

Lakdiva Engineering Company (Pvt) Limited – 2015

The audit of financial statements of the Lakdiva Engineering Company (Pvt) Limited for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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. My observations in respect of performance of the Company of the year under review which consider should be presented to parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. Because of the matters described basis for the disclaim the opinion. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion.

1.4 Basis for Disclaimer Opinion

- (a) As per the paragraph 55 of Sri Lanka Accounting Standard 16, depreciation of an assets begin when it is available for use and depreciation should be done on a systematic basis over its useful life time. But property plants and equipments of the Company costed Rs. 7,125,829 had not been depreciated.
- (b) The loss due to non-moving stocks shown in the financial statements valued for Rs.12,881,658 had not been identified and accounted accordingly.
- (c) Though provision for gratuity as per the financial statements of the company as at 31 December 2015 was Rs.2,365,893, as per the calculation made at the audit it was Rs.17,960,598. As such provision for gratuity had been understated by Rs.15,594,705.
- (d) As per the financial statements of the year under review, schedules and age analysis for salary arrears payables to the staff amounted to Rs.12,470,792, employees provident fund contribution payable amounted to Rs.859,411, and employees trust fund contribution payable amounted to Rs. 181,350 and the schedules and verification reports for stock amounted to Rs.12,272,702 had not been furnished to the audit and as such , those balances could not be satisfactorily verified and accepted in the audit.

2. Financial Statements

2.1 Disclaimer of Opinion

As a result of the matters described in the paragraph of basis for disclaimer opinion, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Report on Other Legal and Regulatory Requirements

As required by section 163(2) of the companies Act No.07 of 2007, I state the following.

- (a) The basis of opinion and scope and limitation of the audit as stated above.
- (b) According to the my audit opinion,
 - I have not able to obtain sufficient and appropriate audit evidence that are required to provide a basis for audit opinion.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The receivable balances amounted to Rs.1,781,775 in the financial statements was remained over a period of one year and recoverability of this balance was in uncertainty. Action had not been taken to recover this amount or make provisions.
- (b) Aggregate long term payable balances amounted to Rs.880,589 was observed in the financial statements but proper action had not been taken to settle those payable balances.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliances
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(a) Section 131 (01) of the Companies Act No. 07 of 2007.	As per the Companies Act, the annual report (Form No.15) had not been submitted to the Register of Companies.
(b) Treasury Circular No.842 dated 19 December 1978.	A fixed assets register had not been maintained in accordance with the circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company during the year under review had been a surplus of Rs.408 as compared with the corresponding loss of Rs.4,048,921 for the preceding year thus indicating a improvement of Rs.4,049,329 in the financial result for the year under review as compared with the preceding year. The increase in the bus repair income by Rs.10,397,967 as compared with the preceding year had been the main reason for this improvement.

In the analysis of financial results of the year under review and 04 preceding years, revealed that company had financial surplus in 2013 and 2015 but had deficits in the years 2011, 2012 and 2014. However, in re-adjusting the employees remuneration to the financial results the contribution of the company had a sum of Rs.22,392,631 in the year 2011 had continuously increased and amounted to Rs.235,136,697 in the year 2015.

4. Operating Review

4.1 Performance

The key functions of the company was repair the Sri Lanka Transport Board buses, fully or partially, at a low cost yet under high standards, repairing crashed buses, repairing of bus bodies, preparing seat covers and cushions for seat and undertake repair of other vehicles belongs to the Ministry of Transport had been identified at the establishment of Lakdiva Engineering Company (Pvt) Limited.

The following observations are made.

- (a) Company had repaired only the Sri Lanka Transport Board buses but had not repaired other institutions vehicle under the Ministry of Transport.
- (b) (i) According to the action plan for the year 2015, eventhough 96 busses should be repaired in the 04 quarters of the year, only 47 busses had been repaired. As such, Out of the scheduled repairs only 49 per cent buses had repaired during the year.
- (ii) According to the last 5 years information regarding the repair of buses, though 78 buses repaired in the year 2010, the number of repaired buses had gradually decreased to 47 in the year 2015.
- (iii) After the buses were handed over to the Lakdiva Engineering Company by depots, 120 days to 508 days time delay had occurred to send the buses for repairing to the Engineering Section. Reasons for keeping such a long time before starting repairs had not been revealed to the audit.

