Rakna Arakshaka Lanka (Ltd) Company -2021/2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Rakna Arakshaka Lanka (Ltd) Company ("Company") and its subsidiaries ("Group") for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 and the statement of profit and loss and other 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 the paragraph 1.5 of my report, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2022, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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, 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 Audit Scope

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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Audit Observation	Management Comment	Recommendation
Action had not been taken to identify and recorded the transactions that should have been recorded in the journal separately in the general journal and other journal according to the nature of the transaction, and the narration of all journal entries had not been adequately described during the year under review.	This had to be done to correct accounting errors and classification errors.	The narrations of the journal entries should be detailed.

1.5.2 Non-Compliances with the Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Body armour and ballistic helmets, leased vehicles and other vehicles amounting to Rs.64.99 million, which had been fully depreciated by the end of the year under review but were already in use, had not been disclosed in the financial statements in accordance with paragraph 79 (b) of Sri Lanka Accounting Standard No.16,	Fully depreciated property, plant and equipment have not been revalued in this financial year and will be revalued in the financial year 2022/2023. There are no leased vehicles at present but as the lease period has expired, all have been capitalized under freehold and no change in values has occurred, so corrections will be made through Note 15.	Action should be taken in accordance with Sri Lanka Accounting Standards.

1.5.3 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Although a sum of Rs. 2.23 million due from institutions providing security services by the Ground Operations Division for the financial year 2021/2022 had been settled according to the records maintained by the Debt Recovery Division, the debtor balance had been overstated by that value as no action had been taken to adjust that value to the relevant debtor accounts.	It has been informed that source documents and original copies must be found.	Balances should be calculated accurately and differences between balances should be compared and necessary adjustments should be made.
(b)	Although approval was given at the 151st Board of Directors meeting to pay the general monthly operating expenses such as salaries, electricity and water bills on behalf of Rakna Property Holding Company Limited by Rakna Arakshaka Lanka Limited, the company incurred expenses of Rs. 170.93 million during the year under review that had not been included in the general monthly operating expenses of the subsidiary company.	Those expenses had been incurred up to March 2022 and the 151st Board of Directors meeting was held in April 2023	Only duly approved expenses should be incurred.
(c)	The Land Security revenue in the year under review had been understated by Rs.7.16 million, due to adjusting the credit note value of Rs.0.7 million and Rs.6.46 million respectively against the revenue in respect of the accounting years of 2019/2020 and 2020/2021 from the credit note value of Rs. 89.63 million included in the Land Security Division's revenue of Rs. 1,529 million in the year 2021/2022, and the revenue had been overstated due to the unadjusted credit note value of Rs.1.54 million which had been identified in the accounting year prior to the submission of the financial statements.	In cases where the differences in value to be settled by the relevant institutions for invoices submitted for revenue collection, credit notes are issued to correct the same after obtaining confirmations and often the invoices do not apply to the same month. If credit notes are subsequently issued for the relevant months, the VAT returns have to be revised and this process has been adopted as a professional practice as many problems may arise for VAT payment/refund.	The income for the year under review should be accurately identified and the necessary adjustments should be made in the financial statements.

