

Lakdiwa Engineering (private) Limited -2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Lakdiwa Engineering (private) Limited for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, Statement of changes in net assetsequity 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 Institute 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 Sub-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 Scope of the Audit

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 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:

- 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 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 Company's use of 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 Sri Lanka Accounting Standards

	Non-compliance with the relevant Accounting Standard	Management Comment	Recommendation
(a)	Although management should make an assessment of the entity's ability to continue as a going concern in the preparation of financial statements in accordance with Sections 25 and 26 of Sri Lanka Accounting Standard 01 Presentation of Financial Statements, No disclosure was made in the financial statements about the approval given by the Cabinet in the years 2023 and 2024 for the transfer of this company to the Sri Lanka Transport Board.	At present, the related handover activities are underway, and after an agreement is reached, action will be taken to present them in future financial statements.	Should be disclosed in the financial statements as per the accounting standard.
(b)	Although an impairment loss provision has to be made for the account receivable balance as per clause 32 of Sri Lanka Accounting Standard 8, provision for impairment losses had not been made as per the standard regarding the balance of Rs.4,043,353 due from the Sri Lanka Transport Board for more than 5 years as at the end of the year under review.	If it is not possible to get the relevant Rs. 4,043,353 through discussion with the Sri Lanka Transport Board, I will arrange to make provision as impairment losses.	Provision should be made for impairment losses as per the accounting standard.
(c)	Employee gratuity provision related to the year under review had been understated by Rs.637,572 due to undercounting of the service period of 33 employees in relation to the year under review when calculating employee gratuity payments as per Sri Lanka Accounting Standard 19.	Accept. Action will be taken to calculate and account for the relevant employee gratuity amounting to Rs.637,572.	Action should be taken to calculate and accounted for the employee gratuity as per the accounting standard.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
Even though, fixed assets of Rs.10,000,000 received in the year 2021 had been accounted for, out of that a sum of Rs.4,735,000 had been accounted as fixed assets again in the year 2022, therefore the fixed assets had been overstated by Rs.4,773,500 at the end of the year under review.	I will calculate the correct value and make it equal to the value in the asset register and the ledger.	Fixed assets should be properly accounted for.

1.5.3 Lack of Written Evidence for Audit

Item	Amount Rs.	Audit Evidences not presented	Management's Comments	Recommendation
Fixed Assets Register	10,000,000	Rs.5,265,000	I will calculate the correct value and make it equal to the value in the asset register and the ledger.	Asset value should be properly accounted for.

1.6 Non-Compliances Laws, Rules and Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non-compliance Rs.	Management Comment	Recommendation
(a) Section 5 of the Gratuity Act No. 12 of 1983 and No. 62 of 1992 (Amended)	A sum of Rs.433,188 had been paid as surcharge during the year under review due to non-payment of gratuity within one month of employees termination.	Due to the delay in the payment of gratuity when the financial condition of the institution was weak a few years ago, the related surcharges had to be paid this year and now the gratuity is being paid within the relevant period.	Gratuity should be paid to the terminated employees as per the rules
(b) Section 5.4.8 of the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka	Although an amount not less than 5 per cent of the estimated value should be submitted as a performance security, the company had not arranged to obtain a performance security as per the guidelines for obtaining the security service for a monthly value of Rs.480,000.	Whenever there is any charge from the security services company it is charged from their bills. They and our organization have entered into an agreement regarding the security service. I inform you that action will be taken to get an amount of not less than 5 per cent as a performance security with the organization that provides security services.	Procurement guidelines should be followed.

(c) **Public Enterprise
Circular No.
01/2021 dated 16
November 2021**

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| i. Section 6.6 | Although the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, the financial statements had been submitted on 02 May 2024 after a delay of 63 days. | The final accounts had been presented and approved by the audit and management committee meeting on 28 February 2024, and due to the inability to hold a board meeting, the final accounts were delayed to be submitted to the Auditor General. | Financial statements should be submitted as per the circular. |
| ii. Section 6.7 | Reports of the annual board of survey on fixed assets and stocks had not been submitted for audit even by 30 June 2024. | I inform that an annual board of survey has been conducted. | The board of survey should be conducted according to the circular, and its reports should be submitted to the audit. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs.28,039,032 and the corresponding loss in the preceding year amounted to Rs.20,197,033. Therefore an improvement amounting to Rs.48,236,065 of the financial result was observed. Decrease in Cost of sales and administration cost are the main reasons for the improvement.

2.2 Trend analysis of major revenue and expenditure objects

During the year under review, the operating income had decreased by 16 per cent compared to the previous year, while cost of sales had decreased by 36.13 per cent.

2.3 Ratio Analysis

Current ratio in the year under review was 1.85 and previous year ratio was 1.33.

The gross profit ratio for the year under review was 29 percent, which was observed to be a growth of 21 percent as compared to the previous year's ratio of 8 percent.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the company's service centre was established in the year 2021 and has been maintained until now, due to the lack of qualified staff, the vehicles are handed over to external agencies for repair work. A sum of Rs.15,012,342 had been paid to external agencies for vehicle repairs during the year under review. The company had to bear a loss of Rs.2,951,848 in the year under review due to the cost of the service center being Rs.20,858,703 and the income being Rs.17,906,855.	Despite request on several occasions for the recruitment of properly trained technicians to maintain the functions of the vehicle service centre properly, no approval was received from the relevant institutions.	The service centre should be turned into a profitable division by increasing revenue and cost management.
(b) Approved staff for 28 positions in the company is 121 and the General Manager, Administrative Officer and Internal Audit Officer posts at top management level had been existed vacant from the year 2018 when the recruitment procedure was approved and the post of Accountant was vacant from the year 2021.	This situation has arisen due to non-receipt of approvals for recruit employees for the respective posts from the related institutions.	Human resources should be managed as per the needs of the assigned activities.
(c) 69 out of 83 buses received in the year under review by the company for repair work had delays ranging from 7 days to 113 days to start the repair work and the lack of necessary raw materials had been the main reason for those delays.	I inform that this situation has arisen due to the lack of cash flow in the company. Action will be taken to prevent that situation in the future.	Repairs should be carried out without delay.

3.2 Idle or Under Utilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
The equipment amounting to Rs.11,407,706 purchased for the service centre activities was underutilized and among them the 3D Wheel Alignment amounting to Rs.1,684,975 have been inoperable.	This situation has arisen due to non-availability of trained workers for this machine, and the related machine has not been installed properly.	Arrangements should be made to utilize the machines and equipment.