4.2 Management Activities

The following observations are made.

- (a) Without proper approval and provisions a salary conversion had been done for the staff and for the officers who had retired and a provision of Rs.10,512,055 and a sum of Rs.1,958,737 had been made in the accounts for salaries and wages payable respectively. Even though 06 years had lapsed after paying salary advances of Rs.1,693,000 and Rs.254,000 in the years 2009 and 2010 respectively, action had not been taken to settle the advance accounts until end of the year under review.
- (b) Based on the unapproved salaries conversion, a provision of Rs.859,411 and a sum of Rs.181,350 had been made for employees' provident fund and Employees' Trust Fund respectively for the salary payables in the financial statements.
- (c) Eventhough a sum of Rs.964,549 had been paid as incentive during the year under review, a proper approval had not been taken relevant to the incentive payments.
- (d) In addition to the staff of the Company, external labours on contract basis had been recruited to repair buses of the Lakdiva Engineering Company during the year under review, as such three contract groups having two each in one group had been engaged for the services and had been paid a sum of Rs.2,707,230 in this regards. In accordance with the Government Procurement Guidelines, bids had not been called for selecting these labour contract groups and qualifications had not been checked. Nevertheless, had not been entered to a written agreement.
- (e) Eventhough Lakdiva Engineering Company (pvt) Ltd carrying out its business in a part of a land extent to 23 Acres belonging to the Sri Lanka Transport Board in Ekala, action had not been taken to acquire the legal right of that part of the land by the Company.

4.3 Procurement Activities

The following observations are made.

- (a) Without following the directions of the Government Procurement Guidelines, a sum of Rs.8,084,081 had been incurred to procure spare parts in the year 2015 on quotations personally taken by the Procurement Officer from 03 institutions.
- (b) Suppliers had not been registered to supply spare parts for the year 2015.
- (c) Spare parts needed to repair bus bodies had been purchased unit wise when its necessary basis, instead of purchasing bulk quantities. As such economical advantages (Discounts) which should have been received on bulk purchasing had avoided.

4.4 Staff Administration

The Department of Management Services had approved 121 cadre in 30 post in the Lakdiva Engineering Company (Pvt) Limited. The actual cadre in the Company as at 31 December 2015 had 65 and 56 vacancies in the approved cadre. Out of that vacancies in the main posts of the Company such as the General Manager, Administration officer, Accounts Officer, Factory Engineer and Internal Audit Officer were remained vacant and officers had not been appointed. Officers for covering duties had been appointed for the posts of Administration officer and Account Officer of the Company. Not appointing officers for the main posts of the Company had been affected to the smooth operations of the Company.

5. Accountability and Good Governance

5.1 Establishment of the Company and Ownership of the Company

The Lakdiva Engineering Company (PVT) Limited was incorporated on 01 October 2001 as a government owned Company and registered on 15 August 2011 under the companies' Act No. 07 of 2007. The stated capital of the company was comprised with 650,000 ordinary shares at Rs.10 each and out of that only 2 shares had been issued. Those two shares had been purchased by the Secretary to the Ministry of Transport.

5.2 Presentation of Financial Statements

In terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, eventhough the financial statements and the draft annual report for the year under review should be furnished to the audit within sixty dates of closure of the accounting year, the financial statements for the year 2015 had been furnished on 27 July 2017 after 01 year and 05 months delay.

5.3 Action Plan

In terms of section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003, eventhough to accomplish the Vision and Mission of the Lakdiva Engineering Company (pvt) Limited a corporate plan should be prepared for not less than 03 years period, a corporate plan had not been prepared for the year under review.

5.4 Internal Audit

An internal audit division had not been established to check the activities in the Lakdiva Engineering Company (pvt) Limited.

5.5 Procurement Plan

In terms of paragraph 4.2.1(a) of the Government Procurement Guidelines 2006, the Company had not prepared a procurement plan.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Fixed Assets Control	(i) Not maintaining a fixed assets register. (ii) Physical verification of fixed assets had not been done.
(b) Stocks Control	(i) Not conducting stock verification. (ii) Failure in taking action on unusable stock.
(c) Procurement Activities	Not preparation of procurement plan and not following procurement procedures for purchasing.
(d) Staff Administration	Failure to recruit employees for the vacancies.