(d)	Although the deferred tax, other payables and retirement benefit liabilities stated in the statement of financial position for the year under review were Rs. 172.48 million, it had been shown as as Rs. 152.79 million in the notes to the financial statements, therefore a sum of Rs. 19.69 million had been understated in the accounting notes.	The documents were revised due to a drafting error, and as this does not change the balance sheet, the relevant entries will be corrected.	Necessary corrections should be made.
(e)	As per the schedules of Domestic Fixed Deposits, Maritime Sector Fixed Deposits and Treasury Bills, the interest income of Rs. 25.27 million for the year under review had been accounted as Rs. 32.74 million, therefore the interest income had been overstated by Rs. 7.47 million.	Other income has been incorrectly linked to interest income and should be classified under other income.	Balances should be calculated accurately and differences between balances should be compared and necessary adjustments should be made.
(f)	Revenue payable to Rakna Arakshaka Lanka Limited at the rate of 5 per cent and 7 per cent per month respectively from the operating income generated in terms of the joint agreements entered into with Avant Garde Maritime Services (Private) Limited for the provision of security operations for a joint venture and the deployment of sea marshals for the security of fishing vessels, had been accounted for on a cash basis. Revenue payable to Rakna Arakshaka Lanka Limited at the rate of 5 per cent and 7 per cent per month respectively from the operating income generated in terms of the joint agreements entered into with Avant Garde Maritime Services (Private) Limited for the provision of security operations for a joint venture and the deployment of sea marshals for the security of fishing vessels, had been accounted for on a cash basis.	Security operations (OBST) receipts for a joint venture (5%) and operational receipts related to the deployment of sea marshals for the security of fishing vessels (7%) are recorded on a cash basis, depending on the nature of its operation.	Income related to the year under review should be identified and accounted for.
(g)	Although the VAT of Rs. 12.4 million paid for the land on which the commercial office complex building was constructed was not recoverable, that value had been accounted for as advance payments and other trade receivables.	This is recorded under receivables as the VAT refund notice is available from the Inland Revenue Department and the output tax for construction projects is often not received at the beginning.	Accounting reports should be prepared by making the necessary corrections.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per corresponding reports	Difference	Management Comment	Recommendation
	Rs.million	Rs.million	Rs.million		
Value of T-56 and LMG weapons	31.90	11.62	20.28	The necessary corrections will be made in the 2022/2023 financial year.	The differences between the balances should be compared and the necessary adjustments should be made.
Uniform value	12.93	13.33	0.4	The necessary corrections will be made in the 2022/2023 financial year.	The differences between the balances should be compared and the necessary adjustments should be made.
Ammunition stock	29.12	10.55	18.57	The necessary corrections will be made in the 2022/2023 financial year.	The differences between the balances should be compared and the necessary adjustments should be made.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

	Audit Observation	Management Comment	Recommendation
(a)	There had been an account called Balance Adjustment of Rs.36.53 million in the other receivables balance of Rs.126.53 million as at the end of the year under review, which had not been settled up to the end of the year under review.	The necessary corrections will be made in the 2022/2023 financial year, as adjustments to the previous year.	Action should be taken to settle the adjustment account balances.

(b)	The Company's trade receivable balance of Rs. 583.81 million as of the end of the year under review included a total of Rs. 7.31 million in negative receivables, comprising Rs. 6.11 million in the land sector and Rs. 1.20 million in the marine sector, and the necessary adjustments had not been made to settle them.	This is only a classification issue in a specific client's balance and the overall balance of trade debtors has not been affected. Steps have been taken to correct the classification issues.	Necessary adjustments should be made to resolve identified negative balances.
(c)	Out of the Company's accounts receivable of Rs. 696.16 million as of the end of the year under review, Rs.79.82 million were receivable for more than 05 years in respect of 65 accounts and Rs. 18.05 million were receivable between 01 and 05 years in respect of 47 accounts. Without considering the time analysis of accounts receivable, steps had been taken to allocate 05 per cent of the total accounts receivable balances as bad debts.	The accounting policy has already been changed and the approval of the Board of Directors has been obtained and it will be implemented from January 2024.	Taking into account the age analysis of accounts receivable, action should be taken to recover loan balances

1.6.2 Cash Payables

Audit Observation	Management Comment	Recommendation
There were negative balances of Rs. 2.51 million in respect of 27 creditors in the trade creditors' balance and the necessary adjustments had not been made to settle them.	This is only a balance classification issue and since the overall balance of trade creditors has not been affected; and steps have been taken to correct the classification issues as well.	Necessary adjustments must be made to settle negative balances due.

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 26 (1) of the Value Added Tax Act, No. 14 of 2002	Tax in respect of a taxable period is payable on a date not later than the last day of the month following the end of that taxable period. However, a sum of Rs.79.11 million was still due as at the date of this report.	The total liability (subject to appeals and objections) as of June 2022 was Rs.101,612,346 and the settlements as per the payment plan (January to April 2024) were Rs.22,500,000, so the balance due as of 30 April 2024 is Rs.79,112,346.	Action should be taken in accordance with the provisions of the Act.

