

Observer Jobs (Private) Limited - 2016

The audit of the financial statements of the Observer Jobs (Private) Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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.

This report is issued in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- sized Entities (SLFRS for SMEs) and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

- (a) A Board decision had been taken on 08 February 2016 to write off the payable amount of Rs.4,496,257 appeared as at 01 January 2016 in the accounts of the Parent Company. Although this balance had been credited to retained earnings during the year under

review, proper disclosures had not been made as per Section 3.2 (a) of the Sri Lanka Accounting Standard for Small and Medium- sized Entities (SLFRS for SMEs).

- (b) As per Section 10.21 of the Sri Lanka Accounting Standard for Small and Medium- sized Entities (SLFRS for SMEs), salaries and wages amounted to Rs.120,746 with respect to the month of December 2015, but paid in the month of February 2016 had not been restated retrospectively.
- (c) Although depreciation for Computers was amounted to Rs.28,181, it had been accounted as Rs.18,788 by understating Rs.9,393.

2 Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Observer Jobs (Private) Limited as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium- sized Entities (SLFRS for SMEs).

2.2 Non-Compliance with Laws, Rules, Regulations and Management Decisions

An extraordinary general meeting of shareholders had not been called within twenty working days when the net assets of the Company were less than half of its stated capital as per the requirements of Section 220 of the Companies Act, No. 07 of 2007.

2.3 Going Concern of the Company

In analyzing the position of current assets and current liabilities of the Company since the year 2014, a negative working capital was continuously observed. Similarly in analyzing net assets with stated capital for the same period, a negative solvency margin had been observed. Details are shown below.

Details	2016 Rs.	2015 Rs.	2014 Rs.
Current Assets	1,212,198	185,511	185,511
<u>Less:</u>			
Current Liabilities	(5,957,679)	(4,681,768)	(4,679,267)
Working Capital	(4,745,481)	(4,496,257)	(4,493,756)
Net Assets	(4,619,229)	(4,496,257)	(4,493,756)
<u>Less:</u>			
Stated Capital	(2,500,000)	(2,500,000)	(2,500,000)
Solvency Margin	(7,119,229)	(6,996,257)	(6,993,756)

However, the Chairman of the Company has informed me on 16 November 2017 that the management has no intention either to liquidate or to cease trading of the Company.

3. Financial Review

3.1 Financial Result

According to the financial statements of the Company, the operations of the Company for the year ended 31 December 2016 had resulted in a pre-tax net loss of Rs.4,613,969 as compared with the corresponding pre-tax net loss of Rs.2,500 for the preceding year, thus indicating a further deterioration of Rs.4,611,469 in the financial results for the year under review. Significant increase in salaries and wages for the employees and non-increase of the revenue for the year under review as compared with the previous year were the main reasons attributed for the deterioration in the financial results.

After taking into account the salaries, taxes and depreciation charged for the year 2016, the value addition of the Company was reported as Rs. 842,086.

4. Operating Review

4.1 Operating Weaknesses

An amount of Rs.5,437,267 or 322 per cent of the revenue had been paid as salaries and wages for the year under review. Hence, the Parent Company had provided a sum of Rs.10,294,822 to the Company to cover-up its recurrent expenses during the year under review.

5. Accountability and Good Governance

5.1 Corporate plan

A Corporate Plan is a reflection of the commitment by the Board of Directors and senior management in the future prospects of the entity. However, in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, a Corporate Plan had not been prepared by the Company since its inception.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Control Area -----	Observation -----
(a) Working Capital Management	- Increase the operating cash inflow in order to meet the liabilities.
(b) Control over Expenses	- Reduce the salaries and wages or increase the revenue.