

Lanka Logistics & Technologies Limited – 2017/2018

The audit of financial statements of Lanka Logistics & Technologies Limited (“The Company”) for the year ended 31 March 2018 comprising the statement of financial position as at 31 March 2018 and the statement of financial performance, statement of changes in equity and statement of cash flows 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. My observations on the performance of the Company in the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

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 the Sri Lanka Accounting Standards for Small and Medium sized Entities 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) Tax invoices had not been issued for the value of Services amounted to Rs. 325.6 million provided by the Company from the year 2012.
- (b) Direct balance substantiations had not been received even by the reporting date for substantiating the income earned by supplying the administration services amounted to Rs. 97.77 million that should be received from the Sri Lanka Police, Sri Lanka Air Force and Sri Lanka Navy.
- (c) Even though a sum of Rs. 4,886,265 should be received from the Ministry of Law and Order as at 31 March 2018, the Ministry had confirmed that there was no such a balance to be paid to the Company.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters indicated in paragraph 1.4 of this report, the financial statements give a true and fair view of the financial position of Lanka Logistics & Technologies Limited as at 31 March 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the followings:

- (a) The basis of and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - Except for the effects of the matters described in the basis for qualified opinion paragraph, I have obtained all the information and explanation that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Receivable and Payable Accounts

It was observed that the balance of Trade Account Receivable as at 31 March 2018 was Rs. 102 million and Rs, 84 million out of the amount is a receivable balance that had exceeded two years. Further, attention had not been paid by the Management to review these loan balances and to separate the loan balances as bad and doubtful debts.

2.3 Non-compliance with Laws, Rules Regulations and Management Decisions

The following non-compliances with Laws, Rules Regulations and Management Decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Paragraph 7 (c) of Inland Revenue Act No.10 of 2006 and Interpretation Rule No. 1C/2013/80 of the Inland Revenue Department.	Even though it had been substantiated that the General Treasury is exempted from the dividend tax in terms of this Rule, the Company had issued a gross dividend of Rs. 1,000,000 to the General Treasury on 12 October 2017 and a Dividend tax of Rs. 100,000 had been remitted to the Inland Revenue Department.
(b) Paragraph 120 (a) of Inland Revenue Act No.10 of 2006	Even though PAYE taxes should be remitted to the Inland Revenue Department before 15 of the following month, the PAYE taxes of the Company related to the Month of April 2017 had been remitted only on 22 May 2017.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year under review had been a loss of Rs.34,890,255 as compared with the corresponding profit of Rs.10,521,743 which was the financial result of the preceding year thus indicating a deterioration of Rs.45,411,998 in the financial result of the year under review as compared with the preceding year. The decrease in the income by Rs.47,638,888 in the year under review as compared with the preceding year had been the main reason for the said deterioration in the financial result. The instructions issued by the Ministry of Defense to stop payment of the balances receivable to the Company and losing of those major customers by the Company had been the main reason for the decrease in the income.

4. Operating Review

4.1 Performance

4.1.1 Planning

According to paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, copies of the Corporate Plan approved by the Company should be presented to the Auditor General at least 15 days prior to the commencement of the following financial year, the Company had not submitted copies of the Corporate Plan even by 31 March 2018.

4.1.2 Operation and Review

Even though the major role of the Company was to provide procurement services for military equipment that were important to the Three Forces and the Police, the Company had to encounter a greater risk of losing the main customers of the Company as each institution carried out procurement activities by themselves with the of the prevailed war situation in the year 2009. Further, it had been informed through the letter No.MOD/PB/12/2017 of 03 July 2017 issued by the Ministry, that a special allowance should not be paid as a facilitation fee for the procurements made by Lanka logistics and Technologies Limited as the Company comes under the purview of the Ministry of Defense and it is allowed to obtain relevant provisions from the General Treasury as in the case of the other institutions, only if there is a financial shortage in maintaining the Company.

4.2 Analytical Review

	2016/2017	2017/2018	Increase / (Decrease)
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(a) Gross Profit Ratio (%)	96	32	(64)
(b) Net Profit Ratio (%)	22	(283)	(305)
(c) Earnings per Share	1.4	(4.1)	(5.5)

The Gross Profit Ratio, Net Profit Ratio and Earnings per Share of the Company had decreased by 64 per cent, 305 per cent and 5.5 per cent respectively as compared with the preceding year.

4.3 Staff Administration

In terms of the paragraph 9.3 of the Public Enterprises Circular No. PED /12 of 02 June 2003, the approval of the Department of Public Enterprises had not been obtained for Salary steps, the Scheme of Recruitment and the Scheme of Promotions of the employees.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Section 166 (1) of the Companies Act No .07 of 2007, Annual Reports had not been prepared by the Company on the affairs of the Company within 06 months of the balance sheet date.

5.2 Internal Audit

Even though an Internal Auditor had been recruited, the audit could not find evidences to substantiate that an Internal Audit had been conducted.

6. Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Accounting	Not functioning in compliance with the Accounting Standards and not making necessary disclosures in the financial statements.
(b) Taxation	Non-computation of the payable taxes accurately and not making payments on the due date.
(c) Staff Administration	Not obtaining the approval for the Scheme of Recruitment and for the Scheme of Promotion of employees.