(b)	**Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka**			
(i)	Sections 2.7, 2.8 and 3.2 and Supplement 20 to the Procurement Manual of the Democratic Socialist Republic of Sri Lanka issued on 01 January 2011.	A Procurement Committee and a Technical Evaluation Committee had not been appointed as per the guidelines for the construction contract of the company's head office building, which had an estimated construction value of Rs. 3,192.47 million. Also, although the procurement process for selecting the contractor should be carried out by a Procurement Committee appointed by the Cabinet for contracts exceeding Rs. 150 million as per the 20th Supplement, such steps had not been taken in selecting the contractor for the construction of the said buildings. The construction contractor had been selected on the unanimous decision of the Board of Directors without inviting bids from competitive bidders.	This project, which has been halted midway in 2015, had been revised as a mixed development commercial office complex project in 2020 and the then chairman and management did not appoint a procurement committee and a technical evaluation committee for re-assign the construction work and consultancy services to the contracting company and consulting company and the former chairman/CEO and management acted at their own discretion.	Management should be held accountable for not following procurement guidelines.
(ii)	Section 2.10.1 and Chapter 3 of the Procurement Guidelines for Consulting Services of the Democratic Socialist Republic of Sri Lanka issued in November 2007	Although the selection of a consultancy firm for a project worth Rs. 100 million or more should be done through a procurement committee appointed by the Cabinet, the company had not followed the said procedures when selecting the consultancy firm for the construction project of the head office building of Rakna Arakshaka Lanka Limited worth Rs. 182.43 million.	Section 2.10.1 of the Procurement Guidelines Manual has not been followed and the company is currently not in possession of any documents approving the contract of consultancy services to the consultancy firm.	Management should be held accountable for not following procurement guidelines.

(c)	Section 395 (c) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Although bank reconciliation statements should be prepared before the 15th of the following month regarding the transaction status at the end of each month, bank reconciliation statements had not been prepared for a period of between 05 and 16 months as of September 2023 for 05 bank accounts maintained by the company.	I agree with this observation and have forwarded all these bank reconciliation statements up to September 2023 to the Ministry of Defence and the National Audit Office on 10.11.2023.	Action should be taken as per Financial Regulations
(d)	Public Enterprise Circulars (i) Public Enterprise Circular No. 01/2021 dated 16 November 2021 and its related Operations Manual			
	Section 3.4 (i)	The company did not have a recruitment procedure as of 31 March 2022, but the number of employees for each position, salary scale, job descriptions for the relevant positions in the accounting department, nature of appointment, age limits, methods of recruitment (external and internal notifications / written assessment / interviews, etc.) were not included in the recruitment procedure approved by the Board of Directors' decision dated 30 May 2023.	The Company approved the Company's Scheme of Recruitment (SOR) for each position in line with our business practices at the 152nd Board of Directors meeting. Furthermore, the job descriptions for each position have been prepared in a manner that varies from position to position according to business needs and have been provided to all staff members.	Necessary amendments should be made as per the circular.
	Section 6.6	Although the company was required to submit the financial statements and draft annual report to the Auditor General within 60 days of the end of the accounting year, the financial statements for the year 2021/2022 had been submitted to the Auditor General on 08 December 2023 with a delay of	Due to the failure to prepare and submit the financial statements for the financial years 2018/2019, 2019/2020 and 2020/2021 within the stipulated time frame, it has not been possible to prevent the delay in all subsequent processes, and therefore the	It is necessary to submit financial statements on the due date in accordance with the laws, rules and regulations.

		01 year and 06 months, and the draft annual report for the year had not been submitted for audit along with the financial statements.	financial statements for the year 2021/2022 have not been submitted for audit before the expected date. Necessary steps will be taken to prevent this situation in the financial year 2024/2025.	
(ii)	Public Enterprise Circular No. 02/2022 dated 18 January 2022			
	Section 02 and 06	While the company had paid Rs. 102,000 in telephone bills in accordance with the agreements for obtaining corporate telephone package services for 20 management-level officers working on a contract basis, who had been taken to Sample test since March 2022, without taking into account the circular limits, a sum of Rs. 117,000 had been paid to those officers as telephone allowances in addition to their salaries.	The company has taken steps to provide communication facilities based on the nature of its business, and since communication is currently carried out through modern methods such as zoom technology, there are times when the corporate package alone is not sufficient. I would further like to inform you that this payment is an investment made by the institution because as a responsible company, it is not fair for the company to ask officers to contribute without making any payment for official needs, I would further like to inform you that this payment is an investment made by the institution.	Action must be taken in accordance with the provisions of the circular.
(iii)	Sections I and IV of the Public Enterprise Circular No. 06/2022 dated 06 October 2022.	The compulsory retirement age of an officer is 60 years and as per Section IV of the said circular, employees of State-Owned Enterprises who are currently in service beyond the age of 60 years and who will attain the age of 60 years on or before 31 December 2022 must compulsorily retire on or before	Annual extension of service on a contractual basis up to the age of 65 years is subject to the approval of the Board of Directors of the Company based on the business needs of the Company. A verbal agreement was reached with the Director General	Action should be taken in accordance with the provisions of the circular.

