

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Rakna Arakshaka Lanka Ltd (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the 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 2019 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on 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 disclaimed 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 determines 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 Sub-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.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of 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 Institute
- 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 Preparation of Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Relevant Standard	Reference to the	Comments of the Management	Recommendation
(a) In terms of paragraph 32 of Sri Lanka Accounting Standard 1, assets and liabilities and income and expenses shall not be offset unless required or permitted by a Sri Lanka Accounting Standard. However, credit balances totalling Rs.75 million remained in the Trade and Other Receivable Account as at 31 March 2019 had been set off against the debit balances remained as at that date and debit balances totalling Rs.343,757 remained in the Trade and Other Payable Account had been set off against the credit balance remained as at that date and shown in the financial statements. Moreover, income tax and PAYE tax (Pay As You Earn) debit balances had been set off and shown against the tax balance payable totalling Rs.8 million comprising Value Added Tax, Nation Building Tax, Pay As You Earn Tax, Economic Service Charges and Stamp Duties and deferred tax debit balance of Rs.13 million had been set off and shown under non-current liabilities.		Action has been taken to indicate them in the financial statements from the year 2019/2020.	Action should be taken in terms of Accounting Standards.

- (b) In terms of paragraph 66 of Sri Lanka Accounting Standard 1, the interest income receivable which should be indicated under current assets, had been indicated in the financial statements under non-current assets. Action has been taken to indicate the interest income receivable and the value of short term deposits separately in the financial statements from 2019/2020. -do-
- (c) In terms of paragraph 106(d) of Sri Lanka Accounting Standard 1, actuarial profit and foreign exchange gain included in the other comprehensive income should be separately disclosed in the statement of changes in equity. However, contrary to that, the entire comprehensive income totalling Rs.354 million had been indicated in the statement of changes in equity. Action has been taken to disclose the actuarial profit and foreign exchange gain separately in the statement of changes in equity from the financial report 2019/2020. -do-
- (d) In terms of paragraphs 14 and 20 of Sri Lanka Accounting Standard 7, the net cash flow from operating activities was resulted from the transactions and other events that enter into the determination of net profit or loss of the entity and it should be presented by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables. However, the actuarial profit amounting to Rs.7 million and the foreign exchange gain amounting to Rs.217 million included in the other comprehensive income, had been adjusted to the profit before tax in the cash flow statement prepared for the year ended 31 March 2019. In the preparation of financial reports from 2019/2020, action has been taken to omit foreign exchange gain and actuarial profit in adjusting to the profit before tax in the cash flow statement. -do-
- (e) Motor vehicles costing Rs.13 million and body armors and ballistic helmets costing Rs.39 million which had been fully depreciated as at the end of the year under review but still in use, had not been disclosed in the financial statements in terms of paragraph 79 (b) of Sri Lanka Accounting Standard 16. Action has been taken to disclose in the financial statements 2019/2020. -do-

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to assess and reveal the value of the land of 86.4 perches in extent where the building is located, of which constructions had been abandoned halfway after spending a sum of Rs.739 million for the construction of the Head Office.	Action has been taken to assess the said value and include in the financial statements in preparing the financial reports 2019/2020.	It should be revealed in the financial statements.

1.5.3 Unreconciled Control Accounts or Reports

Item	Value as per the Financial Statements	Value as per the Corresponding Reports	Difference	Comments of the Management	Recommendation
	Rs. Millions	Rs. Millions	Rs. Millions		
Motor Vehicles	26	29	3	Necessary measures will be taken.	Value shown in the financial statements should be tallied with that of the corresponding supporting documents.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not Made Available	Comments of the Management	Recommendation
	Rs.Million			
(a) Expenditure on annual depreciation	10	Registers/Schedules including details on dates of acquisition of fixed assets and depreciation thereof	Action has been taken to disclose them in the financial statements 2019/2020	Written evidence should be made available to Audit.
(b) Trade and other receivable	2,366	Confirmation of balances and physical stock verification	Action is taken to include the physical stock verification	Physical stock verification reports and confirmation of

balances and fixed assets		reports	reports and confirmation of balances	balances should be made available.
(c) Trade and other payable balances	762	Confirmation of balances	The sum payable to the Company has not been verified.	Written evidence should be made available to Audit.
(d) Body armors and ballistic helmets	9	Information requested on stock shortages	Relevant details are due to be made available to Audit as per conclusions and recommendations of the Board appointed.	-do-

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comments of the Management	Recommendation
<p>a) Out of the trade and other receivable balance of Rs. 2,299 million remained as at 31 March 2019 according to financial statements of the Company, a sum of Rs. 1,651 million was the balance receivable from providing maritime security services. Out of that, a sum of Rs. 1,525 million representing 92.4 per cent was the full loan balance receivable from the Avant Garde Maritime Services (Pvt) Limited. Balances of Rs.84 million and Rs.378 million receivable from floating armouries in Rangala and Galle respectively, had remained unrecovered for over a period of 07 years and action had not been taken to recover those loan balances.</p>	<p>As it is expected to recover a compensation, action has been taken to pay moneys and action will be taken to write off the receivables from floating armouries in Rangala and Galle, from financial statements 2021/2022.</p>	<p>Action should be taken to recover receivables.</p>
<p>b) According to the age analysis of loan balances receivable in the year under review, the loan balance receivable from 08 institutions for over a period of 05 year was Rs.711 million and the value of loan balances receivable for a period less than 06 months was Rs.54 million. The Company had continuously operated activities together with those institutions without paying attention towards the recovery of loan balances remained unsettled for a long period.</p>	<p>Necessary action will be taken to write off in the accounting year 2021.</p>	<p>-do-</p>

