

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maga Neguma Emulsion Production Company (pvt) Ltd. for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and statement of comprehensive income, statement for changes in equity, 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 the provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Maga Neguma Emulsion Production Company (pvt) Ltd. as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities (SMEs).

1.2 Basis for qualified Opinion

My opinion is qualified based on 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 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 the Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities (SMEs) and for such internal control as management determines 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 for accounting unless management either intends 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 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 Audit (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 judgement and maintain professional scepticism throughout the audit. I also

- Appropriate audit procedure were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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 was obtained 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.
- 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 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 discussions 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 the financial statements

1.5.1 Non-compliance with the Sri Lanka Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) The under-mentioned receivable and the payable balances had been set off and accounted not in compliance with section 2.52 of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities.	Not submitted.	The action should not be taken to set off the assets and liabilities which had not been permitted by the standard.
I Having set off a balance of Rs.42,132,000 receivable to the company from a private company for a balance of Rs.18,732,000 payable to that company, an amount of Rs.23,400,000 had been reported in the financial statements as an amount receivable from that company.		
II Having set off the balance receivable of Rs.8, 731,355 from sales of emulsion to Road Development Authority by company for a balance of Rs.7, 697,175 payable to Road Development Authority by company, an amount of Rs.1, 034,180 had been reported in the financial statements as a receivable from Road Development Authority.		
(b) Not in compliance with section 4.7 of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities, an amount of Rs.1, 000,000 provided to this company as share capital by Roads Development Authority before 18 years or in 2004 had been reported under the current liabilities in the financial statements.	Not commented	The step should be taken to rectify the current liability values having removed the values not related to the current liability classification in compliance with the standard.
(c) Not in compliance with the section 17.15C of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities, an amount of Rs.13,025,000	Not commented.	The motor vehicle revaluation excess should be credited to the revaluation reserve

	which was the profit gained from the motor vehicle revaluation within the year under review had been indicated under the retained earnings in the statement of changes in equity.		account as per the standard.
(d)	In compliance with the section 18.27 of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities, no action had been taken to account and make the required disclosures of the value computer software system which is used for the administrative and financial activities.	Not commented.	The computer software system should be accounted under the intangible assets and make the necessary disclosures.
(e)	Even though the differed tax liability had been identified as Rs.514, 780 due to consideration of income tax rate of 30 percent as a 18 percent in computation of the differed tax by the company, not taking the revaluation profit and identification the gratuity tax as a liability, such differed tax liability was Rs. 820,920 as per the calculations carried out in compliance with 29.7 of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities. Accordingly, the differed tax had been understated by Rs. 1,335,700.	Not commented.	The differed tax liability should be accurately calculated and accounted as per the standard.
(f)	In compliance with section 10.23 of Sri Lanka Financial Reporting Standards for small and medium scale entities, the required disclosures for the adjustments of Rs.5, 493,814 in the preceding year shown in the statement of changes in equity as at 31 December 2022 by company had not been made by the company.	Not commented.	The relevant disclosures should be made related to the adjustments in the preceding year as per the standard.
(g)	In compliance with the section 33 of Sri Lanka Financial Reporting Standards for the small and medium scale entities, the disclosures in respect of the transactions between the company which is the related party and Road Development Authority, transactions between company Maga Neguma Consultancy Company/	Not commented.	The information with regard to the transactions among the related parties should be disclosed in the financial statements as per the standard.

transactions with Maga Neguma Roads Construction Company, lease agreements with Road Development Authority and pricing policy between company and Road Development Authority and other guarantees had not been included in the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The value of the stock as per the financial statements was Rs. 62,142,477, and the physical stock verification reports had not been provided to the audit. Further, as a difference of Rs. 429,427 between the value of the monthly stock reports and the value of the account was also observed, there was an uncertainty about the accuracy of the stock value in the audit.	No comment has been presented.	The physical stock verification reports should be provided to the audit with no delay.
(b) Although the carrying value of the property, plants and equipment worth Rs. 17,991,717 further being used by the Company has become zero, the actions had not been taken to account those assets amending their useful life until the end of the year under review.	No comment has been presented.	The useful life of the assets of which the carrying value is zero and are still in use should be amended and accounted to the fair value.

