LRDC Service Ltd - 2019

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the LRDC Services (Private) Limited for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and comprehensive 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 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 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 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 Auditor's Responsibility 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 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 Financial Statements

1.5.1 Internal Control over preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non – Compliances with the Sri Lanka Accounting Standard for Small and Medium Sized Entities (LKAS for SMSEs)

	Non Compliance with reference to the relevant standard	Management Comment	Recommendation
(a)	**Paragraph – 17 Property, Plant and Equipment**		
	A land located in Aththidiya acquired by the Company on long term lease basis for Rs.16.52 million had been shown in the financial statements as the free hold assets under the non – current assets.	The accounting error had been rectified now.	The assets should be classified according to the accounting standards.
(b)	**Paragraph – 23 – Income**		
	The Accounting Policies for the recognition of revenue including the stages of completion relating to the services had not been disclosed.	Action will be taken to comply with the Accounting Standards.	The revenue should be identified according to the stages of completion based on the Accounting strands.

1.5.3 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Stocks of stationaries and cloths valued at Rs.4,963,478 had not been shown in the financial statements under the current assets.	The stocks had not been shown accordingly. But, the stock records had been properly kept.	All stocks belonging to the Company should be verified and shown in the financial statements.
(b)	Even though the Security Equipment cost of Rs.23.78 million had been shown in the financial statement, the foreign travel expenditure amounting to Rs.3.10 million had also been included to the above cost. As well, Goods Received Notes (GRN) relating to that stock has not been issued by the Company.	The expenditure had been directly incurred only for the stock of security equipment. Hence, it could not be able to considered as business promotion expenditure. Further, not issuing of GRN for that stock is accepted as a deficiency.	Only the directly attributable cost should be accounted as the cost of security equipment.

1.5.4 Unreconciled Control Accounts

Item	Amount as per the financial statements	Amount as per the corresponding records	Difference	Management Comment	Recommendation
	Rs.million	**Rs.million**	**Rs.million**		
Deposit balance of the security officers	30.47	28.42	2.05	Necessary actions had been taken to maintain the required balances between the security deposits.	After being made the reconciliations in the Control accounts, corrected balances should be shown in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Amounts Receivable

	Audit Observation	Management Comment	Recommendation
(a)	The Company had signed an agreement with the Land Development Company for supply of Manpower. The receivable to the Company for the Manpower supply as at end of the year	After improving the Company's financial position, action will be taken to recover the	Action should be taken to recover the receivables as soon as possible.

	under review amounted to Rs.16.02 million and out of that, a sum of Rs.10.72 million was remained as receivable for a period of 03 months to 12 months.	receivables.	
(b)	The receivables from the Ministry of Health and National Water supply Board as at end of the year under review amounted to Rs.391.69 million. Out of that amount, a sum of Rs.22.44 million was remained unsettled for a period from to 5 years and it was observed that those transactions were contentions balances.	Based on the possibility to recover the debts, the necessary actions going to be taken from the Ministry level and on the legal accept.	Prompt action should be taken to recover the receivables to the Company.

1.6.2 Amounts payable

Audit Observation	Management Comment	Recommendation
The unpaid salary balance as at end of the year under review amounted to Rs.38.84 million an unsettled balance of that amount for over 5 years amounted to Rs.12.99 million.	After analyzing those accounts, the actions going to be taken relating to the unpaid salary balances of the service suspended employees for over 5 years.	Action should be taken either to settle the payables as soon as possible or write-off the non-liabled balances to the income.

1.7 Non – Compliance with Laws, Rules, Regulations and Management Decisions

	Reference to Laws, Rules, Regulations etc.	Non – Compliance	Comment of the Management	Recommendation
(a)	The Management Services Circular No.30 dated 22 September 2016	According to the Circular instructions, it had not been get the approval for the salary structure of the posts of the Company, from the Management Services Department.	Action will be taken to get the approval form the Management Services Department after forwarding the request.	Action should be taken to obtain the approvals for the related salary structure of the posts.
(b)	The Good Governance Circular No.PED/12 dated 02 June 2003 issued by the Department of Public Enterprises.			

