

The audit of the operational activities of the Maga Neguma Emulsion Production Company (Private) Ltd for the period from 01 January 2023 to 31 December 2024 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. The financial statements for the years 2023 and 2024, which were required to be submitted in accordance with Section 150(1) of the Companies Act, No. 07 of 2007, had not been submitted even by 28 March 2025. In terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations on the functionality of the Company which I consider should be reported to Parliament appear in this report.

## **1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

In terms of Section 16(1) of the National Audit Act, No. 19 of 2018, every auditee entity shall maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared in respect of such entity. In terms of Section 16(2) of the said Act, annual financial statements shall be submitted by the Chief Accounting Officer to the Auditor-General along with the annual performance reports of those entities within such period as may be provided by rules. The Section 38(1) (d) of the said Act requires ensure the preparation of annual reports and other financial statements within the required time and in addition, the Chief Accounting Officer shall be responsible to submit the annual reports pertaining to the auditee entity to Parliament.

## **2. Audit Observations**

### **2.1 Establishment**

- (a) The approval was given to completely close down the Road Construction and Development Private Company, which operated as a company owned by the Road Development Authority, and to examine the possibility of establishing a private public company by the Ministry of Highways and the Treasury by the Cabinet Decision No.: CP/04/0053/104/004 dated 21 January 2004. Furthermore, as guided by the Cabinet Committee on Economic Policies on 09 December 2002, it was further decided at the aforesaid Cabinet meeting to instruct the Minister of Highways and the Treasury to examine the feasibility of establishing a public-private joint venture company to take over all the construction equipment and machinery owned by the said company from the Road Development Authority and supply the said equipment and machinery to the private sector. However, no evidence was presented to the audit that the Minister of Highways and the Treasury had examined the feasibility and prepared a report on the establishment of a public-private joint venture company. However, approval had been given to establish the company by entering into a partnership with the National Construction Association and the National Association of Contractors as per the Cabinet Decision No. CP /04/0848/004/013-I dated 27 August 2004. However, prior to the said Cabinet approval, Maga Neguma Emulsion Production Company (Private) Ltd had been

incorporated on 09 June 2004 by the Board of Directors' decision No. 795/2004 of the Road Development Authority.

- (b) Even though approval had been granted by the Cabinet decision No. CP/04/0848/004/004/013-I dated 27 August 2004 to the Company to enter into joint ventures with the National Association of Contractors and the Chamber of Construction Industry in accordance with the Cabinet Memorandum No. 30/2004 dated 03 August 2004, no such joint venture had been entered into.
- (c) Even though 02 shares of Rs.100 each had been issued to the Road Development Authority and the Chairman of the Company for the capital contribution of the Company, the Company had not been paid for those shares. In addition, the Company had not issued shares for the Rs.1, 000,000 provided by the Road Development Authority in the year 2004 as the capital contribution.
- (d) Even though the Cabinet decision No. CP /13/0134/505/004 dated 18 February 2013 had been given to amend the Articles of Association of the Company so that the majority ownership of the Company would be transferred to the Treasury and the remaining share would be given to the Road Development Authority, the Articles of Association of the Company had not been amended to date in accordance with that Cabinet decision.

## **2.2 Administration and Management**

The current Chairman has been working as the Chairman of the Company since its inception and since 2023 two officers holding substantive posts in the Road Development Authority and four representatives from the private sector have been appointed as Board of Directors of the Company. The Chairman of the Company had claimed half of the assets of the Company by letter No.MNE/CH/066/2023 dated 11 September 2023 addressed to the Chairman of the Road Development Authority.

## **2.3 Financial Statements**

### **2.3.1 Submission of Financial Statements**

Financial statements of the Company for the year ended 31 December 2022 were submitted to the Auditor General on 21 October 2024, more than 01 year and 07 months late and financial statements of the Company for the years ended 31 December 2023 and 2024 has not been submitted to the Auditor General to date.

### **2.3.2 Assets, Liabilities, Income and Expenditure**

The assets, liabilities, income and expenditure as per the financial statements for the year ended 31 December 2022 were as follows.