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

	Reference with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Section 150 (1) of the Companies Act, No.07 of 2007	The Board of the relevant company shall ensure that within six months or within such extended period as may be determined by the Registrar after the balance sheet date of the Company, financial statements are completed and certified by the person responsible that it is in compliance with the requirements of this Act and dated and signed on behalf of the Board by two directors of the Company. However, action had not been so taken. The accounts for the year ended 31 March 2019 had been signed only on 08 December 2021.	Has not commented.	Action should be taken in terms of provisions of the Act.
	Circular No. PED/12 dated 02 June 2003 on Good Governance of Public Enterprises			
(i)	Section 5.1	An updated Corporate Plan had not been prepared for the year under review.	-do-	Action should be taken in terms of Circular provisions.
(ii)	Section 6.5.1	The Company should furnish the financial statements along with the Draft Annual Report to the Auditor General and the copies thereof to the line Ministry and the Department of Public Enterprises within 60 days	-do-	-do-

after the closure of the financial year. However, the final financial statements for the year under review approved by the Board of Directors had been furnished to the Auditor General on 08 December 2021 with a delay of 02 years and 06 months as at that date.

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| (iii) | Section 6.5.3 | Annual reports relating to the years 2017, 2018 and 2019 had not been tabled in Parliament. | -do- | -do- |
| (iv) | Section 7.4.1 | At least 04 sessions of audit and management committee meetings should be held. However, only 02 sessions had been held. | -do- | -do- |
| (v) | Section 7.4.5 | A Board of Survey had not been appointed for the year under review to verify fixed assets as at 31 March 2019 and a Register of Fixed Assets as well had not been maintained in an updated manner. | Action has been taken to commence the process of the annual Board of Survey in terms of Financial Regulations, step by step since the year 2020. | -do- |
| (vi) | Section 8.2.2 | (i) Short term deposits of Rs.1,161 million brought forward over several years, indicated in financial statements had been re-invested during the accounting period and the concurrence of the Minister of Finance had not been obtained relating to the said re-investment. | Have been invested in state banks and Treasury Bills. | -do- |

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| (ii) | Documented evidence relating to investment of US\$ 3.1 million as deposits received from activities of the Company and approval of the Board of Directors relating to re-investment of US\$ 2.1 million during the year under review, had not been made available to Audit. | Relevant action will be taken with the approval of the Board of Directors. | -do- |
| (vii) | Section 9.3
A Scheme of Recruitment and Promotion (Administrative instructions) of staff from the date of incorporation of the Company up to date, had not been prepared and approval therefor had not been obtained from the Department of Public Enterprises. | Opportunity has been provided since the year 2021 to carry out all activities relating to human resource management on the approval of the Board of Directors. | -do- |

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a profit of Rs129,489,498 as compared with the corresponding profit of Rs.22,259,368 of the preceding year, thus observing an improvement of Rs.107,230,130 in the financial result. The increase in the income by 481 per cent had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

Bank charges for the preceding year and the year under review were Rs.1,575,912 and Rs. 4,269,077 respectively and it had increased by 170 per cent in the year under review as compared with the preceding year. Further, expenditure on operations and other office expenses of the preceding year and the year under review amounted to Rs.1,220,467 and Rs.5,503,891 respectively and it had increased by 350 per cent in the year under review as compared with the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

The main source of income of the Rakna Arakshaka Lanka Ltd. is determined on supply of local and maritime security services. However, the attention of the Management has not been drawn towards by proper invoicing of income and sending them to relevant institutions and establishing internal control methods appropriate for proper management and control by identifying differences with those institutions.

Comments of the Management

A separate division has been established since the financial year 2021/2022 for recovery of loans and necessary action is being taken through the said division.

Recommendation

The internal control system should be improved.

3.2 Operating Inefficiencies

Audit Observation

(a) The business agreement between the Company and the Avant Garde Maritime Services (Private) Ltd. had expired on 24 January 2019. However, 103 automatic and semi-automatic fire arms and 28,789 ammunition handed over to Avant Garde had not been recovered to the Company even by September 2020.

(b) Thirteen fire arms issued in the year 2011 to shipping companies but not handed over so far, had been misplaced and it had included 04 and 03 automatic and semi-automatic fire arms respectively.

Comments of the Management

Measures will be taken to recover the said fire arms.

Action has been taken to look into matters relating thereto by appointing a Board comprising a Senior Assistant Secretary of the Ministry of Defence and further action will be taken after the conclusions and recommendations made by the said Board.

Recommendation

Action should be taken to recover assets.

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