

Sathosa Security and General (Private) Limited -2019/ 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sathosa Security and General (Private) Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the statement of 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 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 March 2020, 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 (SLFRS for SMEs).

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 (SLFRS for SMEs) 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 Auditors 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>(a). According to the Section 27.5 and 27.7, Impairment of Assets of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), an entity shall assess at each reporting date, whether there is any indication that an asset may be impaired and if any such indication exists the entity shall estimate the recoverable amount of the asset. If the recoverable amount of the asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. However,</p>		
<p>(i) Salary advance amounting to Rs.233,191 which was paid to resigned employees prior to year 2015 which the recoverability is uncertain had been shown in the financial statement as receivable.</p>	<p>There is a presentation error. The rectification of the error has been done during the year 2020/2021 by passing a journal entry to the relevant accounts.</p>	<p>In the instances where the recoverable amount of the asset is less than its carrying amount, a provision for impairment should be made.</p>
<p>(ii) According to the age analysis given, the debtor balances which the recoverability is uncertain was Rs.11, 970,323. However, the bad debt provision of the financial statement was Rs. 7,279,541.</p>	<p>Those are long out standings and necessary action is being taken to collect these debts. If it is not happened we will do the bad debts provision with approval from the Board.</p>	<p>The bad debt provision should be corresponded with the debtor balances which the recoverability is uncertain.</p>

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The balance of gratuity provision account had been understated by Rs,524,050 due to the matters that the under provision related to the previous years had not been adjusted and correct appointment dates of employees had not been taken in the calculation of gratuity.	Noted	Gratuity provision should be made accurately.
(b) A budgetary allowances of Rs.120,000 paid for employees during the year 2015 had been shown in the financial statements of the year under review as salary advance receivable from staff instead of accounting as an expense. Hence, the receivable balance and the revenue reserves had been overstated by the same amount.	The rectification of the error has been done during the year 2020/2021 by passing a journal entry to the relevant accounts.	Allowances paid should be accounted as an expense.
(c) Fixed deposit interest income receivable for the year under review amounting to Rs. 1,136,109 had not been accounted.	The FD interest has been accounted on a cash basis instead of Accrual basis. Do the needful to correct the accounting error.	Income receivable should be accounted.
(d) According to the financial statements, the debtor balance as at 31 March 2020 had been Rs.63, 820,483 and according to the age analysis of debtors, the balance as of the date had been Rs.64,021, 356 . Accordingly, a difference of Rs.200, 873 was observed.	This is a system issue and do concern on the system technical issue with the system staffs.	The debtor balance according to the financial statements should be corresponded with the age analysis of debtors
(e) According to the calculation of audit and the cash flow statement presented to the audit, a difference of Rs. 931,509 in operating profit before changes in working capital and a difference of Rs. 697,271 in changes in working capital were observed. Further, NBT amounting to Rs. 1,628,780 paid for the previous year had not been shown in the cash flow statement.	Agreed, the adjustment is included in the Prior year adjustment and the NBT payment is included under the accrued expenses.	The cash flow statement should be prepared accurately.

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
90 percent of the security services income of the Company had been represented by the security services provided to Lanka Sathosa Ltd. However depending on single income source may adversely affect to the going concern of the Company.	Agreed, we are fully depend on Lanka Sathosa Limited, as such we do necessary actions to diversify our services new clients.	Income sources should be diversified.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
1.Receivable from Trust i. Narahenpita ii. Rathmalana	886,250 107,336	Schedules ,Age Analysis, Invoices	Those are long out standings and do the necessary clarification on it from the board.	Written evidence to confirm the value should be maintained.
2.Receivable from Staff i. Death donation receivable ii. Festival advance	1,470,649 218,500	Schedules ,Age Analysis		
3.Advance and Other Receivable Uniform	2,071,657			
4.Rent Advance received i. Narahenpita ii. Rathmalana	108,000 324,000	Rciepts Issued		
5.Security Deposit received i. Narahenpita ii Rathmalana	200,000 300,000	Reciepts Issued		
6.CWE Office Assistant Salary- Payable	2,086,433	Schedules ,Age Analysis,Salary Sheets		
7.Bank Guarantee	780,000	Documents to confirm the balance		

