

INDEPENDENT AUDITOR’S REPORT



KPMG
 (Chartered Accountants)
 32A, Sir Mohamed Macan Markar Mawatha,
 P. O. Box 186,
 Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
 Fax : +94 - 11 244 5872
 +94 - 11 244 6058
 Internet : www.kpmg.com/lk

To the Shareholders of Diesel and Motor Engineering PLC

Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of Diesel and Motor Engineering PLC (the “Company”) and the consolidated financial statements of the Company and its subsidiaries (the “Group”), which comprise the statement of financial position as at March 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 126 to 192.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Revenue Recognition

See note 3.7 for Use of Judgments and Estimates and note 4.1 for accounting policy and information

Risk Description	Our Response
<p>The Group carry out its business operations in different sectors which result in high volume of revenue transactions in different revenue streams which requires judgment in some of the revenue transactions in order to determine the timing and the amount of revenue recognition. Further, in accordance with Sri Lanka Auditing Standards (SLAuS), there is a presumed fraud risk relating to revenue recognition.</p> <p>Revenue recognition of certain items of the Group and the Company require judgement which will increase the risk of material misstatement of revenue, contract liabilities and other related balances.</p> <p>We consider this as a key audit matter because of the significant judgment associated with the appropriate recognition of revenue in the correct accounting period.</p>	<p>Our audit procedures included;</p> <ul style="list-style-type: none"> Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management key internal controls involved in the revenue recognition including the key IT controls relating to revenue recognition. Performing detailed analysis of revenue, testing the timing of its recognition and accuracy of the amounts recognized for significant revenue streams. Reviewing the adequacy, relevance and accuracy of the accounting policies and disclosures in the financial statements.

KPMG is a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

G.P. Jayatilaka FCA T.J.S. Rajakuru FCA W.W.J.C. Perera FCA
 Ms. S. Joseph FCA Ms. S.M.B. Jayasekera FCA W.K.D.C. Abeyratne FCA
 S.T.O.L. Perera FCA G.A.U. Karunaratne FCA H.M.D.B. Rajapaksa FCA
 Ms. B.K.D.T.N. Rodrigo FCA R.H. Rajan FCA M.N.M. Shameel FCA
 Ms. C.T.K.N. Peerey ACA A.H.R.P. Alshakoon ACA Ms. P.M.K. Sumanasekera FCA
 Principals: S.R.I. Peera FCA(UK), LL.B. Attorney-at-Law; H.S. Geonewardene ACA,
 Ms. F.R. Ziyad FCA(UK) FTN

INDEPENDENT AUDITOR'S REPORT



Allowance for Impairment of Trade Receivables

See note 3.7 for Use of Judgments and Estimates and note 4.16 for accounting policy and information

Risk Description	Our Response
<p>The Group and Company have recognized a total impairment provision of Rs. 1,209 million and Rs. 1,014 million on total trade receivables of Rs. 7,499 million and Rs. 4,897 Million respectively.</p> <p>Impairment allowances represent management's best estimate of the expected credit losses on trade receivables as at the reporting date.</p> <p>The calculation of impairment allowances is inherently judgmental for any institution. The Group uses both specific assessment and collective assessment for impairment and specific receivables are individually assessed for impairment by considering objective evidence and based on the expected realization of those balances. Collective impairment allowances are calculated using statistical models concurrent with the historical information on the probability of default and the timing of recoveries. The inputs to these models are subject to management judgment and model overlays are often required.</p> <p>Further, the prevailing uncertain and volatile macro-economic environment have an impact on the judgements considered in estimating the loss allowance as of the reporting date due to the increase in the credit risk and the adverse macro-economic forecasts which may have an impact on the recoverability of the receivables.</p> <p>We have identified, allowance for impairment of trade receivables as a key audit matter due the complexity and subjectivity involved and prevailing uncertain macro-economic environment in the country in determining the allowance which is based on management judgement.</p>	<p>Our audit procedures among others included:</p> <ul style="list-style-type: none"> • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of the key controls management has established in arriving at criteria used for provision computations and to ensure the accuracy of the impairment provision. • Testing the completeness and accuracy of key inputs in to models and computations. Further, we assessed the reasonability of the model methodology and key assumptions. • Assessing the recoverability of a sample of customers by analyzing the credit risk, payment patterns and reviewing the underlying documents to verify cash received subsequent to year end for its effect in reducing amounts outstanding at year end and performing re-computation over the computation. • Assessing the completeness and the adequacy of the accounting policy over the impairment and related disclosures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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 SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Group's/ Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3272.

Chartered Accountants

Colombo, Sri Lanka
05th June 2023