

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Maga Neguma Consultancy & Project Management Services Company (Pvt) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 2023, 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 (Auditor's Responsibilities for the audit of the Financial Statements)**

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 scepticism 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Contrary to the paragraph 96 of LKAS 01, revaluation surplus of Rs. 108,307,060 occurred in 2022 had been included in changes in equity except recognizing under the comprehensive income. It was not corrected in the financial statements of the year under review too.	Action will be taken to rectify.	Financial statements should be prepared in accordance with the accounting standard.
(b) Contrary to the paragraph 68 of LKAS 16, the net loss arised on handed over of assets to the Road Development Authority amounting to Rs. 10,171,533 had been record under current assets except charging to the statement of comprehensive income. As a result current assets and results from operating activities had been overstated by that amount.	The company handed over value of assets is Rs. 10,771,533.00 which is the book value of the company as at the handing over. Therefore it is not included profit or loss and such amount should be receivable from the RDA.	Financial statements should be prepared in accordance with the accounting standard.
(c) Revaluation surplus amounting to Rs. 5,593,120, related to the assets handed over to the Road Development Authority had not been adjusted to the Retained Earnings as per the paragraph 41 of LKAS 16. As a result retained earnings were understated and revaluation reserve was overstated by that amount.	Action will be taken to rectify.	Financial statements should be prepared in accordance with the accounting standard.
(d) According to the Paragraph 5.5.15 of SLFRS 09, the company had not recognized the impairment provisions for the trade receivables and amounts due from related parties totaling to Rs. 22,682,613 (more than one year) as at end of the year under review. Further the company had not identified an accounting policy for impairment of trade receivable as per the section 5.5.16 of the standard.	Action will be taken to rectify in future.	Financial statements should be prepared in accordance with the accounting standard.

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| (e) Though the going concern of the company is uncertain due to the cabinet decision on 28 March 2023 to liquidate the company, financial statements for the year ending 31 December 2023 had been prepared on the going concern basis contrary to the paragraph 25 of LKAS 1. | As company is in the process of liquidating we have accounted in this way.       | Financial statements should be prepared in accordance with the accounting standard. |
| (f) Adequate disclose had not been made with regard to the related party transactions of the company as per the paragraph 18 of LKAS 24 - related party disclosures.   | Related party disclosure is disclosed in the financial statements and its notes. | Related party disclosure should be disclosed in accordance with the standard.       |

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Though the company operations were suspended in August 2023, the expenses incurred after August 2023 was included under the cost of sale of the company instead of shown under the administration expenses. Thus the company gross profit was understated by Rs.4, 707,081.	The plant, equipment & asserts needs be maintained in a proper manner up to date until such time we handover same to the Road Development Authority. Hence we added these costs to the cost of sale.	Actions should be taken to rectify the accounting error.

### 1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per financial statements of Road development Authority Rs.	Difference	Management Comment	Recommendation
(a) Amount due from Road development Authority	<b>24,307,200</b>	<b>4,086,661</b>	<b>20,220,539</b>	Reconciliations are being made with the Road Development Authority.	Figures should be reconciled and confirmations should be obtained before certified the financial statements.
(b) Amount due to Road development Authority	<b>6,733,089</b>	<b>9,672,984</b>	<b>2,939,895</b>	Reconciliations are being made with the Road Development Authority.	Figures should be reconciled and confirmations should be obtained before certified the financial statements.

#### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not	Management Comment	Recommendation
(a) Provisions for dividend	28,351,291	Board decision and Annual General meeting minutes	This was made as provision for dividend. However no decision has been taken at the AGM to pay at this amount. Therefore we have to carry forward this as current liabilities	Should be complied with Section 38(1) b and 7 of the National Audit Act No. 19 of 2018
(b) Deferred Tax assets and Recoverable income Tax	3,535,422 (Deferred Tax) 14,840,147 (income tax)	Relevant tax documents	Action will be taken to rectify in future.	Evidence to confirm the balance should be submitted to the audit.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Companies Act No.07 of 2007 Section 133	The board of the company shall call an Annual General Meeting for shareholders at once in each calendar year, not later than six months after the balance sheet date of the company and not later than fifteen months after the previous Annual General Meeting. However Company had not held Annual General Meeting after the year 2019.	Not received.	Should be compliance with the regulations of company act.
(b) paragraph 2.2.2 (b) ix of Guidelines on Corporate Governance for State Owned Enterprises on public enterprises circular no 01/2021 on 16 November 2021	Entity should be properly established and maintained operational, administrative, financial actions and procedures. However, company had not properly established and maintained operational, administrative, financial actions and procedures.	Not received.	Actions should be taken to compliance with the public enterprise circular instructions.
(c) Operational Manuals for State Owned Enterprises on public enterprises circular no 01/2021 dated November 16			

(i) Paragraph 6.6	Draft Annual report should be submitted along with the financial statements. Company had not been submitted draft annual report with financial statements to the audit.	Not received.	Actions should be taken to compliance with the public enterprise circular instructions.
(ii) Paragraph 6.9	The board of directors of State Owned Enterprises may write off losses, having undertaken a due process. Even though the company had written off Rs. 12,658,780 from amounts due from related parties and Rs. 13,809,996 from amounts due to related parties. The company had only presented the relevant board approval for the Audit.	Not received.	Action should be taken to restate the corrected write off value. Write off should not be recognized without following due process of the circular.
(d) Sri Lanka Auditing Standard- No 580 section 10	Management representation should be submitted to the audit. Management representation letters had not been submitted to the audit.	Not received.	Actions should be taken to compliance with the Audit act.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 9,593,831 and the corresponding loss in the preceding year amounted to Rs 12,430,657 Therefore an improvement amounting to Rs. 2,836,826 of the financial result was observed. The reasons for the improvement are finance income had been increase by 155.80 percent than previous year.

