audit. |

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review amounted to a deficit of Rs. 2,419,961 and the corresponding surplus of Rs. 28,039,032 in the preceding year for the previous year. Therefore, a deterioration amounting to Rs. 30,458,993 of the financial result. was observed. The reasons for the deterioration were mainly due to the increase in selling costs and administrative expenses.

### 2.2 Trend Analysis of Major Income and Expenditure Items

Operating income increased by 12 percent compared to the preceding year in the year under review, while cost of sales had increased by 31 percent.

### 2.3 Ratio Analysis

The current ratio in the year under review was 1.6, while the same ratio in the preceding year was 1.9.

The gross profit ratio in the year under review was 17 percent, while it was 29 percent in the preceding year, which means that the ratio had deteriorated by 12 percent compared to the preceding year.

## 3. Operating Review

### 3.1 Management Inefficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Even by the audited date, 3 years and 8 months had passed for the repair of a lorry belonging to a board and Rs.1,048,865 had been spent on the repair work so far, but actions had not been taken to complete and hand over the repair work and recover the relevant money.	The lorry in question will be repaired and delivered as soon as possible.	Actions should be taken to complete the relevant repair work on the due dates and recover the relevant funds.
(b)	A Pajero vehicle belonging to a state corporation had been received by the company for repairs in 2022 and its repairs had been carried out by an external contractor without a	Actions will be taken to paint the vehicle belonging to the Plantation Corporation in the correct manner and give to the	When obtaining services from external contractors, the relevant services should be obtained in

contract and Rs.1,763,300 had been paid. Due to the agreed colour change during the repairs, the owner of the vehicle had refused to accept it, and as of the audited date of 06 November 2025, the vehicle had not been handed over to the owner and the repair costs had not been recovered.

relevant institution.

accordance with the agreements and relevant rules, and the relevant money should be collected by handing them over to the owners on the due dates.

- (c) The company had repaired a van belonging to a government school and a sum of Rs.150,000 paid by a sponsor for this repair had been credited to the personal account maintained by the company's industrial engineer at the Bank of Ceylon and that amount had been recovered in January 2026 from the gratuity due upon his retirement from service.
- The Board of Directors will be informed about this and further action will be taken.
- The internal control system should be strengthened so that money owed to the company is not credited to the personal accounts of the officers.
- (d) Although the company had repaired the van belonging to a government school and handed it over to the school on 27 March 2024, it had been informed that it was unable to pay the value as there was no financial or other agreement between the company and the school. Accordingly, actions had not been taken to recover the value of Rs. 1,239,530 due to the company for the repairs even by 06 November 2025, the audited date.
- I will discuss with the officials of the Ministry of Transport and the Board of Directors regarding obtaining the bill value of the vehicle that was repaired and given to the Nittambuwa Sanghabodhi Vidyalaya and take further action accordingly.
- Repairs should be carried out in accordance with formal agreements with customers and invoices should be submitted without delay and the organization should also be paid promptly.

### 3.2 Transactions of Contentious Nature

Audit Observation	Management Comment	Recommendation
Incentives of Rs.1,400,000 had been paid to 73 employees of the company for the year 2024 without formal approval, based solely on the number of days reported for work in the two months of November and December 2024.	I will act to develop a proper incentive system and obtain approval.	Incentives should not be paid without developing an incentive system and obtaining Treasury approval.

### 3.3 Idle or underutilized property, plant and equipment

Audit Observation	Management Comment	Recommendation
<p>The company's vehicle service center, which was started in the year 2021, had an income of Rs.10,945,007 in the year under review and an expenditure of Rs.12,320,126, accordingly there was in a loss of Rs.1,375,119. Also, the operations of this service center had been suspended since June 2024 and accordingly, machinery and equipment worth Rs.11,407,706 remained idle.</p>	<p>Actions will be taken to commence the activities of the vehicle service center very soon according to a proper methodology.</p>	<p>Actions should be taken to conduct a feasibility study to commence operations at the vehicle service center and commence operations in accordance with a prescribed methodology.</p>

### 3.4 Human Resource Management

Audit Observation	Management Comment	Recommendation
<p>(a) Although the company's staff had been approved in 2018, 7 years have passed since that year, the company had not prepared a recruitment procedure and had it approved by the Department of Management Services.</p>	<p>I take actions to get the recruitment procedure. Approved.</p>	<p>Actions should be taken to approve the recruitment procedure.</p>
<p>(b) The company has 121 approved cadre for 28 posts, of which the General Manager, Administrative Officer and Internal Auditor posts belonging to the upper management level have been vacant since 2018 when the recruitment procedure was approved, while the Accountant post has been vacant since 2021. This situation had also severely affected the internal control of the company and there was a shortage of 45 employees even by the end of the year under review.</p>	<p>The relevant recruitments will be made after the recruitment procedure is approved.</p>	<p>Actions should be taken to promptly approve the recruitment procedure and make the relevant recruitments accordingly.</p>