	(i) Section 7.3	As stated, the Government Procurement Guidelines should be followed by the Public Enterprises. If the Company had prepared separate procedures, the approvals of the Line Ministry and the General Treasury should be obtained. However, such approvals had not been obtained by the Company even for the other directives prepared by the Company.	A Procurement Committee had been appointed to date and all the Procurement activities, will be carried out through that committee.	According to the Circular instructions, the approval of the Treasury should be obtained for the Procedure's prepared for operational and financial functions of the Company.
(c)	The Nation Building Tax Act, No.09 of 2009 and the Inland Revenue Act, No.24 of 2017.	(i) Even though after closure of the respective quarter, the Nation Building Taxes (NTB) should be remitted to the Department of Inland Revenue before the 20th of the following month, the NTB related to the preceding years amounting to Rs.4.25 million and amounting to Rs.7.82 million relating to the year under review had not been remitted to the Department if Inland Revenue by the Company up to end of the year under review.	The payments are being made according to a planned time table in the year 2021.	According to the relevant Act, the taxes should be paid in timely manner.
		(ii) The recovered Value Added Tax (VAT) should be remitted not later than the last day of the following	Use of collected VAT money for the daily payments such as payment of salaries etc. had also been reported to	According to the relevant Act, the taxes should be paid in timely manner.

	month, the VAT payable by the Company as at end of the year under review amounted to Rs.345.65 million. Further, use of the recovered VAT amounts for the day today expenses by the Company was the main reason for daily the VAT payments on due dates.	me. Therefore, it had been instructed the respective officers to remit the VAT on due dates.	

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating result of the Company for the year ended 31 December 2019 had resulted pre tax profit of Rs.76.26 million. As compared with the corresponding pre tax profit of Rs.61.63 million for the preceding year, thus indicating improvement in the financial result of the Company by Rs.14.63 million. Decrease of administration and other expenses by Rs.21.88 million had been mainly attributed for that improvement in financial result.

2.2 Analytical Financial Review

2.2.1 Significant Accounting Ratios

As compared with the preceding year, the income of the Company was increased by Rs.164 million and as well as, the service expenditure also was increased by 171 million. As a result, the gross profit ratio of the Company was decreased by 1 per cent, from 8 per cent in the preceding year to 7 per cent in the year under review. Increase of salaries and overtime payment by Rs.54 million and increase of surcharges for supplying of security services by Rs.36 million were mainly attributed for the increase of service cost.

3. Operational Review

3.1 Performance

	Audit Observation	Management Comment	Recommendation
(a)	Providing of security services, security investigations and other investigative services are the main functions of the Company. However, it had not been prepared an action plan including the expected physical	It is accepted that an Action Plan had not prepared for evaluate the performance. Action will be taken to make necessary corrections.	In order to manage the operational activities of the Company in efficient manner, an Action Plan should be prepared.

	and financial targets. Further, the key performance indicators (KPIs) had not been prepared by the management for the year under review. Hence performance of the Company could not be evaluated in audit for the year under review.		
(b)	Without being analyzed the recoverable position of the debtors, Provision of 50 per cent for the debtors were existed 1 – 2 years, 75 per cent for the debtors were existed 2 – 3 years and 100 per cent provision for debtors over 3 years, had been made. Accordingly, a sum of Rs.33.24 million had been allocated as at end of the year under review and identification procedure of allocated percentages was a problematic issue in audit.	Directives had been given to the officers to make the provisions for doubtful debts on relevant basis in future.	After being analyzed the recoverable possibility of the debtors, the provision for doubtful debts should be made on fruitful manner.

3.2 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The fines and surcharges amounting to Rs.71.1 million had been deducted by the clients from the invoices in the year under review due to not assigning of security officers for duties, according to the service agreements. As a percentage of that deductions were 129 per cent compared with the net profit for the year under review. It was observed in audit that the corrective actions had not been taken by the management in that regard after being finded out the reasons.	In entering into agreements with the clients, the actions had been taken to remove the unfavorable conditions relating to the surcharges, and new agreements will be signed accordingly.	Action should be taken to minimize the fines/ surcharges by assigning the officers for duties according to the service agreements.
(b)	The Company had failed to recover the receivables from the clients amounting to Rs.16.89 million as at end of the year under review, as a result of the amendments made by the Government to the minimum salary rates payable to the security officers since the year 2013. Due to the lack of provisions in	The Company had found out the all possible situations and action going to be taken accordingly in order to make the amendments to the service agreements.	Action should be taken to include the provisions in the service agreements relating to the future possible amendments make to the payments.