### 2.2 Trend Analysis of major Income and Expenditure items

Item	2023 Rs.	2022 Rs.	Difference Rs.	Percentage of the difference
Revenue	69,763,450	191,417,308	(121,653,858)	(63.55)
Cost of sales	63,625,683	170,273,295	(106,647,612)	(62.63)
Sundry Income	13,843,235	7,970,241	5,872,994	73.69
Personal Expenses	20,395,949	21,750,360	(1,354,411)	(6.62)
Retirement Gratuity	848,530	2,894,350	(2,045,820)	(70.68)

Establishment and Administration	25,659,652	14,660,832	10,998,820	75.02
Depreciation & Amortization	27,972,208	21,288,546	6,683,662	31.39
Sales and Marketing Expenses	1,835,864	654,541	1,181,323	180.48
Finance Income	75,653,056	29,575,557	46,077,499	155.8
Finance Cost	72,752	1,751,644	(1,678,892)	(95.84)

### 2.3 Ratio Analysis

	2023	2022
Current Assets Ratio	5.7	2.13
Quick assets ratio	5.69	2.08
Gross profit ratio	8.79	11
Net Profit Ratio	(13.75)	(6.5)

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The company was established as a private limited company under Companies Act No. 17 of 1982 in the year 2004 and re-registered under the Companies Act No. 7 of 2007 in the year 2009. The main objectives of the establishment of this company were to provide consultancy services for feasibility studies and construction projects, while providing project management services for the road construction and rehabilitation sector. But it was observed that the company was operated only for producing and sale cold mix and construction works until the liquidation of the company.	Not received.	Actions should be taken to achieve objectives, in accordance with the Memorandum of association.
(b) In the absence of sufficient business opportunities due to the financial crisis in the construction industry, it was decided to liquidate the three companies belonging to the Road Development Authority and all the 47 employees of Maga Neguma Consulting and Management (Pvt) Ltd had been retired by using Voluntary Retirement Scheme (VRS). However, according to the board decision on 11 August 2023, the Board of Directors had decided to re-engage few of the staff who had voluntarily retired to assist in the	As the liquidation process began last year we had to maintain a minimum staff to assist the process. Therefore until such time a liquidator is appointed we need to maintain this staff and retain the staff members. Further we have to maintain this staff carder and it was	Actions need to take to reduce uneconomic expense.

liquidation of the company and the company had re-engaged 25 employees on assignment basis. Moreover the liquidation process of the company had not been initiated even up to 31 December 2023 and re-engaged employees had been paid of Rs. 7,792,993 as salary and allowances during the period from September 2023 to 31 December 2023 which was observed as an uneconomical expense.

Further the Board approval to re-hire 25 employees and the basis for selection of employees to hire had not been submitted to the audit.

entrusted to the Chairman by the board of directors to use his discretion in retaining the minimum staff.

(c) As per the financial statement of the company amounts due from Road Development Authority amounting to Rs. 8,655,559 and retention amounting to Rs. 5,406,007 had remained unsettled for more than five years. No any action had been taken to recover these amounts.

The company has taken many attempts over the years to collect the long outstanding as well as short outstanding and all balances remain intact.

Receivables should be collected on time.

(d) The balance of the current account of the company was Rs. 87,200,188 as at 31 December 2023. It was observed that the company has not taken actions to utilize these funds in an effective manner.

After receiving the cabinet decision which was made on wrong information furnished by the RDA to the Cabinet of Ministers, we were asked to halt all our operations. Owing to this matter there was no board decision to invest these amounts on fixed deposits.

Action should be taken to control funds in an effective manner.

(e) During the inspection of the payment vouchers, the audit observed deficiencies such as lack of approvals for payments, absence of expenses verification documents and submission of incomplete vouchers due to the non-implementation of the procedures regarding the payments of this company.

In the year 2023 March, when the VRS was granted a liquidation process began, we were short of staff and the existing staff was overloaded. Due to this fact there was a back log of the day-to-day work.

Internal control related to payments should be strengthened.

### 3.2 Operational Inefficiencies

#### Audit Issue

Company had been paid Rs. 8,225,250 in 6 instances to CSS 1 emulsion suppliers, before the goods were received in the year 2023,

#### Management Comment

Due to the financial crisis, most of imports have been banned for that period. Therefore such period Emulsion had not been import and more demand for the domestic stock for the same. Such period, Suppliers had not supply their stock on credit basis and prices were grown up daily. Therefore we had to purchase the goods for fulfilled the customer orders on time and without interrupting manufacturing process and gain highest profit. All the goods had been received during that period.

#### Recommendation

The payment procedure should be implemented in such a way that such payments do not proceed.

### 3.3 Utilization of Resources of Other Organizations

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) Although the company has paid rental fees for the premises where the company's head office, Medayaya and Maho plants belonging to the Road Development Authority, no lease agreement or rent agreement has been signed between the Road Development Authority and the company.</p>	<p>We also wish to place on record that we have taken tireless attempts to sign in an agreement with the RDA and they have not taken steps to do so and we are reminding them frequently.</p>	<p>Actions should take to sign agreements with RDA related to rental assets.</p>