

**1.1 Adverse Opinion**  
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The audit of the financial statements of the Lanka Logistic and Technologies Limited for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income of financial performance, 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, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities.

**1.2 Basis for Adverse Opinion**  
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My opinion is adverse 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 adverse opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**  
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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities, 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)**

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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 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 Financial Statements

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### 1.5.1 Accounting Deficiencies

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The following observations are made.

Audit Issue	Management Comment	Recommendation
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<p>a. According to Financial statements the company had not been issued tax invoices for pro-forma invoices for Rs.366 Mn as at 31<sup>st</sup> March 2019, in order to perform intermediaries related to the acquisition of the Defense Ministry.</p> <p>The company had not been recognized revenue under tax invoices as the Defense Ministry's letter No.MOD/FD/PB/12/1/2017 dated 3<sup>rd</sup> July 2017 dictated that it waive the balance due to the company.</p>	<p>The company had been unable to issue tax invoices for pro-forma invoices of Rs.366 Mn as stated in the letter No. MOD/FD/PB/12/1/2017 of Chief accountant of the Ministry of Defense as correctly stated in the Audit Query.</p>	<p>The net realizable value of these receivable balances should be stated in the accounts.</p>

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| <p>b. Five computers and equipments supplied from various projects that stated in 2006 were not included in company's final asset and were not valued and accounted for.</p>  | <p>The items shown in the query belong to the project implemented by the company and are not the property of the company. Due to performance issues, they were kept in the company and remained inactive until the liquidation of the company.</p>                           | <p>Relevant computers and devices must be accounted for by determining their value and included in the fixed asset register.</p>                    |
| <p>c. Rs.4.48 Mn of late fees owed to BMICH for the rent of buildings as at 31<sup>st</sup> March 2019 were not included in the Financial Statements. Further, no action had been taken to renew the lease agreement for the year under review.</p> | <p>The company has been asked not to increase its building rent as other state institutions in the BMICH. While no allocations have been made for penalties and does not agreed to the tent notified by letters by BMICH as it has been requested not increase the rent.</p> | <p>Delay fees for building rentals should be included in the Financial Statements and the renewal of the rental agreement must be accomplished.</p> |

### 1.5.2 Going Concern of the Organization

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The following observation is made.

Audit Issue	Management Comment	Recommendation
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<p>When preparing Financial Statements in accordance with paragraph 3.8 and 3.9 of the Sri Lanka Accounting Standards for Small and Medium Enterprises, Management must assess the company's ability of going concern and disclose it in the Financial Statements. However at the cabinet meeting held on 24<sup>th</sup> April 2019, the secretary to the Ministry of Defense was ordered to complete liquidation process within a period of 03 months but the Financial Statements were prepared on an ongoing basis without disclosing that.</p>	<p>The management could not be reached for comment as the company was liquidated on 31<sup>st</sup> July 2019.</p>	<p>When preparing Financial Statements, management must assess the company's existence and if there is uncertainty, disclose it in the Financial Statements and the Financial Statements should be prepared on ongoing basis.</p>

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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The following observation is made.

Audit Issue	Management Comment	Recommendation
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It was observed that the balance of accounts receivable as at 31 March 2019 were Rs.98.36 Mn and Rs.94.26 Mn out of those receivables were over 02 years. As the debtors are the institutions under the Ministry of Defense, the Ministry had instructed them to not to pay the outstandings and debtors had not been responded to the balance confirmation letters sent to the debtors for balance confirmation.	The company's future was not determined until April 2019, although the company was seeking to replace and continue its operations. Therefore, the management was unable to make provisions for bad and doubtful debts and the board of directors decided to write off the trade debtor balances when the company was liquidated by a cabinet decision in April 2019	Recovery of debtor balances must be efficient.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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The following observations are made.

Reference to Non-compliance Laws, Rules Regulations etc.		Management Comment	Recommendation
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a. Public enterprises circulars No.02/2016 dated 8 <sup>th</sup> March 2016.	Under the voluntary compensation scheme, 04 employees who had been recruited on contract basis over the age of 60 years had been paid compensation of Rs.8.7 Mn contrary to public enterprises circular No.02/2016 dated 08 <sup>th</sup> March 2016. Further the applications	- The employees of the company had been advised to adopt a voluntary retirement compensation scheme and an appropriate retirement compensation package has been prepared as at is the policy of the government to liquidate	Management should be act in accordance with the instructions set out in this circular for the payment of retirement compensation.

submitted by the relevant employees to obtain these compensation had not been submitted for audit.

the company on considering humanitarian facts as informed by the cabinet decisions.

As of 31 July 2019, the employees who were still active were paid their compensation and employees who have already retired from the company have not been paid their compensation the employees pointed by audit query could not be considered as retired workers as they worked under the extension of service.

- b. Public enterprises circulars No.03/2018 dated 7<sup>th</sup> December 2018.
- As stated paragraph 2.3 therein public enterprises circular No.03/ 2018 dated 7<sup>th</sup> December 2018 and as set out in paragraph 6.5 provisions of the guidelines for good governance of public enterprises issued with the Public enterprises circulars No.12 dated 2<sup>nd</sup> July 2003, although accounts must be submitted for audit within 60 days of the end of accounting year, the Financial Statements for the year ended 31<sup>st</sup> March 2018 were submitted for audit on 20<sup>th</sup> July 2018. However employees were paid a bonus of Rs.1.65 Mn in the year under review, despite the above requirement not being met within the stipulated time.
- The circular PED 3/ 2017 dated 11<sup>th</sup> December 2017 also relates to the year 2017/ 18 and as mentioned in section 4.4 of that circular, as mentioned in the payment of employees bonus, this year's bonus is also entitled to the same as the previous year's bonus.
- Accordingly, one month's salary was paid as bonus in accordance with the agreement of the Board of Directors.
- Bonus should be paid only if it meets the requirements set out in this circular and the Guidelines for good governance of Public Enterprises.

## **2. Financial Review**

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### **2.1 Financial Result**

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The operating result of the year under review amounted to a loss of Rs.46,276,875 and the corresponding loss in the preceding year amounted to Rs.33,312,427 Therefore an deterioration amounting to Rs.12,964,448 of the financial result was observed. The reasons for the deterioration were mainly due to the loss of key customers and advised to liquidate the company.