	the agreements to recover the amended rates, those balances had been written-off as bad debts. When entering into agreements with the clients, adequate attention had not been drawn for the salary revisions and that had been directly affected to said situation.		
(c)	The Company had obtained a plot of land situated in Aththidiya, extent of 120 purchase, in the year under review from the parent company on long term lease basis to construct the Head Office Building of the Company. Although a sum of Rs.16.52 million had been paid in that regard, action had not been taken to obtain the piliminary approval for the constructions valued at Rs.200 million upto end of the year under review. However, the Company had taken action to start another business in the land instead of construction of the Head Office by August 2020.	According to the financial position of the Company, that construction activities temporarily suspended. The LRDC Mutual Benefit Association is being conducted food processing centre at the land at present.	As there is no a building to the Company to conduct the activities of the Head office, action should be taken to construct the building according to the plans.
(d)	The operating functions of the boat service conducted in the Boralesgamuwa Lake had been awarded to a Private firm on rental basis since the year 2008. The agreement signed with the firm had not been extended due to suspending the service by the Department of Irrigation in the year 2021. However, the Company had not taken actions to repossessed the boats and as a result, the lessee had continuously operate the boat service up to September of the year under review. Thus the loss incurred by the Company upto end of the year under review due to not recording of rents receivables amounted to Rs.1,010,350. Nevertheless, the company had sold 5 boats to the lessee for Rs.300,000 on 5 September of the year under review without being made a valuation. It was	It was indicated that the Company had made a mistake owing to not removing of boats from the Lake after informing the Department of Irrigation. That should be investigated. An investigation going to be conducted relating to sale of boats without calling quotations. If it revealed any fraud action will be taken in that regard.	The properties belonging to the Company should be utilized for the development of the Company. The Government Procurement Guideline should be followed when dispose the property of the Company and a competitive price should be obtained to get the advantages.

	a problematic issue in audit that sale of boats to the lessee without being made valuations and called tenders.		
(e)	The Company had obtained a sum of Rs.18,581,348 from the refundable security deposit account in the year, the money recovered from the security officers, for incurring the recurrent expenditure of the Company without obtaining the approval of the Board of Management.	It should be examined that not obtaining the approval from the former Board of Management.	The refundable deposits bank account balances should not be used for the recurrent expenditure.

3.3 operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	In order to confirm the accuracy of the invoices before issuing them, the attendance records prepared by the officer – in – charge had not been compared with the client's reports. Due to the lack of such a procedure, a difference of Rs.123.59 million was observed between the invoiced values and the actual receiving in the year under review. That was 31 per cent of the contribution of the Security Division.	In order to rectify that situation, necessary action has been taken.	Before issuing the invoices to the clients, the accuracy of them should be confirmed.
(b)	In order to provide the security services for the year 2020, the bids had been furnished to 31 Institutions. However, only 4 Institutions had been accepted the bids. The Ministry of Health, the main service provider of the Company, had also been limited the obtaining of security services. Accordingly, due to the reduce of market share of the Company, it had been badly affected to the going concern of the Company.	This failure could be considered as temporary reduction of market share. Providing the quality service, it can be stabilized the market share.	Action should be taken to attract the clients by providing competitive service and action should also be taken to stabilize the earning of the Company.
(c)	In order to diversify the business activities, 1000 Metel Detectors, 731 security Equipment and 1669 Closed Circuit Television (CCTV) cameras had been purchased incurring a sum of Rs.23.79 million. Instead of being followed the instructions of the Procurement Guidelines, suppliers had been selected based on the information collected by the officers while their foreign tours without calling competitive bids. The guarantee certificates had not been obtained for the goods and the goods had been handed	It could be informed that the new management had taken decisions to mitigate the situation upto now. After being identified suitable foreign and local customers, making arrangement for sales is the main part. The frauds that had been taken place in the procurement of those goods, had been referred to the	A feasibility study should be carried out in order to identify the market opportunities before purchasing the equipment. As well, a procedure for providing the after sales facilities, should also be arranged.