31 December 2022, however, 10 persons employed on a contractual basis who have attained the age of 60 years still had been in service as on 31 March 2022.	of the Department of Public Enterprises on 30.01.2024 and instructions were given to make a written request in this regard. No response has been received to that written request so far.	

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 204,005,998 and the corresponding profit in the preceding year amounted to Rs. 132,062,915 Therefore an improvement amounting to Rs. 71,943,083 of the financial result was observed. The reason for the improvement is an increase in the domestic component of revenue by Rs. 369,553,958.

2.2 Trend Analysis of Major Income and Expenditure Items

The salary expenses of the executive and staff in the previous year and the year under review amounted to Rs.108,972,586 and Rs.143,543,877 respectively, and the expenditure in the year under review had increased by 32 percent compared to the previous year. Similarly, the financial expenses in the previous year and the year under review amounted to Rs.24,608,998 and Rs.94,058,649 respectively, and the expenditure in the year under review had increased by 282 percent compared to the previous year. Furthermore, the travel and transportation expenses in the previous year and the year under review amounted to Rs.1,739,636 and Rs.5,319,107 respectively, and the expenditure in the year under review had increased by 206 percent compared to the previous year.

2.3 Ratio Analysis

When compared to the previous year the current asset ratio for the year under review had been 3.12 and 3.23 respectively, while the quick asset ratio was 3.12 and 3.23 respectively. The management's focus should have been on carrying out the company's operations efficiently.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Welfare Association had paid Rs. 4.57 million in salaries to the staff attached to the shop run by the Welfare Association from February to July 2022. Since the net loss of the shop during that period was Rs.8.72 million and the shop continued to incur losses, it	The then Chairman and the management have started and run this shop without preparing a feasibility study report before starting the shop and have incurred a net loss of Rs.8,716,861 in the Hello Fresh account of the Welfare Association from January 2022 to September 2022. Since a problematic situation had been observed regarding the activities of this welfare shop account after assuming duties as the current	Action must be taken to recover the loan balance.

	was closed in September 2022, and a further Rs. 1.28 million had to be recovered from the interest-free loan given by the company to the Welfare Association.	Chairman/CEO on 11.08.2022, according to the audit conducted at the Ministry of Defence level after informing the Secretary of Defence, the audit report has indicated that there is a loss of Rs. 12.2 million has been incurred during that period, and a loss of about Rs. 2 million per month had been occurred during the 06 months audited, indicating that the expected results will not be achieved from this shop. Accordingly, steps were taken to close the shop in September 2022. Accordingly, steps were taken to close the store in September 2022. The company's staffs voluntarily obtain membership in welfare and death benefit associations, and the company is not responsible for carrying out the administrative, financial and operational activities of those associations, which are carried out by officers officially appointed by those associations.	
(b)	No steps had been taken to recover or to import them, or to take other alternative measures if importation was not cost-effective regarding 13 weapons issued to local naval agencies from 2011 to 2021, the locations of which were not specified and 139 weapons stored in 08 foreign arsenals. Furthermore, 67 weapons, 307 accessories and 5008 ammunition issued by the company to local naval agents, had been destroyed at sea by maritime security companies between 2011 and 2016, and no procedures had been identified to approve the methods of destroyed at sea and obtain the approval of the Ministry of Defence for the same. Up to the date of this report, Rs. 528,000 had not been recovered from the loss	Although our company has repeatedly informed the relevant naval institutions regarding the 139 weapons that have been issued and the 13 weapons for which there is no information regarding their storage locations and has taken the necessary steps to bring those weapons to the company, no positive response has been received in this regard and in this regard, a board has been appointed under the chairmanship of an Additional Secretary to the Ministry of Defence and further steps are being taken accordingly. If the weapons and equipment have to be brought into the country or incur a large cost, the necessary steps are constantly being taken to destroy and verify them according to the prescribed procedure. After issuing 67 weapons and equipment to the ships, the captains of those ships have been destroyed them at sea for various reasons in accordance with the powers vested in them. The Ministry of Defence has been informed again regarding the 67 weapons that have been destroyed at sea through the letter No. RALL/MD/ARMOURY/08/	Action should be taken to bring back the weapons or take other alternative measures, and action should be taken to recover the losses and in accordance with regulations.

