

**1.1 Opinion**

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The audit of the financial statements of the Management Services Rakshana (Private) Limited (“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, 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 the accompanying 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.

**1.2 Basis for Opinion**

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 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 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 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 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 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

| Non Compliance with the reference to particular Standard  | Management Comment   | Recommendation  |
|---|--|---|
| <p>a) According to the paragraph 27 of LKAS 01-Presentation of Financial Statements, an entity shall prepare its financial statements except cash flow information, using accrual basis of accounting. However an accrued Interest income of Rs.28,125 from 2018.10.01 to 2018.12.31 for Fixed Deposit of Rs. 1,000,000 at Bank of Ceylon was not included in statement of financial position and statement of profit or loss and other comprehensive income. As a result profit for the year was understated by the same amount.</p> | <p>Agreed and will rectify in the next financial statements.</p> | <p>Should comply with the provisions of the standard.</p> |
| <p>b) The company had not complied with LKAS 01 due to offsetting Income Tax overpaid amounting Rs.487,827 against current asset in the statement of financial position.</p>  | <p>Agreed and will rectify in the next financial statements.</p> | <p>Should comply with the provisions of the standard.</p> |

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|---|--|---|
| <p>c) According to the paragraph No.60 of the LKAS 01, an Entity shall present all assets and liabilities in order of liquidity. However in the Statement of financial position of the company, non-current assets had been presented after the current assets.</p> | <p>Agreed and will rectify in the next Financial Statements.</p> | <p>Should comply with the provisions of the standard.</p> |
|---|--|---|

### 1.5.2 Accounting Deficiencies

| <b>Audit Issue</b>   | <b>Management Comment</b> | <b>Recommendation</b>  |
|--|---------------------------|--|
| <p>a) A property loan reimbursement of Rs.50,369 for executives was included in the account of Incentives.</p> | <p>Agreed</p>             | <p>Should be classified under the relevant category in Financial Statements and ledger accounts.</p> |

### 1.6 Non -compliance with Tax Regulations

| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>                                     |
|--|---|---|
| <p>According to Economic Service Charge (ESC) (Amendment) Act No.07 of 2017(Section 02 Subsection 2 (C)) the company had not complied to pay the Economic Service Charges for the month of December 2018. And Economic Service Charge payable balance of Rs.102,403.02 had not been accounted relating to the turnover of Rs.20,480,605.</p> | <p>Agreed. But ESC will be set off when finalizes the income tax.</p> | <p>Should be complied with the provisions of the Act.</p> |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review and the preceding year has not recorded a profit or loss. The reason is the company is reimbursed for all its operational expenses by its parent company. As such neither a profit nor a loss is incurred at the end of its financial year.

## 3. Operational Review

### 3.1 Defects in Contract Administration

| <b>Audit Issue</b>   | <b>Management Comment</b> | <b>Recommendation</b>  |
|--|---------------------------|--|
| As a practice the recruitment of the company was done through a reputed recruitment agency. The agreement for this service with the company has expired on 25 October 2018. No further actions had been taken to select a new recruitment agency or to extend the prevailing agreement with that agency. | Noted.                    | Should take necessary actions to select a new recruitment agency or to extend the prevailing agreement with the previous agency. |

### 3.2 Utilization of Resources of Parent Company

| <b>Audit Issue</b>  | <b>Management Comment</b>                         | <b>Recommendation</b>                            |
|---|---|--|
| The company had obtained the service of two employees and the service of managing personnel of Sri Lanka Insurance Corporation (SLIC) without paying any salary or remuneration. Additionally, the company had used the office area, office equipments, stationary and electricity of SLIC without paying any charge. | This will be discussed in the next board meeting. | Steps should be taken to get the Board approval. |

## 4. Accountability and Good Governance

### 4.1 Internal Audit

| <b>Audit Issue</b>   | <b>Management Comment</b>                          | <b>Recommendation</b>                                    |
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| The Company had not involved a separate internal audit team and its internal audit was not covered by parent company. Hence it was not | We will discuss with BOD and get necessary action. | Should comply with the National Audit Act No 19 of 2018. |

complied with National Audit Act  
No 19 of 2018.

#### **4.2 Audit Committee**

| <b>Audit Issue</b>  | <b>Management Comment</b>                          | <b>Recommendation</b>   |
|---|--|---|
| The company does not have a separate Audit Committee or its operations were not reviewed in parent company Audit Committee meeting. | We will discuss with BOD and get necessary action. | Company should have a separate Audit Committee or its operations should be reviewed in parent company audit committee meeting as separate agenda. |