

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maga Neguma Consultancy & Project Management Company (Pvt) Limited for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 on the 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 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 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

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 observation on the preparation of financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to the paragraph 96 of LKAS 01 - Presentation of Financial Statements, revaluation surplus need to recognize under other comprehensive income. However, revaluation surplus of Rs. 108,307,060 that was arisen on revaluation of Property Plant & Equipment during the year under review had not been recognized under Other Comprehensive Income. As a result Other Comprehensive Income had been understated by that amount.	Noted and action will be taken to amend on the other comprehensive income category for this period.	Revaluation surplus need to be recognized under other comprehensive income as per the standard.
(b) According to the Paragraph 5.5.15 of SLFRS 09 Financial Instruments "an entity shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that result from transactions that are within the scope of SLFRS 15". However, the Company had not been recognized impairment provisions for the trade receivables and amounts due from related parties (more than one year) which were amounting to Rs. 32,109,194 as at the end of the year under review. Further company had not selected accounting policy for impairment of trade receivable as per the section 5.5.16 of the standard.	As per your computation, due amounts from related parties and trade receivable amount is Rs. 178 Mn. However, all trade and other receivable are not met the scope of SLFRS 15.	Accounting policy for provision for impairment of receivables should be selected and that policy should be implemented by the company as per the provision of the standard.
(c) Disclosure requirements regarding related party transactions had not been fulfilled by the company as per paragraph 18 of LKAS -24- Related Party Disclosures,	Related party disclosures are in the note No. 31 of the financial statement.	Related parties and related party transactions should be disclosed as per the standard.
(d) As per the paragraph 35 of SLFRS-15- Revenue from contracts with customers, an entity transfers control of a good or service over time and therefore satisfies a performance obligation and recognize revenue over time. However, the company had recognized revenue of Rs. 68 million during the year under review regard to the Kubukgatte road construction project contrary to the provision of the standard.	Within the financial year, full work done was completed according to the work order received by us and same road project was handed over to the client in this year end.	As per the provision of the standard revenue from good or services which are transfers control over time should be recognized over time.

1.5.2 Accounting Deficiencies

Audit Issue

Company had made dividend provision of Rs. 28,351,291 as current liabilities since the year 2016. However, Board Decisions and AGM decisions regarding to the matter was not available to the audit.

Management Comment

No decisions has been made to pay the dividends at GM.

Recommendation

Board decision should be provided to audit to determine the validity of dividend provision.

1.5.3 Unreconciled Control Account or Records

Audit Issue

- (a) As per the financial statement of the Company amounts due from Road Development Authority was Rs. 107,819,366 and out of that Rs.30 Million was remained unsettled for more than five years. However, as per the financial statements of Road Development Authority for the year 2022, payable to the company was only Rs. 97,821,154. Accordingly, a difference of Rs. 9,998,213 had been observed but the consent for the difference was not submitted.

Management Comment

Action has been taken to rectify differences.

Recommendation

Reconciliation should be done periodically to identify the differences and take to step to settle them.

1.5.4 Going Concern of the Organization

Audit Issue

According to the cabinet decision No.CP/23/0394/608/033 on 20 March 2023, cabinet had decided and ordered to secretary to the Ministry of Transport and Highways to take steps to liquidate the Company. Therefore, the going concern of the Company is doubtful in Audit.

Management Comment

No Comment

Recommendation

Issue in going concern of the company should be disclosed in the financial statements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 133 (1) of Companies act no.07 of 2007	The Board of a Company shall call an Annual General Meeting of shareholders to be held once in each calendar year, not later than six months after the balance sheet date of the company and not later than fifteen months after the previous annual general meeting. However, evidence relevant to holding Annual General Meetings held by company not presented to the audit for the past years.	No Comment	Company should Adhered to the provisions of Companies Act.

2. Financial Review

2.1 Financial Result

The operating result for the year under review amounted to a loss of Rs. 12,430,657 and the corresponding profit in the preceding year amounted to Rs. 17,795,397. Therefore, an deterioration amounting to Rs. 30,226,054 of the financial result was observed. The main reason for the deterioration of the operating result were decreasing of revenue by Rs.34,091,445 or 15 percent.

2.2 Trend Analysis of major Income and Expenditure items

Item	Year 2022	Year 2021	Change	Percentage of the change
Revenue	191,417,308.44	225,508,753.32	(34,091,444.88)	(15)
Cost of Sales	170,273,295.61	169,736,570.59	536,725.02	0.31
Sundry Income	7,970,241.87	438,600.00	7,531,641.87	1717
Personnel Expenses	21,750,360.96	22,896,384.16	(1,146,023.20)	(5)
Retirement Gratuity	2,894,350.00	879,900.00	2,014,450.00	229
Establishment & Administrative	14,660,832.31	11,617,086.42	3,043,745.89	26
Depreciation & Amortization	21,288,546.49	17,702,912.44	3,585,634.05	20
Salary & Marketing Expenses	654,541.69	273,603.00	380,938.69	139
Finance Costs	1,751,644.44	48,485.63	1,703,158.81	3513

Revenue was decreased by 15 percent mainly due to decrease of revenue on Cold Mix Manufacturing & Trading and Transport income as well as finance cost had increased significantly by 3513 per cent resulting of cost incurred on over draft facility.

2.3 Ratio Analysis

	2022	2021
Current Assets Ratio	2.13	1.66
Quick Ratio	2.08	1.60
Gross Profit Ratio-percentage	11	25
Net Profit Ratio-percentage	(6.5)	8

Following observations are made.

- i. As per the Current Assets Ratio, and quick assets ratio, it was observed that the company had been maintained acceptable level as at the reporting date.
- ii. The gross profit ratio and net profit ratio had indicated deterioration when compare with preceding year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Six primary objectives had been set out in the Memorandum of Association when incorporating the Company. However, the Company had carried out its business activities only under two primary objectives. Further it was observed that main objective of the company was providing consultancy service but the company had not done any consultancy work during the year under review.	The company is expecting to carry out consultancy and project management work in near future.	The company operations should be in compliance with its primary objectives.
(b) The main income source of the Company is manufacturing and trading of cold mix and 72 per cent of revenue had received from Road Development Authority. Accordingly, it was observed that the Company does not have an operational independency or cluster of revenue sources to survive in the business.	In this year, as per the cabinet decision No. CP/23/0394/608/033 all the new project is halted.	Over dependency on one revenue source need to be minimized.
(c) The production quality tests had been carried out by the laboratory. But the laboratory reports regarding the quality assurance of the product had not been submitted to the audit and further it was observed that the quality of the product was determined based on the experience of the manager in charge of the work site. Hence, there was no specific confirmation for Quality assurance of the product.	Our staff checks the product to maintain the quality with offering best product to the market. There are no complaints lodged about our quality of the product.	Quality assurance should be done in technical manner.

3.2 Transactions of Contentions Nature

Audit Issue

Company had issued 10003 shares; however, three shareholders had not paid for shares even by 31 August 2023. This Rs. 300 is included under receivable. However, number of shareholders should be determined before liquidation.

Management Comment

As per the memorandum of articles, 03 shares are allotted by the company and previously no share certificates were issued. Hence the company secretary had issued them in 2017 after obtaining board approval.

Recommendation

Before the liquidation share ownership should be clearly determine.