	Audit Observation	Management Comment	Recommendation
	over without confirming quality of the goods. Further, before implementing the business diversification programmes, a market survey had not been conducted. Out of the goods purchased with the above defects, 513 metal Detectors and all surveillance equipment i.e 731 equipment had not been sold even upto end of the year under review. Due to expiring of the guarantee periods of the goods, a loss of about Rs.10 million had been incurred by the Company. Furthermore, out of the 1,669 CCTV Cameras purchased for US$ 49,537.90 (Rs.8.73 million) in the year under review for sale, only 124 CCTV Cameras had been sold and 1,545 units were remained in the stock as at end of the year under review. Due to the lack of after sales service Programmes and not conducting of sales promotion programmes, that situation was created and as a result, it was observed that a huge loss may have to be incurred by the Company.	Criminal Investigation Bureau for investigation.	
(d)	Without being conducted a feasibility study, a venture for sale of sea sand had been commenced in the year under review and sales activities had been carried out through two sales centres. Out of two centres, one centre had been closed down during the year under review and the accumulated loss of that centre amounted to Rs.1,068,804. Further, the loss incurred by the other centre as at end of the year under review amounted to Rs.216,618 and the accumulated loss up to May 2020 amounted to Rs.760,327.	As those two sand sales centres were uneconomical to operate, it was decided to close down the centres before increase the accumulated losses incurred.	Before commencing new business ventures, a feasibility study should be conducted by the Company.

3.4 Transactions in contentions nature

	Audit Observation	Management Comment	Recommendation
(a)	Without obtaining the approval of the Board of Directors, the gift vouchers amounting to Rs.915,000 had been given to the employees of service providing institutions during the year under review. However, it had not been explained to audit that reasons for giving the vouchers and it was unable to confirm the in audit handing over of vouchers to respective persons.	The programme of giving gift vouchers had been implemented as giving of hampers in the preceding years and it had been implemented as administrative decision.	Providing of those gift vouchers should be conducted in transparent manner.

(b) A sum of Rs.1.90 million receivable from the Department of Cultural Affairs had been written-off during the year under review as bad debts due unavailable of relevant documents.	Many bills related to the above transaction were belonged to the years 2011 and 2012. After being carring out all possible actions such as held the discussion with the customers, getting the feed back actions, forwarding of letters etc, that had been conducted.	The information related to the receivables, should be protected in secure manner until recovering them.

3.5 Human Recourse Management

Audit Observation	Management Comment	Recommendation
(a) The approved cadre of the company as at 31 December of the year under review had been 88 and the actual cadre as at that date had been 93. Thus, excess cadre of the Company as at that date had been 16 and 11 vacancies existed. 11 posts in the excess cadre were comprised with Management Assistants and 4 higher level management posts and 2 middle and lower levels management posts had been vacant.	New business activities which were required to recruited to lower level managers had not been commenced by 2019. Hence, a requirement to fill those vacancies were not existed.	Based on the approved cadre of the Company, the vacancies should be filled as early as possible.
(b) A recruitment and promotion procedure had not been prepared having the concurrence of the Department of Management Services and to obtain the approval of the Line Ministry. Further, the recruitments made by the Company as at end of the year under review exceeding the approved cadre had been 4,380.	The recruitment and promotion procedure had been finalized by getting the guidance from the Department of Management Services and it had been planned to get the approval for the procedure after submitting it to the first meeting of the Board of Directors of the year 2021.	The approval of the Management Department should be obtained for the recruitment and promotion procedure.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Management Comment	Recommendation
Even though the Company had not prepared a Corporate plan as per the requirement of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Company had recruited an external consultant in the year 2017 to	The directions had been given to the officers to prepare the Corporate Plan for the relevant years within the stipulated time period.	Action should be taken according to the Circular instructions.

prepare the Corporate plan and a sum of Rs.3.8 million had been incurred for the Consultant. Further, an Action Plan for the year under review had not been prepared. As a result, the performance of the Company could not be evaluated.		

4.2 Procurement Plan

Audit Observation	**Management Comment**	**Recommendation**
A Procurement Plan had not been prepared by the Company for the year under review according to the instructions given in the Government Procurement Guidelines.	A Procurement Plan for the year under review had not been prepared and necessary actions will be taken to rectify the situation in 2021.	Action should be taken according to the Circular instructions.

4.3 Budgetary Control

Audit Observation	**Management Comment**	**Recommendation**
A variance of 160 per cent was observed between the estimated net profit of the year under review and the actual net profit. Thus, indicating that the budget had not been made use as an effective instrument of management control.	Action will be taken to prepare the budget in realistic manner.	The budget should be made use as an affective instrument of management control.