

## **Sathosa Security and General (Private) Limited -2021/ 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sathosa Security and General (Private) Limited (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 2022, 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 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 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)

Non-Compliance with Reference to the Standard	Relevant	Comment of the Management	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, According to the age analysis given, the debtor balances which the recoverability is uncertain were Rs.13,770,694. However, the bad debt provision of the financial statement was Rs.7,279,541.		Agreed and will do the amendments in the next financial statements.	The bad debt provision should be corresponded with the debtor balances which the recoverability is uncertain.
(b) According to the Section 32.4, events after the end of the reporting period of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), An entity shall adjust the amounts recognized in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.			
(i) As per the provisions of Section 03 of the Employees' Budget Relief Allowance Act No. 36 of 2005, the Labor Commissioner had filed a case against the company under Case No. 23599/22 for non-payment of the budget relief allowance to the security officers on a monthly basis. On 21 December 2022, it was informed that the company was found guilty and liable to pay an amount of Rs.2,909,080 and the		Agreed and will do the amendments in the next financial statements.	The Company should adjust the amounts recognized in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period.

company had paid the said amount on 02 February 2024. But adjustments had not been made in the financial statements for this according to the standard.

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| (ii) | Case number 33544/22 had been filed under section (8) of the Minimum Wages Act No. 03 of 2016 for non-payment of Employee Provident Funds amounting to Rs.6,598,440 to 318 security officers. However, as per the standard, disclosures about this had not been made in the financial statements. | Agreed and will do the amendments in the next financial statements. | The Company should adjust the amounts recognized in its financial statements, including related disclosures, to reflect adjusting events after the end of the reporting period. |
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### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Due to the fact that fixed deposit interest had been accounted on a cash basis, fixed deposit interest receivable for the year under review amounting to Rs.563,421 had not been accounted.	Agreed and will do the amendments in the next financial statements.	Fixed deposit interest income receivable should be accounted.
(b) The debtor balance as at 31 March 2022 had been understated by Rs.50,265 due to the minus balances included in debtors.	Agreed and will do the amendments in the next financial statements.	Debtor balances shown as negative balances should be analyzed and the accurate balances should be shown in the financial statements.
(C) Contribution to Employees Provident Fund and Employees Trust Fund relating to operations amounting to Rs.2,005,917 had been charged to administration expenses.	Agreed and will do the amendments in the next financial statements.	Expenses should be correctly accounted to a correct account.

### 1.5.3 Unreconciled Control Accounts or Records

Subject	Amount as per Financial Statements	Amount as per Corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
(a) Debtor balance (prior to provision)	92,647,214	93,646,740	999,526	Agreed and will do the amendments in the next financial statements.	Action should be taken to reconcile the balances and account the correct balance.
(b) EPF payable	2,802,054	2,471,996	330,058	Agreed and will do the amendments in the next financial statements.	Action should be taken to reconcile the balances and account the correct balance.

### 1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Comments of the Management	Recommendation
	Rs.			
1. Receivable from Trust	1,076,539	Schedules , Age Invoices	Agreed and will do the amendments in the next financial statements.	Written evidence to confirm the value should be maintained.
2. Receivable from Staff				
i. Death donation receivable	1,470,649	Schedules , Age Analysis	-Do-	-Do-
ii. Festival advance	227,250			
3. Advance and Other Receivable Uniform	2,397,262	Schedules , Age Analysis	-Do-	-Do-
4. Rent Advance received				
i. Narahenpita	108,000	Receipts Issued	-Do-	-Do-
ii. Rathmalana	324,000			

5. Security Deposit received					
i Narahenpita	200,000	}	Receipts Issued	-Do-	-Do-
ii Rathmalana	300,000				
6. VAT Control Account	1,228,754		Documents to confirm the balance	-Do-	-Do-
7. Income Tax Payable	3,201,307		Schedules , Age Analysis, Confirmation	-Do-	-Do-
8. Salary Payable for Office Assistants	2,086,433		Schedules, Age analysis, Payroll	-Do-	-Do-

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to recover the advance and other receivable balance amounting to Rs.184,688 from 2021.	Agreed and will do the amendments in the next financial statements.	Receivable balances should be recovered without delay.
(b) The debtors balance amounting to Rs.13,770,694 receivable over a period of more than 05 years and a balance amounting to Rs.49,136,653 receivable over a period from 1-5 years had not been recovered.	Agreed and will do the amendments in the next financial statements.	Receivable balances should be recovered without delay.

