

Management Services Rakshana (Private) Limited - 2019

1.1 Opinion

The audit of the financial statements of the Management Services Rakshana (Private) Limited (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, 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 the accompanying financial statements 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.

1.2 Basis for Opinion

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 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 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 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

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to the LKAS 01(Presentation of Financial Statements) paragraph 27, “an entity shall prepares its financial statements except cash flow statement, using accrual basis of accounting”. However, It was observed that some transactions which were relating to 2018 had been included in the statement of profit or loss & other comprehensive income in 2019 and some transaction which were relating to 2019 had not included in 2019 Ledger.	Agree with Auditors comments and necessary steps will be taken to improve the quality of the presentation of Financial statements.	Management must follow the accounting standards at the time of preparing the financial statement to avoid any noncompliance issue and show accurate numbers of the same

1.6 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
a) Company had not transferred Input tax claimed amounting to Rs.135,000 relating to the year 2018 to VAT payable account and carried forward in the VAT receivable account incorrectly.	Agreed with Auditors comments and this will rectify in the F/S of 2020 year.	Management should be keen in preparing financial statement to avoid these kind of errors in the financial statement
b) VAT payable balance of Rs. 13,011,805 included a balance of Rs.4,401,865 which is stated as payable from prior to the year 2018 and it had not been reconciled even up to date of the audit of 14 August 2020.	This has happened due to the nature of the company’s operation. But in future we will take necessary steps to minimize the impact.	Management should reconcile the payable balance on timely basis to overcome this type of issues continue in the future.

2. Financial Review

2.1 Financial Result

The operating result of the year under review and the preceding year has not recorded a profit or loss. The reason is the company is reimbursed for all its operational expenses by its parent company. As such neither a profit nor a loss is incurred at the end of its financial year.

2.2. Trend Analysis

	2019	2018	2017	2016	2015
	-----	-----	-----	-----	-----
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Revenue	583,542	491,113	428,684	345,013	323,109
Administration Expenses	575,790	482,154	423,790	337,559	320,046
Other Expenses	7,059	2,209	1,543	4,445	704
Overhead Services	274	4,680	2,389	1,882	290

2.3. Ratio Analysis

Accounting Ratios	2019	2018
-----	-----	-----
Current Ratio	0.24	2.27
Quick Ratio	0.24	2.27
Gearing Ratio	186	145

3. Operational Review

3.1 Under-Utilization of funds

Audit Issue

Company possess a non-operating current account in Bank of Ceylon amounting Rs. 356,677 without any economic benefit to the company from 2017 year end to 2019 year end.

Management Comment

MSRPL (pvt) Ltd, all payments are channel through the parent company “Sri Lanka Insurance Corporation Ltd”. Accordingly action will be taken to transfer this Amount to SLIC bank Accounts.

Recommendation

Steps should be taken to close unnecessary bank accounts to avoid any misuse or underutilization of funds

3.2 Unauthorized Transactions

Audit Issue

According to section 2.1 of public enterprises circular No. PED 3/2015, Management must obtained approval from ministry of finance for any other special payments, but the company had paid a profit sharing bonus amounting Rs 777,828 to the former chairman, for the year 2018 and this amount had been only approved by the board and the finance ministry approval had not been made obtained before releasing the payment.

Management Comment

Finance Ministry approval had been obtained for the salary payment of former chairman. Bonuses are paying all staff as per the company policy. Former chairman worked full time in the company as an executive chairman and according to the company practice bonus were paid to executive directors / chairman with approval of Board.

Recommendation

Management should comply with the ministry circular at the time of making payment to Chairman or other directors and avoid any unnecessary payments.