

Maga Neguma Consultancy and Project Management Services Company - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Maga Neguma Consultancy and Project Management Services Company for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income statement of changes in equity 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 and 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 2018, 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 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:

- 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 Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Fully depreciated asset which are still being used by the Company amounting to Rs. 11,136,638 had not been revalued or restated.	Accepted. The revaluation process is going on.	Immediate action should be taken to revaluated the using asset.
As per the financial statements of the Company, a sum of Rs. 978,530 and Rs. 882,118 had been shown as mobilization advance received from the RDA and the Maga Neguma Road Construction & Equipment Company respectively. However, as per the financial statements of the RDA such balances had not been recorded as advance paid to Maga Neguma Consultancy and Project Management Services Company (Pvt) Ltd.	Accepted.	Immediate actions should be taken by the management to rectify the balance.
As per the financial statements of the Company, the revenue for the year under review was Rs.190, 605,538. However, as per the VAT return it was Rs.188, 435,923. Hence, a difference of the financial statement revenue and VAT revenue amounting to Rs.2, 169,615 was observed in audit.	No comments	Those differences should be reconciled and rectified.
A difference of Rs.1, 810,434 was observed in audit between the revenue shown in the financial statements and the revenue shown in the ESC return.	No comments	Those differences should be reconciled and rectified.

1.5.2 Un reconciled Control Accounts or Records

Item	as per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Receivable from RDA	118,406,020	110,252,492	8,153,528	Accepted. Reconciliation process is still going on.	The reconciliations should be done to minimize the difference.
Payable to RDA	1,216,330	-	1,216,330	Accepted. This balance includes long outstands.	The reconciliations should be done to minimize the difference.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Receivable from the Road Development Authority on work bills and retention on Projects aggregating to Rs. 52,696,059 had remained three to five year without been recovered.	Accepted.	Management should ensure to settle the payable balance immediately.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
A sum of Rs. 2,030,805 payables to Maga Neguma Road Construction and Equipment Company had remained over two years without been settled.	Accepted.	Management should ensure to settle the payable balance immediately.
Retention payable on certain Projects aggregating to Rs.24,612,484 had remained over five years without been settled.	Accepted.	Management should ensure to settle the payable balance immediately.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Gratuity Act No. 12 of 1983	The Company had calculated the gratuity provision and made payments based on the basic salary disregarding the cost of living allowance.	Accepted and agreed to rectify.	Cost of living allowance should be considered in calculating and making payment.
(b) Public Enterprises Circular No. PED 3/2015 dated 17 June 2015	Contrary to the limits given in Section 2.1 of the Circular, the Chairman and the Non-Executive Directors of the Company had been over paid monthly payments aggregating to Rs. 3,313,000 by the Company.	No Comments.	The Company should comply with the Public Enterprises Circular.
	Contrary to Section 2.7 of the Circular the Board Members and six directors of the Company had been paid travelling allowance aggregating to Rs. 450,000 and transport allowances aggregating to Rs. 2,147,000 respectively without considering the distance.	No Comments.	The Company should comply with the Public Enterprises Circular.
(c) Government Procurement Guidelines 2006	When a procurement exceeding Rs. 05 million, it is required to follow the National Competitive Bidding (NCB) method as per Section 3.2 of the Guidelines. However, contrary to that the shopping method had been followed by the Company. Further, under the shopping method minimum of 07 days had not been given for bidders to submit bids as required by section 6.2.2 of the Guideline.	No Comments.	The Company should comply with the Government Procurement Guidelines.

(e)Public Enterprises Circular No. PED 01/2015 dated 25 May 2015 as amended by the Public Enterprises Circular No. PED 01/2015 (i) dated 27 October 2016.	Contrary to section 3.3 of the Circular, during the year under review the vehicle and travelling allowances had been paid aggregating to Rs. 864,333 by the Company to the officers of the Company exceeding the entitle limits.	No Comments.	The Company should comply with the Public Enterprises Circular.
(f)Public Enterprises Circular No. PED 01/2015 dated 25 May 2015.	Contrary to Section 3.1 of the Circular, fuel allowances aggregating to Rs. 531,173 had been paid to the officers of the Company exceeding the entitle limits.	No Comments.	The Company should copy write the Public Enterprises Circular.
(g)Public Enterprises Circular No. PED/12 of 2003	Contrary to Section 9.4 of the Circular, salaries amounting to Rs.1,902,075 and bonus amounting to Rs.46,962 had been paid for the employees who had been released to the Ministry of Higher Education and Highways during the year under review.	No Comments.	The Company should comply with the Public Enterprises Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit after tax Rs. 12,777,133 and the corresponding profit after tax in the preceding year amounted to Rs. 58,154,354 Therefore a deterioration amounting to Rs. 45,377,221 of the financial result was observed. The reasons for the deterioration are decreasing sale of the Cold Mix Section, Transport Income and increasing the Administration cost, Depreciation and Amortization cost.

2.2 Ratio Analysis

	2018	2017
Current Assets Ratio	1.79	1.48
Quick Ratio	1.76	1.47
Profit before tax on Total Income	22.25%	64.70%
Profit before tax on operating income	(63.10%)	(3.11%)

As per the Current Assets Ratio and Quick Ratio, it is observed that the management is maintaining an acceptable level of liquidity for the year under review.

As per the ratio calculated by using profit before tax on total income it is observed that the profitability of the company had been drastically come down.

As per the ratio calculated by using profit generated only on operating income it is observed that the company is running without making profit on operating activities. It is further observed the company makes profits only using sundry income that is mainly Interest Income.

3. Operational Review

3.1 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Two backhoe loaders purchased by the Company at a cost of Rs.13.6 million accordingly to the board decision dated 29 January 2018 had been operated only 1.8 hours and 0.5 hours per day in average during the period of February to December.	Accepted.	Management should be taken a prompt action to take maximum benefit of which backhoe loaders purchased by the Company.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
A Corporate Plan had not been prepared the Company.	-	A Corporate Plan in rolling basis for every four years should be prepared by the management of the Company.

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
An Action Plan had not been prepared by the Company.	-	An Action Plan for the Company should be prepared annually by the management of the Company.

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal Audit Unit for the company had not been Established.	-	An Internal Unit for the company should be Established.

4.4 Audit Committee

Audit Issue	Management Comment	Recommendation
Action had not been to Establish the Audit and Management Committee with the concurrent of Line Ministry and RDA by the management of the Company	-	The Audit and Management Committee of the Company should be established with the concurrent of the Line Ministry and RDA by the management of the Company.