1.5.3 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Management	Recommendation
Although the below-mentioned discrepancies were observed when comparing the financial statements of the company for the year 2022 with the financial statements of the Road Development Authority for the said year, the steps had not been taken by the Company to reconcile and correct these balances.	No comment has been presented.	The discrepancies among the financial statements should be reconciled and rectified by the confirmations.
Item	<div> <div>Balance as per the Financial Statement s of the Company Rs.</div> <div>Balance as per the Financial Statements of the Road Developme nt Authority Rs.</div> <div>Difference</div> </div>	

1	Balance receivable from the Sales of Emulsion	8,731,353	4,589,093	4,142,260
2	Advances	7,697,174	9,798,822	2,101,648
3	Plants and Equipment Rents payable	3,412,145	3,230,227	181,918
4	Rents payable	-	32,090,912	32,090,912

1.5.4 Going Concern of the Organization

Audit Observation	Comments of Management	the Recommendation
(a) Even if the proceedings should be made to liquidate this company as per the Cabinet Decision No. 23/0394/608/033 dated 28 March 2023 that had been given after the approval of the financial statements by the Board of Directors, the said task had not been done until the date of audit and it was accordingly observed that the going concern of the company is in an uncertain status.	No comment has been presented.	The uncertainty of the company's going concern should be revealed in the financial statements.
(b) Even if an unanimous proposal to appoint a private company as a liquidator to liquidate the company according to the above Cabinet Decision had been adopted at the extraordinary annual general meeting of the company held on 07 August 2023, the company had been informed by the Road Development Authority on 07 September 2023 to suspend the appointment of this liquidators since the claiming a complete half of the assets of this company by the private shareholder and the chairman of this company which was established by investing public funds is problematic.	No comment has been presented.	According to Section 187(1) of the Companies Act No. 07 of 2007, a person exercising powers or performing duties as a director of a company shall act in good faith, and in what that person believes to be in the interests of the company, and take steps with no delay to settle the ownership of the company's assets and to implement the

- (c) The employees of the company had been dismissed based on the voluntary retirement scheme as per the said decision. Also, even if 07 officers had been recruited again for the service under the daily wage system based on the Director Board Decision dated 7 August 2023 to perform essential duties until the liquidation process is started, there was no office at present for the administrative activities of the company and it was not possible to obtain the books, files, information and clarifications required for the audit in a circumstance where no employee reported to work.
- No comment has been presented.
- The actions should be taken to maintain books and records in accordance with Sections 07 and 38(1) (b) of the National Audit Act, No. 19 of 2018, and to present the required information to the Auditor General within the prescribed timeframes for verification purpose.

1.5.5 Lack of Documentary Evidences for Audit

	Subject	Value Rs.	Audit Evidences Not Provided	Comments of the Management	Recommendation
(a)	Allocation of Gratuity	10,866,300	Way of calculating value of the gratuity allocations	No comment has been presented.	The actions should be taken to maintain books and records in accordance with Sections 07 and 38(1) (b) of the National Audit Act, No. 19 of 2018, and to present the required information to the Auditor General within the prescribed timeframes for verification purpose.
(b)	VAT receivable	731,154	Calculations related to the value of VAT receivable		
(c)	Lawsuits remaining related to the company	43,948,644 23,400,000 164,400,000	Present status of Case Files and Cases CHC/299/2016/MR CHC/298/2016/MR CHC/594/15/R and		
(d)	The balance to be paid by the company to a private company since 2013	24,500,000	Balance Confirmation Documents		
(e)	Proposed dividends in the year 2015	29,765,787	Director Board decisions or the Annual General Meeting minutes to confirm the dividend	No comment has been presented.	The actions should be taken to maintain books and records in accordance with Sections 07 and 38(1)

declaration.

(b) of the National Audit Act, No. 19 of 2018, and to present the required information to the Auditor General within the prescribed timeframes for verification purpose.

(f) The assessed value of the land having an extent of the 2 acres and 9.83 perches owned by the Urban Development Authority where the company is located. 9,620,000 Lease Agreement for the Land and the buildings.

(g) Revaluation of Motor Vehicles 13,025,000 Motor Vehicle Revaluation Report

(h)	Building Repairs	3,483,255	A formal fixed assets register and the fixed asset verification report as at 31.12.2022
	Office Equipment	4,906,138	
	Furniture	4,100,849	
	Machineries	11,725,250	

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

	Reference to Laws, Rules, Regulations	Non-Compliance	Comments of the Management	Recommendation
(a)	Section 133 of the Companies Act No.7 of 2007	Even if a company should call for an annual general meeting of shareholders once every calendar year, the annual general meetings had not been held after the year 2016.	No comment has been presented.	The Annual General Meetings should be held in accordance with the provisions of the Companies Act.
(b)	Section 2 of Public Enterprises Circular No. PED 01/2015(i) dated 27 October 2016	Although an officer who is entitled to a dedicated vehicle can be paid an allowance of Rs. 50,000 per month in place of using the official vehicle, the company had exceeded that limit and paid Rs.2,925,000	Comments have not been submitted.	Actions should be taken to act as per the Instructions of Public enterprises circular and immediate actions should be taken to

to four officers during the year under review.

recover overpayments.