8. Provision for gratuity	1,734,750	Appointment dates	Noted, and it has been informed to HR division to do the needful.	Appointment dates of the employees should be submitted to the Audit
9. VAT control Account –Opening balance	1,255,228	Documents to confirm the balance	Noted, will do the needful	Written evidence to confirm the balance should be maintained.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The debtors balance amounting to Rs.8,773,765 receivable over a period of more than 05 years and a balance amounting to Rs.7,768,450 receivable over a period from 1-5 years had not been recovered.	Necessary action is being taken to collect these debts. If it is not happened we will do the bad debts provision with approval from the Board	Receivable balances should be recovered without a delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 40(1) of National Audit Act, No. 19 of 2018	The Company had not appointed an Internal Auditor.	Informed HR division to do the necessary actions to establish an Internal Audit unit.	An Internal Auditor should be appointed.
(b) Section 5.1 of the Gratuity Act No 12 of 1983	The gratuity for the resigned officers should be paid within 30 days from the date of resignation. However gratuity amounting to Rs. 162,000 payable for 18 employees resigned during the year under review had not been paid within the prescribed period.	Noted, we do get letter from the security officers to release their gratuity before we do the gratuity payment. These 18 employees have not been submitted their request letter for the gratuity and resigned without prior notice to the company.	The gratuity for the resigned officers should be paid within the prescribed period.
(c) Section 02 of the Public Enterprise Circular No PED 1/2015 (i) of 27 October 2016	An officer who is entitled to an official vehicle has the option either to use the official vehicle or to	Informed HR division to produce the board approval for the payment.	Provisions of the circular should be followed

avail a monthly transport allowance of Rs 50,000 and such officer shall not be provided with a driver or driver's allowance. However, an officer had been paid a monthly transport allowance of Rs 30,000 and provided with a driver. A sum of Rs. 460,665 had been incurred by the Company for the salary, EPF and ETF of the driver during the year under review.

<p>(d) Public Enterprises Circular No PED / 12 of 02 June 2003 (i) Section 6.5.1</p>	<p>The financial statements of the Company should be submitted to audit within 60 days after the close of the accounting year. However, financial statements for the year under review had been presented to audit on 20 April 2023 after a delay of 35 months and the draft annual report had not been presented.</p>	<p>Agreed.</p>	<p>The financial statements of the Company should be submitted to audit within the prescribed period.</p>
<p>(ii) Section 9.2 (d)</p>	<p>The approved carder had not been registered with the Department of Public Enterprises.</p>	<p>A revised cadre has been submitted to the Public Enterprises. The approval is in progress.</p>	<p>The approved cadre should be registered with the Department of Public Enterprises.</p>
<p>(iii) Section 9.3.1</p>	<p>The Company has no Scheme of Recruitment and promotion for each post.</p>	<p>Informed HR division to prepare a scheme of recruitment & promotion for each post.</p>	<p>The Scheme of Recruitment and Promotion should be prepared and approved by the Board and the appropriate Ministry with the concurrence of the Department of Public Enterprises.</p>

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
The bank account of the Company had been overdrawn in several occasions over a period of 07 months and the overdrawn bank balances had been ranging from Rs.136,339 to Rs. 11,967,360 . The interest for the overdraft paid during the year under review had been Rs.182, 771.	Noted, this is because of the delay in security payments from Lanka Sathosa Limited.	The paying officer should ensure that the bank balances is adequate to meet all the payments made by cheques and avoid bank account getting overdrawn.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 10,170,623 and the corresponding profit in the preceding year amounted to Rs. 11,067,896 Therefore a deterioration amounting to Rs. 897,273 of the financial result was observed. The main reason for the deterioration is the decrease of total revenue by Rs. 1,999,608 against the decrease of total expenses by Rs. 1,109,108 .

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had been located in a building owned to the Co – Operative Wholesale Establishment. However, a rent agreement for the building had not been entered into.	The rent agreement is in process for the current financial year.	A rent agreement for the building which the Company is located should be entered into.