

Lakdiva Engineering Company (PVT) Ltd - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the of Lakdiva Engineering Company (PVT) Ltd for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 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, except for the effect 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 Company as at 31 December 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

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 (SLAuS). 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 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 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)

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

1.5 Audit Observations on the Preparation of Financial Statements.

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Motor vehicles worth Rs. 1,017,000 included in the property, plant and equipment had been erroneously brought to account under the machinery and equipment.	Not replied	Assets should be brought to account under the correct categories.
(b) Even though two busses worth Rs. 3,500,000 included in the property, plant and equipment valued at Rs. 8,290,423 shown in the statement of financial position as at the end of the year under review had been withdrawn from use, value thereof had not been eliminated from the accounts.	Not replied	Assets should be accurately adjusted in the accounts.
(c) There observed a difference of Rs. 503,145 between the ledger balance and the financial statement balance in relation to the refundable contract deposits, refundable tender deposit, postal fee and sanitary expenses accounts as at the end of the year under review.	Not replied	Ledger balance should be correctly recorded in the final account.
(d) As an amount of Rs. 641,032 had been erroneously credited to the salary advance account, the balance of the account had been understated by that value.	Not replied	Salary advances should be correctly recorded in the accounts.
(e) Value of Rs. 180,432 received as the fixed deposit interest income had not been recorded as the receipt of interest income in the cash flow statement.	Not replied	Income received in cash should be stated in the financial statement.

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| (f) Fixed deposits of Rs. 6,762,291 under the financial activities had been erroneously stated as an encashment of Rs. 6,581,859 in the cash flow statement. | Not replied | Action should be taken to correct the errors. |
| (g) No provision for doubtful debt had been made in respect of trade debtors of the company amounting to Rs. 7,215,786 as at 31 December of the year under review. | Not replied | Provision for doubtful debts for the debtors should be made correctly. |
| (h) The creditors balance of the company as at the end of the year under review was Rs. 16,081,469 and balance confirmations had not been furnished to audit in order to confirm that balance. | Not replied | Balance confirmation letters relating to the creditors should be obtained. |

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 23 (a) of National Environmental Act No.47 of 1980 as amended by Acts, Nos.53 of 2000 and 56 of 1988.	Even though the vehicle servicing institutions should obtain a licence related thereto, the company has not so far obtained that licence.	Not replied.	Action should be taken to obtain the Environmental Licence.
b) Section 42 (a) 1 of the Factories Act No.33 of 2000.	Even though there shall be provided in every factory fire fighting appliances in accordance with the regulations made in that behalf, fire fighting appliances had not so fixed in the section where the bodies of the company's busses are made.	Not replied	Action should be taken in accordance with Factories Ordinance.
(c) Procurement Guidelines 2006			
i. Section 3.4	Calling for bids and entering into stock ledger, and maintaining Goods Received Notes and Bin Cards had not been carried out in relation to the purchase of engine oil and	Not replied.	Calling for bids and entering into accounts should be correctly carried out.

the items required to vehicle servicing valued at Rs.5,901,358 during the year.

ii. Section 4.2	Action had not been taken to prepare a Master Procurement Plan and a Procurement Time Schedule.	Not replied.	A Procurement Plan and a Procurement Time Schedule should be prepared.
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2. Financial Review

2.1 Financial Result

The operating result for the year under review was a loss of Rs. 9,880,554 as compared with the corresponding loss of Rs. 26,326,283 for the preceding year. Accordingly, an improvement of Rs. 16,445,729 of the financial result was observed. The increase in the other income by Rs. 19,775,815 had mainly attributed this improvement.

2.2 Trend analysis of the main income and expenditure items

- The operating income of the year under review had decreased by 5.4 per cent compared to the preceding year and the sales cost had decreased by 2.3 per cent.
- The value of other income of the company had increased by 1602 per cent during the year under review as compared with the preceding year.

2.3 Ratio Analysis

- The current ratio of the year under review was 1.79 per cent and it was 3.3 per cent in the preceding year.
- The gross profit ratio of the year under review was 1.67 per cent and it shows a decrease of 3.33 per cent compared to the 5 per cent ratio of the preceding year. The decrease of the income had mainly attributed to this decrease.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation

Comment of the Management

Recommendation

The repair cost of 07 vehicles of the institute was Rs.1,390,393 during the year under review. This is an increase in 371 per cent as compared with the preceding year. However, it was observed in audit that 02 of the repaired vehicles were not at the running condition.

Not replied

Repair cost should be efficient and effective.

3.2 Management Inefficiencies

Audit Observation

Comment of the Management

Recommendation

Due to delay in the payment of retirement gratuity of two employees during the year under review, surcharge of Rs.255,222 is required to be paid in the future and a surcharge of Rs.157,236 had been paid for the delay in the payment of gratuity to an employee.

Not replied

Gratuity should be paid on the due date.

3.3 Operating Inefficiencies

Audit Observation

Comment of the Management

Recommendation

(a) As compared with the preceding year, the income earned through the bus repairs had decreased by Rs.7,110,458 or 5.5 per cent during the year under review.

Not replied

The institute should act in accordance with its main objectives.

(b) Even though 62 busses had been entered in the worksite for repairs in the year 2021, there was no evidence that the repairs of 31 of those busses had been completed by 26 April 2022. A period of 04 to 15 months had been spent for that purpose. It had represented 50 per cent of the busses received for the repairs.

Not replied

Arrangements should be made to carry out bus repairs on the due date.

(c) Although the persons who receive the tender should deposit Rs.05 lakhs in the current account of the institute before the removal of relevant items in terms of tender conditions, 17 tenderers who received the tenders had not deposited Rs.8,500,000.

Not replied

Action should be taken in accordance with the tender conditions.

(d) Although action had been taken to sale scrap metal, aluminium and other materials belonging to the company, the company had not identify the quantity of scrap metal to be sold before carrying out procurement activities. Accordingly, the company had sold scrap metal and aluminium worth Rs.11,535,238 during the year under review, whereas the accuracy of the sold quantity could not be confirmed in the audit.

Not replied

Procurement activities should be carried out according to a proper method.

3.4 Idle or Underutilized Property, Plant and Equipment

Audit Observation

Three Spray booth 3D wheel alignments body kit machines worth Rs.7,230,000 purchased on 31 December of the year under review remained idle without being used due to failure in training employees capable of operating the machines.

Comment of the Management

Not replied

Recommendation

Action should be taken to train the employees and make use of the assets.

3.5 Procurement Management

Audit Observation

Spare parts of the busses worth Rs. 571,216,224 required for the garage and the service centre for repairs had been purchased from a private company without calling for national competitive bids in terms of Section 3.2 of the Procurement Guidelines 2006 during the year under review.

Comment of the Management

Not replied

Recommendation

Action should be taken in accordance with the Procurement Guidelines.

3.6 Human Resource Management

Audit Observation

The approved cadre of the company as at 31 December 2021 was 121 and the actual cadre was 106. Recruitment for the post of General Manager, which is the key post related to the management of the company, had not been made from the inception of the company. Further, recruitment for the approved post of Factory Engineer related to the performance of the company had been made on contract basis. Covering appointments had been granted on long-term basis for 05 posts of the company and no action had been taken to recruit permanent officers for those posts. Although there were 06 approved posts of Foreman of the company, 05 of such posts remained vacant up to date.

Comment of the Management

Not replied

Recommendation

Recruitment of employees for the approved posts should be carried out properly.