

CWE Securities and General (Private) Limited -2018/2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the CWE Securities and General (Private) Limited (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 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 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 (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 Auditor's 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 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.

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- 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

Audit Issue	Management Comment	Recommendation
(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,

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| (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. | The employees have been resigned after receiving salary advance. We sent several reminds to repay advance amount. | In the instances where the recoverable amount of the asset is less than its carrying amount, a provision for impairment should be made. |
| (ii) According to the age analysis given, the debtor balances which the recoverability is uncertain was Rs.21,761,269. However, the bad debt provision of the financial statement was Rs. 7,281,385. | Necessary action is being taken to collect these debts. If it is not happened we will do the bad debts provision in the next financial year. | The bad debt provision should be corresponded with the debtor balances which the recoverability is uncertain. |
| (b) According to the section 17.20 of the Standard, Property Plant and Equipment of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), depreciation of an asset begins when it is available for use. However, the depreciation had been overstated by Rs.67, 758 as the depreciation for fixed asset had been calculated on the balance of the beginning of the year without taking the date when the asset is available for use in to consideration. | Noted and correction have been done. | The standard should be followed. |

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Gratuity provision for an employee had not been made for the year under review. Hence the gratuity provision for the year under review had been understated by Rs.103,992.	He has not been paid salary due to interdiction from the employment.	Gratuity provision should be made accurately.
(b) A budgetary allowance 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.	Noted and did the changes during the year 22/23	Paid allowances should be accounted as an expense.
(c) Fixed deposit interest income had been understated by Rs.134,050 as the interest income for fixed deposit for the year under review amounting to Rs.2,084,003 had been accounted as Rs.1,949,953.	Noted and corrected.	Income should be accounted accurately.
(d) Fixed deposit interest income receivable for the year under review amounting to Rs.823,614 had not been accounted.	Noted , amended in the next Financial year.	Income receivable should be accounted.

1.5.3 Unreconciled Control Accounts or Records

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Debtor balance	73,948,096	74,148,987	200,891	Noted, This is due to system error and did the correction	Debtor balance as per financial statements should be tallied with the corresponding record.

1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
83 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.	Noted	Income sources should be diversified.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
1.Receivable from Trust				
(i). Narahenpita	886,250	} Schedules, Age Analysis, Invoices	It was happened before 2013. And we missed those due fire took place on 31 st July 2013	Written evidence to confirm the value should be maintained.
(ii). Rathmalana	107,336			

2.Receivable from Staff				We need approval to write off been value as they are not recoverable	Written evidence to confirm the value should be maintained.
(i). Refundable Uniform & Shoes Expenses	2,262,822	} Schedules, Age Analysis			
(ii). Death donation receivable	1,470,649				
(iii). Festival advance	453,500				
(iv). Salary advance	233,191				
3.Rent Advance received				It was happened before 2013.And we missed those due fire took place on 31 st July 2013	Written evidence to confirm the value should be maintained.
(i). Narahenpita	108,000	} Rciepts Issued			
(ii). Rathmalana	324,000				
4. Security Deposit received				It was happened before 2013.And we missed those due fire took place on 31 st July 2013	Written evidence to confirm the value should be maintained.
(i). Narahenpita	200,000	} Reciepts Issued			
(ii). Rathmalana	300,000				
5.CWE Office Assistant Salary	2,086,433	Schedules, Age Analysis, Salary Sheets		The amount should be write off through AMC,as it is not liable to pay	Written evidence should be presented to the audit to confirm the liability to pay.
6.Bank Guarantee	740,000	Documents to confirm the balance		We can produce the documents if required	Written evidence to confirm the value should be presented to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The debtors balance amounting to Rs.6,165,464 receivable over a period of more than 05 years and a balance amounting to Rs.8,172,856 receivable over a period from 1-5 years had not been recovered.	We have forwarded these balances to the Audit Committee to write off	Receivable balances should be recovered without a delay.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Building rent payable to Corporative Wholesale Establishment as at 31 March 2019 had been Rs.10,402,205 Out of which Rs.8,867,358 was the rent payable for the period prior to the year 2018.	Noted	Building rent payable should be paid within the prescribed period.

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 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.209,250 payable for five employees resigned during the year under review had not been paid within the prescribed period.	Noted	Gratuity payable for employees resigned should be paid within the prescribed period.

(b) Public Enterprises

Circular No PED / 12
of 02 June 2003

- i. Section 9.2 The approved cadre had not been registered with the Department of Public Enterprises. Necessary action has been taken The approved cadre should be registered with the Department of Public Enterprises.
- ii. Section 9.3.1 The Company has no Scheme of Recruitment and Promotion for each post. Necessary action has been taken 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.

- (c) Audit and Management Circular DMA 2009 (1) dated 09 June 2009 The Company had not established an Internal Audit unit. Necessary action has been taken An internal Audit unit should be established

1.8 Cash Management

Audit Issue

The paying officer should always ensure that the bank balances is adequate to meet all his payments made by cheques and no official bank account must be overdrawn. However, the Company had taken overdraft facility from the bank and the overdrawn bank balances as at 31st March 2019 had been Rs.2, 127,509. The interest for the overdraft paid during the year under review had been Rs.261,839.

Management Comment

Noted. Action is being taken to reduce overhead cost

Recommendation

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. 11,067,898 and the loss in the preceding year amounted to Rs. 1,044,268. Therefore an improvement of amounting to Rs. 12,112,166 of the financial result was observed. The reasons for the improvement are the increase of revenue by Rs. 48,697,100, against the increase of cost of labour supplied by 26,504,990 and the increase of administration expenses by Rs.9, 419,167.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) 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.	Agreement is progressing	A rent agreement for the building which the Company is located should be entered into.
(ii)An agreement between the Company and Lanka Sathosa Ltd. for providing security services had not been entered in to for the period from 01 April 2018 to 01 January 2019.	Noted. Now it is available	Agreements for providing security services should be entered into.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
41 Audit and Monitoring Services Officers had been recruited during the year under review and the approval for recruitment and the scheme of recruitment had not been presented to the audit.	The recruitment has been done based on the special requirement of Lanka Sathosa Ltd	Approval for recruitment and the scheme of recruitment should be presented to the audit.