

Lakdiva Engineering Company (Pvt) Ltd – 2016

The audit of financial statements of the Lakdiva Engineering Company (Pvt) Ltd for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and 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 relating to the performance of the Company for the year under review which I consider should be tabled in Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Management's Responsibility for the Financial Statements

The Board of 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. I conducted my audit in accordance with Sri Lanka Auditing Standards.

1.4 Basis for Disclaimer of Opinion

- (a.) Due to non-availability of a Register of Fixed Assets or detailed schedules relating to the Property, Plant and Equipment, I could not verify the assessment, accuracy, and completeness of the Property, Plant and Equipment worth Rs. 13,435,435 shown in the statement of financial position as at 31 December 2016. Furthermore, contrary to Sri Lanka Accounting Standard, LKAS 16, relating to the revelation of Property, Plant and Equipment, the Company had not revealed depreciation on the Property, Plant and Equipment.
- (b.) The Company had not conducted physical verification on goods as at 31 December 2016. I could not verify the assessment, accuracy, and completeness of the goods worth Rs. 15,493,432 shown in the statement of financial position as at 31 December 2016. Furthermore, the Company had been unable to identify the losses of unissued items in accordance with Sri Lanka Accounting Standard, LKAS 2.
- (c.) Goods worth Rs. 12,970,875 had been received by the Company in the year 1993 for the Great Wall bus project. However, those goods had not been brought to accounts. The Company had failed to furnish assessment reports on inventories relating to the existence and assessment of such goods as at 31 December 2016, or sufficient and appropriate audit evidence.

- (d.) Accrual expenses and other monies payable, cafeteria deposits, returned cheques, and trade creditors, amounting to Rs. 13,594,667, Rs. 10,000, Rs. 276,692, and Rs. 306,317 respectively had been written off by the Company against the administrative expenditure. As such, the administrative expenditure had been understated by Rs. 14,187,676.
- (e.) This Company had not registered for Income Tax, Value Added Tax, and Nation Building Tax.

2. Financial Statements

2.1.1 Disclaimer of Opinion

Because of the significance of the matters described in Basis for Disclaimer of Opinion of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.1.2 Report on Other Legal and Regulatory Requirements

I express the following matters in accordance with Section 163 (2) of the Companies Act, No. 07 of 2007.

- (a.) Basis for audit opinion, scope of audit, and limitations are as mentioned above.
- (b.) I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for my audit opinion.

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

The following instances of non-compliances with Laws, Rules, Regulations and Management Decisions, were observed.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance
-----	-----

- | | |
|---|--|
| a) Factories Ordinance of 1833, amended by Factories Act, of 2000.
Section 12(1) | Buildings of the factories had not properly been maintained ensuring the ventilation in accordance with the act. |
| Section 13(1) | The factory had not been maintained by securing cleanliness, temperature, ventilation, and light. |

Section 42(a)(1)	No fire extinguishers had been installed. No insurance covers had been obtained for buildings and employees.
Section 50	No ambulances, medical units or first aid boxes had been provided.
Section 53(1)	Eye protection equipment had not been provided for the employees of the factory, nor had safety measures been taken in regard to health.
b) Section 23(a) of the National Environmental Act, No. 47 of 1980 as amended by the Act, Nos. 53 of 2000, and 56 of 1988.	A license had not been obtained for the factory.
c) Section 170(1) of the Companies Act, No. 07 of 2007.	The annual report (Form 15) had not been furnished to the Registrar of Companies in terms of the Companies Act.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review was a surplus of Rs. 5,085,866 as compared with the corresponding surplus of Rs. 408 for the preceding year, thus indicating an improvement of Rs. 5,085,458 in the financial result of the year under review. The increase in the income from the repairs on busses amounting to Rs. 38,691,555 in the year under review had mainly attributed to the said improvement.

4. Operating Review

4.1 Performance

The activities such as, making repairs fully or partly on the busses belonging to the Sri Lanka Transport Board at low expenses ensuring high quality, preparation of cushions for the seats and seat covers, and repairing vehicles belonging to other institutions of the Ministry of Transport, had been identified as the duties of the Lakdiva Engineering Company (Pvt) Ltd at its inception.

The following observations are made.

