

Rakna Arakshaka Lanka Ltd - 2017

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Rakna Arakshaka Lanka Ltd for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the statement of profit & loss and 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the 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 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed as a result of the matters described in paragraph 1.6 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 disclaimed 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 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.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of Financial Statement)

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:

- 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 Institute
- 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 relating to the Preparation of Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
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a) The value of financial instruments presented for surety, and the terms and conditions relating to those sureties, should be disclosed in financial statements in terms of Section 14 of the Sri Lanka Financial Reporting Standard 07. However, the Company had not made any disclosures in the financial statements relating to the fixed deposits valued at Rs. 40,394,318 that had been furnished by the Company as bid sureties and performance bonds.	Corrective measures will be taken in the financial year 2018/2019.	The reporting standards should be followed.
b) According to the financial statements, a cost of Rs. 739,461,678 (without tax) had been incurred on the construction of pillar foundation of the Head Office building of the Company. Constructions of that building had been suspended by 31 December 2016. Ownership of the building where the building had been constructed, was not taken over by the Company even by the end of the year under review. The said building was not shown under assets in the financial statements of the Company.	Measures have been taken to recommence in the financial year 2020/2021.	Action should be taken for taking over promptly.

1.5.2 Unreconciled Control Accounts or Reports

Item	Value as per the Financial Statements	Value as per the Corresponding Reports	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Debtor Balances	26,908,333	1,504,142	25,404,191	Action will be taken in the future in accordance with the decisions of the Board of Directors.	Value shown in the financial statements should be tallied with that of the corresponding reports.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not Made Available	Comment of the Management	Recommendation
	Rs.			
a) Stocks of uniforms and bullets as at 31 December 2018.	34,250,522	Stock verification reports.	Those reports will be made available in the years 2020/2021 under the new management.	The stocks verification reports should be made available.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
a) Confirmation of balances relating to the debtor balance of Rs. 1,428,866,986 receivable from Avant Garde Maritime Services (Pvt) Limited for the period 2012-2018 that had been included in the trade balance of Rs. 1,746,485,473 shown in the financial statements of the Company as being receivable as at 31 March 20, had not been made available to the Audit over a period of 03 years. As such, the accuracy of such	It is possible to obtain a letter of confirmation of balances and present to the Audit in the year 2021.	The relevant confirmation of balances should be obtained.

- balances could not be verified.
- b) According to the financial statements of the Company, a debtor balance totalling Rs. 1,890,499,614 remained receivable from the Avant Garde Maritime Services (Pvt) Limited out of the trade and other receivable balances totalling Rs. 2,182,942,702 as at 31 March 2018. That represented 57 per cent of the net assets.
- As the matter is on trial at the present day, corrective measures will be taken in the year 2021 after reaching settlement.
- Action should be taken for the recovery of trade and other balances receivable.
- c) Of the other balances totalling Rs. 523,781,502 shown in the financial statements of the Company as being receivable as at 31 March 2018, confirmation of balances relating to the balance of Rs. 461,632,628 remained receivable for the period 2012-2018 from Avant Garde Maritime Services (Pvt) Limited with respect to the floating armoury project, Galle and the project in Rangala for transporting firearms by air, had not been made available to the Audit for a period of 03 years. As such, the accuracy of those balances could not be verified.
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- The accuracy of balances should be verified.
- d) According to the financial statements of the Company, the trade debtor balances receivable to the Company as at 31 March 2018 relating to the land security division and maritime security division totalled Rs. 214,893,768 and Rs. 1,531,591,705 respectively. Of those debtor balances, confirmations had been requested with respect to the balances of Rs. 200,314,299 and Rs. 101,973,313 respectively. However, confirmations had been received with respect only to the sums of Rs. 26,946,884 and Rs. 361,544 representing land security division and maritime security division respectively. As such, confirmations relating to the debtor balances of Rs. 173,367,415 and Rs. 101,611,769 had not been made available to the Audit; hence, the accuracy of those balances could not be verified.
- Corrective measures will be taken in the year 2021 following decisions taken by the Board of Directors.
- Confirmation of balances should be obtained.

1.6.2 Funds Payable

Audit Observation

Comment of the Management

Recommendation

Confirmation of balances relating to the sum of Rs. 762,814,313 payable to Avant Garde Maritime Services (Pvt) Limited for the period 2015-2018 that had been included in the trade and other balances totalling Rs. 815,299,681 shown in the financial statements of the Company as being payable as at 31 March 2018, had not been made available to the Audit over a period of 03 years. As such, the accuracy of those balances could not be verified.

Corrective measures will be taken in the year 2020/2021 following decisions taken by the Board of Directors.

Action should be taken to verify the accuracy of balances.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 22,259,368 as compared with the corresponding profit of Rs. 48,614,305 in the preceding year, thus observing a deterioration of Rs. 26,354,937 in the financial result. The increase in the consultancy fees included in the administrative expenses by 543 per cent as compared with the preceding year, had mainly attributed to the said deterioration.

2.2 Trend Analysis on the Main Items of Revenue and Expenditure

The expenditure on allowances paid to the Chief Executive Officer in the preceding year and the year under review amounted to Rs. 59,800 and Rs. 392,500 respectively. That expenditure had increased by 556 per cent in the year under review as compared with the preceding year.

2.3 Ratio Analysis

As compared with the preceding year, the net profit ratio had decreased by 4.88 per cent whilst the turnover ratio of the debtors had decreased by 0.17 in the year under review, and the loan recovery period had increased by 318 days. The operating activities of the Company should be performed efficiently with attention drawn thereon.