

## **Natural Resources Management Service (Pvt) Ltd Company – 2018**

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### **1. Opinion**

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The audit of the financial statements of the Natural Resources Management Service (Pvt) Ltd “Company” for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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).

#### **1.1 Basis for Opinion**

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

#### **1.2 Responsibilities of the Management and Those Charged with Governance for the financial statements**

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The Management 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 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 operation, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the Company’s financial reporting process.

As per the 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.

### 1.3 Audit Scope

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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 misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that it 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 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,
- 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,

**1.4 Financial Statements**

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**1.4.1 Going Concern of the Organization**

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<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>The board of directors of the Mahaweli Authority decided to liquidate the Company in 2012, but the liquidation of the Company had not Commenced.</p>	<p>The decision of the board of directors regarding the liquidation of the Company has been sent to the Director General of Sri Lanka Mahaweli Authority, Chief Internal Auditor Ministry of Mahaweli Development and Environment and Sri Lanka Mahaweli Development Authority Director (Business Development)</p>	<p>According to the decision of the Board of Directors, the Company should be liquidated.</p>

## 1.5 Non - Compliance with laws, Rules, Regulations and Management Decisions etc.

Reference to the Laws, Rules and Regulations etc.	Non – compliance	Comments of the Management	Recommendation
(a) Section 39(1) of the Mahaweli Authority of Sri Lanka Act No.23 of 1979	Even though the Board of Directors should consist of 07 members consisting of the Directors appointed by the line Ministry and the Shareholding Directors appointed by the shareholders, four numbers of present Board of Directors had been appointed by the Director General of the Mahaweli Authority of Sri Lanka.	Only the Mahaweli Authority of Sri Lanka participated in the Company's general meeting as shareholders. Due to the absence of the other two shareholders the Mahaweli Authority has to appoint Directors.	Action should be taken in terms of the provisions of the Mahaweli Authority of Sri Lanka Act No.23 of 1979.
(b) The Public Enterprises Circular No.12 dated 02 June 2013.	(i) Paragraph 5.1.3	The Corporate plan had not been incorporated in to the future plans for the purpose of forming the Company.	Action should be taken in terms of the Circular.
	(ii) Paragraph 6.5.1	The draft annual report had not been presented to audit along with the financial statements of the year 2018.	Action should be taken in terms of the Circular.
(c) Section 2.2 of the Public Enterprises Circular No.03 dated 17 June 2015.		The approval of the board of directors should be obtained with the concurrence of the Minister of Finance and the recommendation of the	The chairman allowances have been paid up to now considering a company as "E" group company. However, according

secretary to the line to the Public  
Ministry to pay Enterprises Circular  
monthly allowances of No PED 3/2015 of  
the chairman of the Ministry of Finance,  
Government owned two additional  
companies coming director generals have  
under the purview of been named to clarify  
sub category "F" of the matter. Although  
the categorization of letters had been sent  
companies. on several occasions  
Nevertheless, the to clarify that, no  
relevant approval had reply has been  
not been obtained for received.  
the allowances paid to  
the chairman for the  
years 2016,2017 and  
2018 amounting to  
Rs.112,500,  
Rs.450,000 and  
Rs.450,000  
respectively.

**02 Financial Review**  
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**2.1 Financial Result**  
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The operating result of the year under review amounted to a loss of Rs.1,267,070 and the corresponding loss in the preceding year amounted to Rs.1,266,678. Therefore, a deterioration amounting to Rs.392 of the financial result was observed. The reasons for the deterioration is the Company's suspension of business.

**03 Operational Review**  
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**3.1 Operational Inefficiencies**  
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<b>Audit Observations</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Although the company's main task is to provide environmental reports, the company does not have a staff with technical knowledge to prepare environmental reports so that Environmental reports are Prepare and collect from outside parties. and the company does not have the ability or ability to verify its accuracy. Only one environmental report has been prepared for 2018.	Rather than recruiting permanent staff, it is advantageous for the company to hire the required staff on a contract basis. The company has decided to close down since 2012. The Company was advised to close down at the subsequent Audit and Management Committee meetings. accordingly, the Board of Directors of the Company has decided not to undertake any project in 2019.	Necessary staff should be recruited for the main functions of the company.

### 3.2 Human Resources Management

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Audit Observations	Comments of the Management	Recommendation
The company consisted of 03 staff members, with no specific staff for the company and no recruitment procedures approved by the Management Services Department or the Board of Directors. As a result, it was not possible to check the correctness of recruitment, promotions, job qualifications and salary decisions for the company's staff.	A scheme of recruitment has been prepared for the company. Due to the unstable nature of the company, no permanent staff has been recruited since 2012.	Action should be taken to complete the liquidation process expeditiously.