

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of Rakna Arakshaka Lanka Ltd (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 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.

I do not express an opinion on these financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I was not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

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 of the Company.

1.4 Auditor's Responsibility for the Audit of Financial Statements

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with Sri Lanka Auditing Standards. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	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 amounting to Rs.63,331,928 remained in the Trade and Other Receivable Account as at 31 March 2020 had been set off against the debit balances remained as at that date and debit balances amounting to Rs.270,892 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.	It is agreed with audit observations and action is taken to make necessary rectifications through financial reports relating to financial years of 2020/2021 and 2021/2022.	Financial reports should be prepared and submitted in terms of provisions in Sri Lanka Accounting Standards.
(b) In terms of paragraph 38 of Sri Lanka Accounting Standard 1, except when Sri Lanka Financial Reporting Standards permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. However, necessary rectifications relating to recommendations pointed out by the Audit Report of the preceding year had not been included in the financial statements.	-do-	-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 comprehensive income totalling Rs.426,396,700 had been indicated in the statement of changes in equity.	-do-	-do-

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| (d) | In terms of paragraph 112(c) of Sri Lanka Accounting Standard 1, bank loans of Rs.18,546,256 and Rs.27,819,456 had been classified as non-current and current liabilities respectively. However, information thereon had not been presented by Notes. | -do- | -do- |
| (e) | In terms of paragraphs 08 and 09(b) of Sri Lanka Accounting Standard 10, the stock of bullets/shots materials/guns valued at Rs.2,577,280 recognized as unserviceable, in armouries owned by the Company as at 16 December 2020, had been overstated by the same amount in current assets due to failure in adjusting relating to the year under review. | -do- | -do- |
| (f) | In terms of paragraphs 25 and 26 of Sri Lanka Accounting Standard 24, unpaid balances relating to transactions made by public institutions with other public institutions should be disclosed. However, action had not been taken accordingly. | -do- | -do- |
| (g) | In terms of paragraph 14 of Sri Lanka Financial Reporting Standard 7 (SLFRS 07), disclosures on fixed deposits furnished as securities for providing a security service, had not been made in the financial statements by Rakna Arakshaka Lanka Ltd. | -do- | -do- |
| (h) | In terms of paragraph 08 of Sri Lanka Financial Reporting Standard 7 (SLFRS 07), the carrying amount of financial assets and liabilities of each category, shall be disclosed either in the statement of financial position or in the notes. Nevertheless, it had not been done accordingly. | -do- | -do- |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) Even though a cost of Rs.739.4 million had been incurred by 31 March 2020 for the construction of the Head Office building of the Company, constructions of the building had been abandoned halfway. Action had not been taken to vest the ownership of the land where the building has been planned to be constructed, to the Company and provision for impairment as well had not been made in the financial statements.	It is agreed with audit observations and action will be taken to make necessary rectifications through financial statements relating to the financial years of 2020/2021 and 2021/2022.	Action should be taken to vest the ownership and provision for impairment should be made.

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| (b) | Rakna Arakshaka Lanka Ltd. had been ordered on 24 November 2016 to pay US\$ 05 million and Singapore Dollars 826,000 as compensation by the judgement of the lawsuit instituted at the Singapore International Arbitration Centre by the Avant Garde Maritime Services (Pvt) Limited against the Company. However, action had not been taken either to make appeals or to make provision in the financial statements therefor even by the end of the year under review. | -do- | Appeals should be made for court proceedings or provision be made in the financial statements therefor. |
| (c) | According to the information presented to Audit, a debit balance of Rs. 200,181,662 had been indicated as payable tax in the financial statements of the year under review and the income tax balance payable in the financial year of 2014/15 amounted to Rs. 222,332,918. It had been shown as the debit balance from the financial year of 2015/16 to the year 2019/20. Moreover, differences were observed between the payable tax balances mentioned in the Letter of Confirmation No. EPFS/COMM/2022/12 dated 02.03.2020 sent by the Commissioner General of Inland Revenue and the balances indicated as tax payable relating to the preceding year, in the financial statements of the year under review. | -do- | Tax balances should be calculated correctly and necessary adjustments should be made by comparing differences between balances. |
| (d) | An income tax debit balance amounting to Rs.200,664,717 payable relating to the preceding year had been indicated in the financial statements and a sum of Rs. 200,181,662 had been indicated as an income tax debit balance payable even in the year under review. However, the Commissioner General of Inland Revenue had not pointed out as per the confirmation of balances obtained on 10 March 2022 that such a debit balance had remained even in the preceding year. Moreover, an acceptable reply had not been given even for the audit query presented in the preceding year and it had been commented that only an income tax of Rs. 2,599,788 had been paid. However, necessary provision for doubtful debt had not been made in accounts therefor. | -do- | -do- |

