

## **Lanka Leyland (Private) Ltd. – 2020/2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the of Lanka Leyland (Private) Ltd for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 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 a summary of significant accounting policies, 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 tabled in Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, 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**

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My Opinion is Qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section in this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

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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 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 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 Audit (Auditor's Responsibilities for the Audit of the Financial Statements)**

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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:

- Appropriate audit procedures 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
- 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 Council;
  - 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

### **1.3 Audit Observations on the Preparation of Financial Statements.**

#### **1.5.1 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
An interest income of Rs.5,183,458 was due for three fixed deposit balances by the end of the year under review on 31 March 2021. This amount had not been disclosed as a receivable income in the statement of financial position and it had been stated under the relevant fixed deposit value.	Not replied.	Expenses relating to the year should be accounted for properly.

### **1.6 Accounts Receivable and Payable**

#### **1.6.1 Payables**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
The audit fees amounting to Rs. 100,000 that remained payable at the beginning of the year had not been paid even by the end of the year under review.	Not replied.	Action should be taken to pay the charges payable on the due date.

## **2. Financial Review**

### **2.1 Financial Results**

The operations of the Company for the year under review had resulted in a profit of Rs.284,417,460 as compared with the corresponding profit of Rs. 115,591,833 for the preceding year, thus observing an improvement of Rs. 168,825,627 in the financial results. This improvement was mainly due to increase in the investments in the associated companies by Rs. 278,300,300.

## 2.2 **Trend Analysis of the Main Income and Expenditure Items.**

The investment value in the associated companies had increased by Rs. 176,962,500 or 175 per cent as compared with the preceding year.

When comparing expenditure balances for the year under review with the expenditure of the preceding year, administrative expenses had increased by 5 percent.

## 3. **Operating Review**

### 3.1 **Uneconomic Transactions**

#### **Audit Observation**

#### **Comment of the Management**

#### **Recommendation**

Although there had been no daily functioning of the Company during the year under review, a sum of Rs. 156,000 had been spent as telephone charges of the Chairman.

Not replied.

Expenditure should be incurred by identifying the necessity.

### 3.2 **Management Inefficiencies**

#### **Audit Observation**

#### **Comment of the Management**

#### **Recommendation**

There was no documented policy regarding human resources of the Company and Rs. 6,465,067 had been spent as administrative expenditure including payments for the Board of Directors during the year 2020/2021. Incurring more than Rs.6 million as administrative expenditure without an approved staff and any operating activity was observed to be an uneconomic expenditure.

Not replied.

Since there are no adequate operating activities, administrative expenditure should be incurred limitedly.