

Maga Neguma Emulsion Production Company (Pvt) Ltd - 2017

The audit of the financial statements of the Maga Neguma Emulsion Production Company (Pvt) Ltd (“Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

In my opinion is Qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the company as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Comply with Sri Lanka Accounting Standards

The following observations are made in this regard

- (a) The Cost of fully depreciated assets which are still being used by the company as at 31 December of the year under review was Rs. 15,874,665. However, actions had not been taken to revalue those assets as required by the LKAS 16 Property Plant and Equipment and restate as required by the LKAS 08, changes in Accounting policies, changes in accounting Estimates and Errors.
- (b) Contrary to Sri Lanka Accounting standards on presentation of financial statements and conceptual frame work for financial reporting, the interest income has recognized on cash basis instead of accrual basis of accounting. The company had been recognized its interest income as of Rs.19, 170,612 for the year under review on cash basis of accounting. However, the entity should have been recognized an interest income of Rs.21, 210,208 on the accrual basis whereas resulted to understate the interests income by RS.2,039,596

2.2.2 Accounting Policies

Contrary to the method disclosed in note. 2.13(a) to the financial statements, the Company has been calculated the retirement gratuity obligation of the company as at 31 December 2017 by multiplying the period of service by his monthly basic salary of each employees.

2.2.3 Accounting Deficiencies

The following observations are made in this regard

- (a) According to the financial statements, the depreciation for the year ended 31 December 2017 was Rs.4, 835,440. However, as per the calculation made by the Audit it was Rs. 4,140,072. Hence, a difference of Rs. 695,367 was observed between two balances.
- (b) As per the financial statements, the balance of a fixed deposit was Rs. 124,991,726. However as per the balance confirmed by the bank it was Rs. 125,657,433. Hence, a difference of Rs. 665,709 was observed between these two balances.
- (c) As per the financial statements the amount due from the Road development Authority (RDA) as at 31 December 2017 was Rs. 2,383,446. However, as the information given by RDA it was Rs. 2,053,192. Hence, a difference of Rs. 330,317 was observed between these two balances.

2.3 Non-Compliance with Laws, Rules, Regulations and Management Decisions.

Reference to law/ direction	Description
(a) National Audit Act No 19 of 2018	As per the act Auditor General should the Auditor of the company, the financial statements for the year 2017 of the company had not been submitted to the Auditor General until 18 February 2021. However, the financial statements had been approved by the Board of Directors in the meeting which was held 24 July 2018.
(b) The Section 2.1 of the Public Enterprises Circular No. PED 3/2015 dated 17 June 2015	Monthly allowances had been over paid by Rs. 2,262,000 contrary to the entitled limits of the Chairman and Non - Executive Directors in the year under review.
(c) Public Enterprises Circular No. PED 01/2015 date 25 May 2015.	
• The Section 3.1	Contrary to the Circular, fuel allowances aggregating to Rs. 730,080 had been paid exceeding the entitled limits.
• The Section 3.3 of the Circular No. PED 01/2015 (i) dated 27 October 2016.	Vehicle and travelling allowances totaling to Rs. 1,740,000 had been paid during the year 2017 exceeding the entitled limits.

3. Financial Review

3.1 Financial Results.

The operating result of the year under review amounted to a loss of Rs. 77,899,167 and the corresponding profit in the preceding year amounted to Rs. 598,107. Therefore a deterioration amounting to Rs. 78,497,274 of the financial result was observed. The main reason for the deterioration of the operating result was decreased the revenue by 87 percent compared with the preceding year.

3.2 Ratio Analysis

	2017	2016
Current Assets Ratio	2	2.20
Quick Ratio	1.52	1.88
Gross Profit Ratio	(5.39%)	25%
Net Profit Ratio	(141.84%)	0.14

As per the Current Assets Ratio and Quick Assets ratio calculated, it is observed that the company had been maintained within the acceptable range for the year under review and the preceding year.

Gross profit ratio had been decreased by 30 percent and Net profit ratio also had decreased by almost 141 Percent. It is observed that the main reason for such deterioration of the annual profitability is decrease the revenue by 87 percent compared with the preceding year while operating costs were constant even the sales were reduced.

4. Accountability and Good Governance

4.1 Corporate Plan

According to the section 5.1.3 of the circular No.PED/12 of 02 June 2003 on the Public Enterprises Guidelines on good Governance, the updated Corporate Plan should be furnished to the Auditor General 15 day's commencement of each financial year, however the company had not been complied with the respective provision of the circular.

4.2 Action Plan

Action plan had not been prepared by the company for the year under review.

4.3 Budgetary Control

An approved Budget for the year under review had not been submitted to the audit by the company.

4.4 Audit Committee

Audit and management committee had not been established by the company with the concurrent of the line Ministry and the Road Development Authority.