- (e) A debit balance of Pay As You Earn Tax amounting to Rs.54,829 had been indicated in the financial statements of the preceding year and a debit balance of Pay As You Earn Tax amounting to Rs. 308,065 had been indicated in the year under review as well. However, according to the letter of confirmation of balances received from the Commissioner General of Inland Revenue, it had been indicated that there was no such debit balance in the preceding year. Further, necessary provision for doubtful debt had not been made in accounts therefor. -do- -do-
- (f) The deferred tax debit balance of the year under review amounted to Rs. 73,643,559 and the said balance for the preceding year amounted to Rs. 12,929,036. Thus, the deferred tax debit balance of the year under review had increased by Rs.60,714,523 as compared with the preceding year. Moreover, the deferred tax debit balance had been indicated under long term non-current liabilities in the statement of financial position. -do- -do-

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not made Available	Comments of the Management	Recommendation
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	Rs.Million			
Trade and other receivable balances, fixed assets and stocks	2,732	Confirmation of balances and physical stock verification reports	It is agreed with audit observations and action will be taken to make necessary rectifications through financial reports relating to the financial years of 2020/2021 and 2021/2022.	Confirmation of balances and physical stock verification reports should be made available to Audit.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Out of the trade and other receivable balance of Rs. 2,674,767,444 remained as at 31 March 2020 according to financial statements of the Company, a sum of Rs.1,784,594,523 was the balance receivable from providing maritime security services. Out of that, a sum of Rs. 1,631,525,702 representing 91.4 per cent was the full loan balance receivable from the Avant Garde Maritime Services (Pvt) Limited. Balances of Rs.83,868,069 and Rs.377,764,559 receivable from floating armouries in Rangala and Galle respectively, had remained unrecovered for over a period of 07 years and relevant evidence had not been made available to Audit to confirm those balances. Moreover, action had not been taken to recover those loan balances as well.	-do-	Action should be taken to recover and to confirm relevant loan balances.
(b) According to the age analysis of loan balances receivable in the year under review, the loan balance receivable from 89 institutions for over a period of 05 years was Rs.1,454,554,288. However, no attention had been paid towards the recovery of relevant loan balances.	-do-	-do-
(c) The main source of income of 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 establishing internal control systems appropriate for proper management and control by proper invoicing of income and sending them to relevant institutions.	-do-	A proper internal control system should be introduced and implemented.

1.6.2 Accounts Payable

Audit Observation -----	Comments of the Management -----	Recommendation -----
According to financial statements, letters of confirmation of balances required in relation to liabilities of Rs.762,831,040 payable to Avant Garde Maritime Services (Private) Ltd., had not been made available to Audit.	Audit observations are agreed with and action will be taken for necessary rectifications through financial statements relating to the financial years 2020/2021 and 2021/2022.	Letters of confirmation of balances should be made available to Audit.

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

Reference to 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 2020 had been signed only on 29 April 2022.	Audit observations are agreed with and action will be taken for necessary rectifications through financial statements relating to the financial years 2020/2021 and 2021/2022.	According to laws, rules and regulations, action should be taken to submit financial statements on the due date.
(b) 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-	A Corporate Plan should be prepared.
(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 relevant Ministry and the Department of Public Enterprises within 60 days 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 29 April 2022 with a delay of 01 year and 10 months as at that date.	-do-	Action should be taken to submit financial statements on the due date.
(iii)	Section 6.5.3	Annual Reports for the years 2017/18 and 2018/19 had not been tabled in Parliament.	-do-	Action should be taken to table Annual Reports.
(iv)	Section 7.4.1	At least 04 sessions of audit and management committee meetings should be held per year. However, only 01 session had been held in the year under review.	-do-	Action should be taken to hold meetings within the due period.
(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 2020 and a Register of Fixed Assets as well had not been maintained in an updated manner.	-do-	Action should be taken to maintain a Fixed Assets Register in an updated manner.
(vi)	Section 9.3	A Scheme of Recruitment and Promotion had not been prepared for the staff and approval therefor had not been obtained from the Department of Public Enterprises from the date of incorporation of the Company up to date.	-do-	Action should be taken to prepare a Scheme of Recruitment and Promotion and to obtain approval therefor.

2 Financial Review

2.1 Financial Results

The operations of the year under review resulted in a profit of Rs.271,577,352 as compared with the corresponding profit of Rs.129,489,498 of the preceding year, thus observing an improvement of Rs.142,087,854 in the financial result. The increase in the income by 52 per cent had mainly attributed to this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The expenditure on publicity relating to the preceding year and the year under review was Rs.195,125 and Rs.1,837,232 respectively while that expenditure had increased by 841 per cent in the year under review as compared with the preceding year. Moreover, the expenditure on doubtful debts relating to the preceding year and the year under review was Rs. 5,952,538 and Rs.17,506,520 respectively while that expenditure had increased by 194 per cent in the year under review as compared with the preceding year.

3 Operating Review

3.1 Operating Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
Even though necessary future measures had been taken as at 31 March 2020 relating to 254 units of unserviceable fire arms and 714 accessories, they have not been finalized so far.	Audit observations are agreed with and action will be taken to carry out necessary rectifications through financial statements relating to the financial years 2020/2021 and 2021/2022.	Future measures should be expedited.