Lakdiva Engineering (Pvt) Limited - 2022
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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 2022 comprising the statement of financial position as at 31 December 2022and 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 December2022, 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

Myobjectiveistoobtainreasonableassuranceaboutwhetherthefinancialstatementsasawholearefreefromm aterialmisstatement, 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 and its materiality depends on the influence on economic decisions taken by users 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

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Although the company had calculated the employee gratuity in relation to the previous years based on the actuarial value method as per Sri Lanka Accounting Standard 26, the employee gratuity calculation had been changed in the year under review. But the relevant accounting policy changes were not disclosed in accordance with Sri Lanka Accounting Standard 8.	Although the disclosure according to Sri Lanka Accounting No.08 has not been made, it is expected to disclose according to Sri Lanka Accounting No. 08 in the future financial statements.	Management should prepare financial statements in accordance with accounting standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The spare parts value of the vehicle service department was stated as Rs. 1,867,245 as on 31 December 2022, but the value could not be verified during the audit due to the fact that the spare parts were not documented in the bin cards and the annual stock verification was not conducted.	The 17 items you identified were received at service centers from individual locations and were not purchased with cash. The items therefore have no monetary value. Therefore, it is not disclosed in the financial statements.	Management should ensure that inventory records are kept up-to-date and inventory is verified annually.
(b)	A sum of Rs.646,000had been received as treasury grants in the year under review and due to the crediting of the same value as Rs.5,380,975 in the financial statements, the treasury grants were overstated by Rs.4,734,975 in the financial statements.	A sum of Rs.4, 734,975 was received during the year 2022 as treasury grants and it is shown in the financial statements of the year under review. The opening balance of the treasury main account as on 31 December 2021 should be correct.	Management should ensure that capital receipts are properly accounted for and accurately reflected in the financial statements.

	An amount of Rs.4, 734,975 has been received as treasury grant on 15 February 2022and the amount of Rs.4,734,975 has been shown as a financing activity in the cash flow statement of the year under review.	
(c) Due to the fact that the cost of Rs. 8,290,423 related to property, plant and equipment which were fully depreciated on 31 December 2022 is shown in the financial statements of the year under review, therefore, assets were overstated by that amount.	The assets valued at Rs.8, 290,423 are assets existing since 1974.Those are fully depreciated by now. No depreciation is required in 2022**.** Expected to be reassessed and included in the financial statements.	Depreciation should be accurately calculated according to accounting standards and should be shown in the financial statements accordingly.
(d) The value of Rs.5, 380,925 stated as additions to property, plant and equipment in the statement of financial position of the year 2022 included the plant and equipment of Rs.4, 734,950 which had been purchased and accounted for in the year 2021. As a result, the value of property and equipment was overstated.	The value of said property, plant and equipment were removed from the financial statements and asset records of the accounting section.	Proper accounting books and records should be maintained regarding property, plant and equipment.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprise Circular No. 01/2021 dated 16 November 2021 Section 6.6	According to the circular, the accounts should be submitted to the Auditor General within 60 days after the end of the financial year, but the accounts were submitted with a delay of 119 days on 28 June 2023 and the annual reports from 2014 to 2022 was not tabled.	There has not been a permanent accountant in this institution since July 2022 and although the relevant institutions have been informed about it several times, no approval has been received for the recruitment. An accountant from an institute affiliated to the Ministry of Transport was then appointed to prepare the final accounts in April 2022 and the final accounts prepared by him were handed over to the Audit Department in June 2023.	Management should take action for submit of accounts as per Public Enterprise Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs. 20,197,033 and the corresponding loss in the preceding year amounted to Rs. Rs.9, 880,554. Therefore a deterioration amounting to Rs. 10,316,479 of the financial result was observed. The reason for the deterioration is increase in administration expenses by Rs.14, 643,570.

2.2 Trend Analysis of major Income and Expenditure items

During the year under review, operating income had increased by 108 percent compared to the previous year, while cost of sales had increased by 95 percent.
The value of other income of the company had decreased by 61 percent in the year under review compared to the previous year.

2.3 Ratio Analysis

The current ratio of the year under review was 1.33, while the previous year's ratio was 1.79.
It was observed that the gross profit ratio of the year under review was 7.51 percent, which has increased by 5.84 percent compared to the previous year's ratio of 1.67 percent. This growth was due to increase in income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
Although the company had started a service center in the year 2021 at a cost of Rs.16, 899,205 for the repair and servicing of vehicles owned by government institutions without a feasibility study, 36 vehicles which had been received for repair were held for a long time without repair as on the date of audit due to delay in preparation of estimates and non-availability of required spare parts. Moreover, due to the lack of capacity of the company to work at the service center, the repair work was done by external parties and organizations and for that, Rs. 4,820,348 was paid in the year under review.	Due to the lack of qualified technicians for the service center, relevant payments were made to external parties and repairs were carried out.	When starting new projects, care should be taken to start projects focusing on the ability to maintain the relevant projects economically, efficiently and effectively.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Although an estimated time of 48 days for 6 sides as 8 days for one side is identified for complete repair of a bus, in the sample inspection conducted by the audit, it was observed that 76 to 210 days had been spent for a bus beyond that period.	We would like to inform you that the repair of the buses took more time than the estimated time due to the financial crisis in the company, spare parts could not be purchased at the right time.	Special attention should be paid to managing the financial difficulties and running the business in a manner that satisfies the customers.
(b)	The repair work of 16 buses received by the company for repair in the year under review was not completed and delivered to the depot on the scheduled date and 02 to 16 months were spent for the repair of the buses.	Repairs take longer due to lack of spare parts and financial constraints in some cases. Also, lacks of qualified technical workers are also the main reasons behind the delays.	Special attention should be paid to running the business in a manner that satisfies the customers.

3.3 Human Resource Management

	Audit Observation	Management Comment	Recommendation
(a)	Although trained workers with technical knowledge are essential to run the repair department of the company, the management did not pay attention to properly managing and using the existing human resources and recruiting trained workers based on the need. As a result, 15 contract teams were hired to run the bus repair department and Rs. 29,150,085 were paid for that in the year under review.	Since no approval is given to recruit permanent employees to the organization, in order to achieve the relevant goals, employees are hired on contract basis and relevant repairs are carried out.	Special attention should be paid to managing human resources in favor of the organization and conducting business activities in a manner that satisfies customers.
(b)	The approval of the Department of Management Services for the recruitment procedure prepared by the company had not been obtained by the audit date of 30 May 2023.	Although the recruitment procedure has been prepared, the concerned departments have been informed that the approval for the same has not been given by the Department of Management Services.	Arrangements should be made to approve the recruitment procedure and conduct recruitment accordingly.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Management Comment	Recommendation
According to Section 6.6 of Public Enterprise Circular No.01/2021 dated 16 November 2021, annual reports must be tabled in Parliament within 05 months after the end of the accounting year, but annual reports were not tabled from 2014 to the year under review. It was observed that the last report related to the year 2013was tabled on 21July 2016**.**	Annual reports have been prepared and are to be submitted for submit to the Parliament.	Arrangements should be made to table the annual reports in the Parliament according to circulars.

4.2 Annual Action Plan

Audit Observation	Management Comment	Recommendation
Although, 7 tasks were planned to be executed in the year under review by allocating a provision of Rs. 11.72 million in the annual action plan prepared by the company, but none of the related tasks were executed.	Not Answered.	The relevant programs and projects should be completed on time according to the action plan,