### 1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
(a) Deemed Dividend Tax payable as at 31 March 2022 amounting to Rs.360,817 had not been settled from 2016/2017.	Agreed and will do the amendments in the next financial statements.	Payable balances should be settled without delay.
(b) Accrued expenses and other payable balances amounting to Rs.760,276 had not been settled for more than 05 years.	Agreed and will do the amendments in the next financial statements.	Payable balances should be settled without delay.
(c) Building rent payable to Corporative Wholesale Establishment as at 31 March 2022 had been Rs.17,277,692. Out of which the balance over a period more than 5 years was Rs.1,832,126 and the balance over a period from 1 to 5 years was Rs.13,060,316.	Agreed and will do the amendments in the next financial statements.	Payable balances should be settled without delay.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(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 Rs.537,550 payable for 12 employees resigned during the year under review had not been paid within the prescribed period.	Agreed and will do the amendments in the next financial statements.	Provisions of the act should be followed.
(b) Guideline and Operational Manual as per Public Enterprise Circular No. 01/2021 dated 16 November 2021			
(i) Paragraph 3.1 of Operational Manual	The carder had not been approved by the General Treasury.	Agreed and will do the amendments in the next financial statements.	Provisions of the circular should be followed.
(ii) Paragraph 3.5 of Operational Manual	The employees of the government institutions should not be released to a Ministry or any other organization without the approval of the cabinet of ministers and no emoluments should be paid to the released employees. However, a driver of the company had been released to the Ministry of Trade, Commerce and Food Security and in the year under review, the company had paid him Rs.379,160 as salary and allowances and Rs.54,624 as the company's contribution for Employees Provident Fund and Employees Trust Fund. It was further observed that the said employee will still be working in the Ministry by the date of audit.	Agreed and will do the amendments in the next financial statements.	Provisions of the circular should be followed.

(iii) Paragraph 4.4 of Guideline	The Company had not appointed an Internal Auditor.	Agreed and will do the amendments in the next financial statements.	Provisions of the circular should be followed.
(iv) Paragraph 6.7 Operational Manual	Annual assets verification had not been carried out on the fixed assets.	Agreed and will do the amendments in the next financial statements.	Provisions of the circular should be followed.
(c) Section 02 of the Public Enterprise Circular No PED 1/2015 (i) of 27 October 2016	An officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs.50,000 and such officer shall not be provided with a driver or driver's allowance. However, Deputy General Manager (Finance) of the Company had been paid a monthly transport allowance of Rs.30,000 provided with a driver. A sum of Rs.463,665 had been incurred by the Company for the salary, EPF and ETF of the drivers provided to the said officers during the year under review.	Agreed and will do the amendments in the next financial statements.	Provisions of the circular should be followed.

## 1.8 Cash Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Board of Directors of the state owned enterprises is responsible in ensuring proper financial management systems are in place. However the bank account of the Company had been overdrawn and the overdrawn bank balances as at 31 March 2022 was Rs.6,539,766. The interest for the overdraft paid during the year under review was Rs.1,145,266.	Agreed and will do the amendments in the next financial statements.	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.
(b) The value of long-standing cheques issued by the company but not presented to the bank was Rs.370,597 from the year 2019 to the year under review, and had not been reconciled by the date of audit.	Agreed and will do the amendments in the next financial statements.	Balances of long-standing cheques should be reconciled and cleared.



## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.5,271,216 and the corresponding profit in the preceding year amounted to Rs.3,615,256. Therefore a deterioration amounting to Rs.8,886,472 of the financial result was observed. The main reasons for the deterioration are the increase of administrative expenses by Rs.7,958,987 and increase of other operating expenses by Rs.753,376.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) 94.6 percent of the security services income of the Company had been represented by the security services provided to Lanka Sathosa Limited. However depending on single income source may adversely affect the going concern of the Company.	Agreed and will do the amendments in the next financial statements.	Income sources should be diversified.
(b) Salary and allowances amounting to Rs.535,906 had been paid from October 2021 to February 2024 for an officer who was recruited for the post of office assistant on a casual basis without confirming the attendance, assigned workplace, and duties performed.	Agreed and will do the amendments in the next financial statements.	Attendance to work should be confirmed in order to pay salaries and allowances.

## 4. Accountability and Good Governance

### 4.1 Submission of Financial Statements

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Draft annual report and financial statements handed over to the Auditor General within the financial year. However, statements for the year 2022 had been present Audit on 18 January 2024 after a delay of 598 the draft annual report had not been presented.	Agreed and will do the amendments in the next financial statements.	The financial statements of the Company should be submitted to audit within the prescribed period.