(c) Section 83 of the Inland Revenue Act, No. 24 of 2017	Although employers are required to deduct income tax on employees' employment income when paying salaries, the company had paid Rs. 123,813 in income tax without deducting it from the employees' salaries.	Comments not submitted.	have been	Immediate actions should be taken to act in accordance with the provisions of the Act and to recover the money from the officers who recommended, certified and approved the relevant payments in a manner that is not in accordance with it.
(d) Sections 10 and 11 of Sri Lanka Auditing Standard No. 580	Although the management representation letter should have been submitted for audit, the company had not acted accordingly.	Comments not submitted.	have been	A written representation should be provided to the audit in accordance with Sri Lanka Auditing Standards.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a loss of Rs.38, 895,016 and in contrast, the profit for the previous year was Rs.6, 650,715. Accordingly, a decline of Rs.45, 545,731 was observed in the financial result. This decline had been mainly due to a decrease in the sales revenue of emulsion products by Rs.139, 203,601 and an increase in financial expenses by Rs.4, 598,612.

2.2 Trend analysis of major income and expenditure items

- Revenue for the year under review decreased by 59 per cent compared to the preceding year, while cost of sales had decreased by 51 per cent. Gross profit had also decreased by 84 per cent.
- An increase of 241 percent was observed in other income in the year under review compared to other income in the preceding year.
- It was observed that the finance cost for the year under review increased by 182 percent compared to the previous year. This had been mainly due to the increase in overdraft interest.

2.3 Ratio analysis

- The company's current asset ratio in the year under review increased from 1.35 to 1.50 when compared to the current asset ratio of the preceding year, while the quick asset ratio decreased from 1 to 0.50 when compared to the previous year.
- The gross profit ratio in the year under review and the previous year was 9 percent and 23 percent respectively, while the net profit ratio in the previous year was 3 percent, but in the year under review it had taken a negative value of 37 percent.

3. Operational Review

3.1 Management inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although approval had been given by the Cabinet Decision No. CMP/04/0053/104/004 dated 21 January 2004 to completely close down the Road Construction and Development Private Company (RC & DC), 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, the Road Development Authority had incorporated the Maga Neguma Emulsion Products (Private) Company in violation of it.	Comments have not been submitted.	Steps should be taken to protect the rights of the government by acting in accordance with government laws and ministerial decisions
(b) According to the Cabinet Decision No. 04/0848/004/013-I dated 27 August 2004, although approval had been given to establish three subsidiary companies owned by the Road Development Authority by entering into a partnership with the Construction Industry Association and the National Contractors Association, prior to the approval of the said Cabinet, the company had been incorporated on 10 June 2004 based on the decision of the Board of Directors of the Road Development Authority No. 795/2004.	Comments have not been submitted.	Steps should be taken to protect the rights of the government by acting in accordance with government laws and ministerial decisions.

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| (c) | Although 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 capital contribution. | Comments have not been submitted. | Actions should be taken to carry out to issue of shares for capital contribution of the company and recover the money for the shares issued in accordance with the relevant rules, regulations and agreements |
| (d) | Although the Cabinet decision No. 13/0134/505/004 dated 18 February 2013 had been issued 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 in accordance with that Cabinet decision. | Comments have not been submitted. | Steps should be taken to protect the rights of the government by acting in accordance with government laws and decisions. |

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
(a) Although the company's emulsion plant, with a production capacity of 10,000 liters per hour, is expected to be able to maintain an annual production capacity of 12 million liters of emulsion by operating the production process for a minimum of 5 hours per day for 20 days, its production from 2020 to July 2023 was only 766,000 liters, 2,633,300 liters, 418,500 liters and 950,500 liters respectively.	Comments have not been submitted.	Actions should be taken to determine the maximum and minimum capacity levels of the plant and accordingly, analyse the emulsion requirement for government road development activities through the Road Development Authority and take steps to obtain maximum orders from the company.
(b) Although the Road Development Authority had taken over this plant since 20 October 2023 due to the closure of the company, the plant is currently completely underutilized due to the lack of production activities at the plant.	Comments have not been submitted.	Actions should be taken to minimize waste by utilizing state resources optimally and efficiently.

3.3 Utilizing the resources of other organizations

Audit Observation	Comments of the Management	Recommendation
Although the Road Development Authority had provided a large portion of the company's capital contribution and a large percentage of the fixed assets used for the company's operations, the Road Development Authority, as the managing company, had not received any benefits since 2004.	Comments have not been submitted.	The company should take actions to adjust the capital cost of fixed assets used by the company and the returns payable to the company's shareholders accurately to ensure a fair presentation in the financial statements.