

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Leyland (pvt) Limited Company (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 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 report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion on the matters described in paragraph 1.5 of this report.

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 intend 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 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 Audit Scope (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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 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 Financial Statements

1.5.1 Accounting Deficiencies

| Audit Observation | Management Comment | Recommendation |
|---|---|--|
| (a) A provision of Rs.1,514,896 had been made for retirement gratuity in the year under review, but the required schedules had not been submitted and therefore the accuracy of the value could not be verified in the audit. | Arrangements are being made regarding the allocation of provident funds and gratuities to the employees. This was also discussed in the audit committee meeting held on 11.09.2023 and instructions were given to take legal action in this regard. | Schedules of gratuity allocations should be submitted for audit. |
| (b) Fixed deposit investment in the year under review was Rs.83,431,594 and a difference of Rs.13,498,955 was observed when compared with the confirmations sent by the bank. Accordingly, the investments in the statement of financial condition had been overstated by that amount. | Arrangements are currently being made to obtain the schedules related to these investments along with bank confirmations and arrangements are being made to obtain the consent of the Board of Directors to submit the necessary journal entries for the difference of Rs.13,498,955. | After verifying the accuracy of the fixed deposit balance, the actual balance should be accounted for. |
| (c) The source documents related to the notes of Rs.93,442,034, which had been transferred between accounts through 37 journal entries in the year under review, were not submitted for the audit, so it was not possible to verify the accuracy of the journal entries in the audit. | This matter was discussed in the Board of Directors meeting held on 31.08.2023 and action is being taken to obtain the schedule. | Relevant journal entries and journal vouchers should be submitted for audit. |
| (d) Although, a 58 acres of land valued at Rs.626,473 had been included in the financial statements of the Company, the company had no legal right or tenure of the land. | The deed of this land is currently held by the Chief Executive Officer of Ashok Leyland Company of India. This land has been transferred by the Board of Directors of the Lanka Leyland to the Lanka Ashok Leyland Public Company. | Arrangements should be made to obtain the legal right and tenure of the land in to the company. |

1.5.2 Documentary Evidences not made available for Audit

| Subject | Amount Rs. | Evidences not presented | Management Comment | Recommendation |
|------------------------------------|---------------|-----------------------------------|---|---|
| Vehicle rental and repair expenses | 1,437,500 | Rent Agreement | This matter was discussed in the Board of Directors meeting held on 31 August 2023 and the process of obtaining it is underway. | Arrangements should be made to submit the relevant rental agreement for audit. |
| Building rent | 120,000 | Board approval of lease agreement | Arrangements are currently being made to obtain this lease agreement. | A formal lease agreement should be obtained for the relevant expenditure and submitted for audit. |

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

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|---|--|--|---|
| (a) Public Enterprise Circular No. 01/2021 dated 16 November 2021. Section 2.3 | Although it was stated that the company's corporate plan should be submitted along with its action plan and annual budget, this company had not prepared the corporate plan, action plan and annual budget. | This institution has not done any operational work in many years. At present, corporate plans and action plans are being prepared and it is hoped to submit them to the Ministry and the Auditor General as soon as the plans are completed. | According to the relevant circulars, the action plan, corporate plan and budget should be prepared and submitted. |
| (b) Public Enterprise Circular No. 01/2021 dated 16 November 2021. Section 6.6 | According to the circular, the annual financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, but the company's financial statements were submitted to the Auditor General after a delay of 153 days. | These financial reports were prepared by the Accountant under the former Company Secretary. It took some time for the new administration to check and present those reports. | As per the circular, the financial statements have to be submitted on the due date. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs.55,368,643 and the corresponding loss in the preceding year amounted to Rs.61,022,721. Therefore an improvement amounting to Rs.5,654,078 of the financial result was observed. The main reason for the improvement is increase of the income.

2.2 Trend analysis of major income and expenditure items

- The investment value of associated companies had decreased by Rs. 74,868,750 or 06 percent compared to last year.
- Interest income, which is the main source of income of the company, had increased by Rs.10,157,927 or 233 percent compared to last year.

2.3 Ratio Analysis

Current assets ratio of the company depicted good condition.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation

Although the company, which was established on 14 July 2010, had not started any operations till now, it incurred administrative expenses of Rs.6,140,107 in the year under review, of which an amount of Rs.3,690,227 was incurred as board expenses.

Management Comment

This company has not done any operations during this period. The company has a 41.77 percent shareholding in Lanka Ashok Leyland Public Company. However, the previous management of Lanka Leyland Company has not taken action to start an operation together with Ashok Leyland Company of India, which was the other party of the agreement as the majority shareholder company, or to regulate the activities of that company. 60 percent of this administrative cost was paid for board expenses and transportation costs. Although these expenses have been incurred, no operational activities have been done for more than 10 years.

Recommendation

A strategic plan as well as an annual action plan should be prepared for the company and future operations should be carried out according to the Articles of Incorporation.