	of Rs. 8.81 million related to 56 out of the 67 weapons that were destroyed at sea, the losses related to the remaining 11 weapons had not been recovered and action had not been taken in accordance with the regulations regarding those weapons.	2023(553) dated 06.12.2023. Out of these 67 weapons that have been destroyed at sea, we have written to the accounts department to take steps to recover the value of 56 weapons and equipment. Since the relevant shipping companies have not submitted sufficient written evidence regarding the remaining 11 weapons, our company is taking steps to obtain sufficient evidence from those companies regarding the weapons being destroyed at sea.	
(c)	The officer who obtained one of the five Apple iPhone 13128GB midnight model mobile phones, from a telephone company valued at Rs.307,500 has left the company but has not handed it over to the company, and the company has not taken any action in this regard up to date.	These phones were provided by Mobitel (Private) Limited on a FOC (Free of Charge) basis to the then Director - Corporate Relations, Human Resources and Governance, Lieutenant Colonel A.T. Banagoda (Retd.) and when asked about this, Mr. A.T. Banagoda (Retd.) informed us of the names of the officers who were given 04 phones but stated that he did not remember who handed over the other phones. However, the company has not paid any money in respect of these phones.	The company should take steps to get back the assets.
(d)	Rakna Project Management (RPML) Limited has been established on 21 June 2021 without obtaining the approval of the Cabinet for the production of organic fertilizer, which is not within the objective and of Rakna Arakshaka Lanka Limited. Although the Secretary to the Ministry of Defence had stated in October 2021 that a feasibility study should be conducted on the need to establish this company and that Treasury approval should be obtained, this subsidiary company was established without conducting a feasibility study or obtaining Treasury approval.	It has been confirmed from the available documents that the then management of Rakna Arakshaka Lanka Limited had taken the following steps to obtain the approvals for the establishment of a subsidiary company named Rakna Project Management Limited (RPML) with the aim of implementing new projects. The Ministry of Defence has been requested to approve the establishment of the new subsidiary by letter No. RALL/SEC/LEGAL/MOD/2021(16) dated 27.05.2021. In response to the above letter, the State Ministry of National Security and Disaster Management has instructed to draft a Cabinet paper in this regard through its letter No. SMONS/NS/RALL/SUBSIDIARY/ 2021(01) dated 01.06.2021 and forward it to the Ministry. As per the instructions in the above letter, the relevant draft Cabinet Paper has been forwarded to the Ministry of Defence through the letter No.:	Action should be taken regarding the non-implementation of the recommendations of the Ministry Secretary given in 2021.

RALL/SEC/LEGAL/MOD/2021(18) dated 2021.06.09. The members of the Board of Directors of RPML Company Limited have been proposed to the Ministry of Defence for approval by letter No. RALL/SEC/LEGAL/MOD/2021(20) dated 11.06.2021. The Ministry of Defence has approved the proposed members of the Board of Directors vide letter No. MOD/SD/MA/2021(86) dated 15.06.2021. The Board of Directors of Rakna Arakshaka Lanka Limited has obtained the approval of the Board for the establishment of this new subsidiary company under Resolution No. 14/2021. RPML was incorporated on 21.06.2021 under the Companies Act No. 07 of 2007.