Description	Value as per financial statements
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	Rs.
Assets	112,230,850
Equity	38,813,339
Liabilities	73,417,511
Income	105,422,185
Expenditure	142,243,889
Loss	36,821,707

## 2.4 Going Concern and Operational Activities of the Company

- (a) Following the reduction in staff through the introduction of a voluntary retirement scheme, the staff of Maga Neguma Road Construction Equipment Company (Pvt) Ltd., Maga Neguma Emulsion Production Company (Pvt) Ltd. and Maga Neguma Consultancy and Project Management Services Company (Pvt) Ltd. was reduced in accordance with the Cabinet Decision No. CP /23/0394/608/033 dated 28 March 2023 to consolidate the companies and establish a single company. However, action has not been taken so far to liquidate these companies and establish a single company. Even though the Board of Directors of the Company had also approved the appointment of a private company as a liquidator of these companies, the documents confirming the information on how the liquidator was selected were not submitted to the audit.
- (b) The Chairman of the Road Development Authority had informed the audit by letter No. RDA/ADG/NP&AM/MN dated 07 August 2024 that the Road Development Authority had informed the company on 07 September 2023 to suspend the appointment of the liquidator as per the letter dated 23 May 2024 of the Secretary to the Ministry of Transport and Highways, as the assets of the company should be divided equally between the Road Development Authority and the Chairman of the company during the liquidation. The Road Development Authority as the parent company and the Board of Directors of the company had not properly fulfilled their responsibilities regarding the non-implementation of the decision taken by the Cabinet with regard to this company which is fully invested and maintained with public funds and therefore the necessary measures had not been taken to liquidate the company.

## 2.5 Lack of evidence for Audit

- (a) The evidence of confirmation related to the following items not provided during the audit of the financial statements for the years 2021 and 2022 had not been submitted for audit up to the end of the year under review.

Item		Value Rs.		Audit evidence not provided
		2021 Rs.	2022 Rs.	
(i)	Gratuity allocations	-	10,866,300	Calculations relating to the value of the gratuity allocations
(ii)	VAT receivable	731,154	731,154	Calculations relating to the value of VAT receivable
(iii)	Cases pending against the company	-	43,948,644 23,400,000 164,400,000	Current status of CHC/299/2016/MR CHC/298/2016/MR CHC/594/15/MR cases
(iv)	Balance payable by the company to a private company since 2013	24,500,000	24,500,000	Documents confirming the balance
(v)	Proposed dividends for the year 2015	-	29,765,787	Decisions of the Board of Directors or Annual General Meeting minutes declaring dividends
(vi)	Valuation amount of the land in extent of 2 acres and 9.83 perches,	9,620,000	9,620,000	Lease Agreement for the Land and Buildings

belonging to the  
Urban  
Development  
Authority, where  
the company is  
located land.

(vii)	Revaluation of Motor Vehicles	-	13,025,000	Motor Vehicle Revaluation Report
(viii)	Building Repair	-	3,483,255	A formal fixed asset register containing data on each item of these assets and a fixed asset verification report as at 31.12.2022
	Office Equipment		4,906,138	
	Furniture		4,100,849	
	Machinery		11,725,250	

(b) Even though 07 officers were recruited again under the daily wage system based on the decision of the Board of Directors' meeting held on 7 August 2023 to perform essential duties until the liquidation process begins after voluntary retirement, the audit was unable to obtain the necessary books, files, information and clarifications to conduct the audit due to the current situation where the company has no office for administrative purposes and no employees are reporting to work.

(c)

## 2.6 Non-Compliance with Laws, Rules and Regulations

### Reference to Laws, Rules and Regulations

Section 133 of the Companies Act, No. 7 of 2007

### Non-Compliance

Even though the Board of Directors of a Company is required to convene an Annual General Meeting of shareholders once every calendar year, the Company has not held Annual General Meetings since 2016.

## **2.7 Operational Inefficiencies**

Even though the emulsion plant of this company, which has a production capacity of 10,000 liters per hour, is expected to maintain an annual production capacity of 12 million liters of emulsion by operating for a minimum of 5 hours per day for 20 days, even 10 percent of its capacity has not been maintained in the years 2020, 2022 and 2023. Further, due to the closure of the company, this plant was taken over again by the Road Development Authority with effect from 20 October 2023. However, since production activities have not been carried out in the plant so far, the plant is currently completely underutilized.