- (a.) According to the Action Plan prepared for the year 2016, eighty four busses should have been repaired for the 4 quarters of the year. However, only 69 busses had been repaired. As such, only 82 per cent of the busses planned to be repaired during the year, had been repaired.
- (b.) Once the busses had been handed over to the Lakdiva Engineering Company by the depots, delays ranging from 05 to 417 days had occurred before sending the busses to the engineering division for repairs. Reasons for the occurrence of such a long delay before repairs, were not revealed to the Audit.
- (c.) Irrespective of whether the busses had been repaired fully, partly, or based on the condition of individual bus, a methodology had not been followed to prepare a standard estimate in that connection.
- (d.) Due to lack of a methodology to prepare estimates, it was not observed that purchases had been made under a system for controlling stocks by properly identifying the requirements of raw materials.
- (e.) Without following a specific methodology, the Company had obtained labour on contract basis. Payments had been made only for labour whilst the required raw materials and instruments had been provided by the Company. Although agreements had been entered into with contractors for a period of one year, no conditions had been set out in the agreement as to how action should be taken on the failure in executing the task as expected.

4.2 Management Activities

The following observations are made.

- (a.) A sum of Rs. 3,129,352 had been paid to the employees as incentives during the year under review, but approval of the Board of Directors or any other formal approval had not been obtained in that connection.
- (b.) The Lakdiva Engineering Company (Pvt) Ltd had maintained their business at a part of a land in extent of about 23 acres located in Ekala and owned by the Sri Lanka Transport Board. However, no action had been taken to acquire the legal rights for that land.

4.3 Procurement Process

The following observations are made.

- (a.) A sum of Rs. 2,476,369 had been incurred on the purchase of spare parts for the year 2016. Those purchases had been made based on quotations obtained personally by the Procurement Officer from 03 institutions without following the provisions of Government Procurement Guidelines.
- (b.) Despite the possibility of purchasing the spare parts in stocks required for repairing the chassis of the busses, purchases had been made in units whenever

necessary, thus losing the economic benefits (discounts) that would have been gained had the purchases been made in stocks.

4.4 Staff Administration

A staff of 121 had been approved by the Department of Management Services for 30 posts of the Lakdiva Engineering Company (Pvt) Ltd. As the actual cadre of the Company stood at 65 as at 31 December 2016, there existed 56 vacancies in the approved cadre. Appointments had not been made to the main posts approved for the Company such as, General Manager, Administrative Officer, Account Officer, Industrial Engineer, and Internal Auditor. For the posts of Administrative Officer and Account Officer, the Company had appointed officers on covering basis. As such, the failure in appointing officers to the pivotal posts in the Company, was a hindrance for the smooth functioning thereof.

5. Accountability and Good Governance

5.1 Establishment and Ownership of the Company

Lakdiva Engineering Company (Pvt) Ltd had been established on 01 October 2001 as an entity owned by the Government, and was registered on 15 August 2011 under the Companies Act, No. 07 of 2007. The authorized capital of the Company comprised 650,000 average shares each valued at Rs. 10, and only 2 shares therefrom had been issued. The said 2 shares had been purchased by the Secretary to the Treasury and the Secretary to the Ministry of Transport.

5.2 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the financial statements and the draft annual report for the year under review should be presented to the Audit within 60 days from the closure of the year of accounts. However, the financial statements of the year 2016 had been presented on 25 September 2018 after a delay of 01 year and 05 months.

5.3 Action Plan

In terms of Section 5 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, a Corporate Plan should have been prepared for a period not less than 3 years to achieve the vision and mission of the Lakdiva Engineering Company (Pvt) Ltd. However, a Corporate Plan had not been prepared for the year under review.

5.4 Internal Audit

An Internal Audit Unit had not been established to examine the activities of the Lakdiva Engineering Company (Pvt) Ltd.

5.5 Procurement Plan

The Company had not prepared a Procurement Plan in terms of Section 4.2.1 (a) of the Government Procurement Guidelines – 2006.

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.

Systems and Controls	Observation
-----	-----
(a.) Control of Fixed Assets.	Failure to maintain a Register of Fixed Assets and verify the fixed assets physically.
(b.) Stocks Control.	Failure conduct stock verifications annually.