The Ministry of Defence has approved the members proposed as the Board of Directors of the new company by letter No. MOD/SD/MA/2021(86) dated 15.06.2021, presenting Board Paper No. 137(04) for the 137th Board Meeting held on 30.07.2021. The Board of Directors of Rakna Arakshaka Lanka Limited has approved the matters mentioned in the Board of Directors' Paper No. 137(04). Although it has instructed to conduct a feasibility study on whether there is a need to establish this new company by the Ministry of Defence letter No. MOD/SD/2021(254) dated 19.10.2021, The current Chairman/ CEO and the management of the company are unable to provide any explanation for the failure of the then Chairman/ CEO to conduct a feasibility study. It can be assumed that the RPML Company was established on 21.06.2021 to meet the national need, considering that there was a severe shortage of fertilizer in the country during this period in question and priority was given to the production of organic fertilizer.

3.2 Transactions with contentious nature

Audit Observation	Management Comment	Recommendation
The Presidential Commission of Inquiry had sealed 19 weapons, including 08 9mm Pistol type weapons and 11 SLR type weapons, belonging to the company at the Police Special Task Force Training School, and since the Presidential Commission of Inquiry had been abolished, the company was unable to take action in this regard.	Necessary steps are being taken continuously under the intervention of the Ministry of Defence to recover those weapons to the company.	Necessary steps should be taken to release weapons.

3.3 Defects in Contract Administration

Audit Observation	Management Comment	Recommendation
A plot of land measuring 86.4 perches in Colombo, owned by the Urban Development Authority, has been selected for the company's head office building, and the construction of which commenced on 20 May 2014, and the estimated cost of constructing the building has been Rs. 3,192.47 million. The construction work had been unilaterally stopped on 3 July 2015 after a work security advance of Rs.681.06 million had been paid to the contractor company for the relevant construction. At that time, the consultancy firm had approved the payment of the work done at Rs. 424.41 million, and the contractor had claimed a total of Rs. 1,012 million for delay charges, additional costs to be paid for project suspension, loss of opportunity costs and loss of profit, etc., and it was not confirmed that the consultancy firm had received its consent for this. Due to the company's lack of funds, the two parties had agreed not to receive or pay an amount of Rs. 361.37 million instead of the remaining amount of Rs.330.94 million after deducting the advance amount, as requested by the company. In this case, the relevant consultancy service company was selected and the contracts were signed 03	A sum of Rs. 608,089,855 has been paid as work security advance to the contract company. However, the consultancy firm has approved the value of the work done as Rs.424,606,569 and has paid an additional Rs. 183,683,286 to Maga Engineering Pvt. Ltd. for the work not covered. The total amount paid to the contractor for the first phase amounted to Rs. 608,089,855 and the amount approved by the consultancy company as the value of the work done amounted to Rs.424,606,569. Accordingly, a sum of Rs. 183,683,286 had been overpaid. It was agreed to offset that amount during the discussion on 28 February 2017. Accordingly, the Chairman of the Contracting Company has been informed by letter No. RALL/SEC/LEG/ GENERAL/2020(35) dated 25.08.2020, signed by the then former Chairman/CEO, that no further payment will be made for the first phase when the second phase commences.	When starting projects, it should be done in accordance with formal procedures.

months after the commencement of construction work, and it was observed that the consultancy work that was supposed to be performed by the consultancy company had not been completed as expected. Also, the clearance reports that should have been obtained from various government departments related to the construction of the buildings had not been obtained and the construction had been carried out without a clear cash flow to provide funds for it before it began. Accordingly, in addition to the above payments, the total expenditure incurred for this project amounted to Rs.828.36 million, including Rs.146.71 million paid to the consulting company for this construction and Rs.583,005 for Soil Tech which became fruitless.

3.4 Human Recourse Management

Audit Observation	Management Comment	Recommendation
The administrative staff of 247 at the company's head office and regional offices as of March 31, 2022 had been recruited on a contract basis, and the company had not identified and recruited positions that should be filled on a permanent basis.	Employees directly involved in the business of our company's main business units, such as security officers working in the Land Operations Division, sanitation officers working in the Special Skills Division, and maritime security officers, are regulated under the Wage Boards established under the provisions of the Wage Boards Ordinance and are employed on a contract basis depending on the nature of the business. Also, due to the nature of our company's business, it is not possible to make all of the nearly 3,000 employees as permanent employees and if a specific position needs to be made permanent based on the needs of the company, steps will be taken to obtain the approval of the Board of Directors to make that position permanent, by submitting reasons.	It should identify the positions that should be filled on a permanent basis in the company for the approved staff and carrying out the necessary recruitment activities for the approved staff.