LRDC Service Ltd - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the LRDC Services (Private) Limited (Company) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and comprehensive statement of income 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 December 2021, 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.

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 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 Scope of Audit (Auditor's Responsibility 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 skepticism 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 Financial Reporting Standards for Small and Medium Sized Entities (SLFRs for SMEs)

Non-Compliance with reference to the relevant standard	Management Comment	Recommendation
According to the section 17.15 (b) of the SLFRS for SMEs, the property, plant and equipment should be measured and accounted under revaluation method, but company had not revalued and accounted the 188 non-current assets amounting to Rs.9.01 million which were fully depreciated but still used by the company.	The observation is accepted and action will be taken to revalue the assets as covering all fixed assets classes in future.	Assets should be revalued and accounted according to the accounting standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Due to the preparation of invoices without considering the number of security guards who were employed on each day according to the section 24 of the service agreement which was entered with the client organizations by the company, client had deducted amounting to Rs.32.94 million from the submitted invoices with the reasons of deducting one day salary and charge penalties due to other reasons. The security service is over stated by that amount in the year under review since this amount was shown under Cost of sales without deducting from the revenue of the company in the financial statements.	Deductions from the submitted bills were based on the information revealed by the client organization relating to employees who are not employed and who employed beyond 24 hours. The method of deducting Rs.32.94 million from invoices as cost of sales in the year under review has been implemented since 2016.	The revenue should be recognized based on the correct accounting Policy.

(b)	Provision for gratuity amounting to Rs.2.56 million had been provided for 1009 employees though they were not reported to the work for a period ranging from 01 to 12 months. As a result, the profit for the year under review had been understated by that amount.	Only after being confirmed the vacated of post through the relevant documents, it could be removed the names from the register of provision for gratuity.	Prompt actions should be taken to identify the officers those who vacated from the post and action should be taken to keep the account up to date.
(c)	The unpaid VAT amount as at 31 December 2021 was Rs.266.94 million and that amount was not paid until 5 November 2022. Hence, it was observed that there is a risk of paying a penalty of Rs.136.8 million on 31 December 2021.	The penalty calculated in respect of the amount of Rs.266.94 million, which is the outstanding VAT amount is as at 31.12.2021 were accepted. The impact of the penalty cannot be directly related to the company due to the received confirmation that the company is a valid tax payer until 30.11.2022 and the Inland Revenue Department follows a relax policy regarding the provision of the act and the penalty since LRDC is a public company.	The Inland Revenue Department circulars should be followed. Otherwise, a written agreement should be made with the Inland Revenue Department.
(d)	Although the company had calculated the stock under WAC method at the end of the year under review and no adjustment had been made in respect of the opening stock of Rs.3.94 million, which was calculated at FIFO method.	The inventory calculation method was changed from FIFO to WAC method in the year 2021. The opening balance for the year 2021 is not adjusted for the opening stock since it is compared to the previous year.	A consistent accounting policy should be followed with the parent company.
(e)	According to the sample basis, the number of service shift times which was used for salary calculation that the company provided to 786 institutions under 5 types of security services in March was 120,523, but under the same 5 types of services, the number of service shift times that were invoiced to the relevant institution for the month of March was 118,795. Therefore, the number of service shifts that were less invoiced to the client organizations was 2,950 and the income had been understated by Rs.3.36 million for the month of March.	The number of service shift times which was used for salary calculations were 120,523 and number of service shift times which was used for preparing bills were 118,795 in March 2021. Arrangement will be made to reduce further variations by comparing number of service shift times used for the salary calculation with the number of service shift times used for preparing bills.	Invoice should be prepared in respect of the actual working days.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management Comment	Recommendation
(a)	The Company had entered into an agreement with the Land Reclamation and Development Company (Parent Company) to supply the man power and a sum of Rs.20.72 million to be receivable on that regard as at end of the year under review. Out of that, action had not been taken recover the sums of Rs.17.61 million and Rs.1.73 million for a period of over one year and a period ranging from 3 – 12 months respectively.	It has unable to recover considerable amount from the overdue receivables. However, action will be taken to recover the receivables in future after financial condition of the parent company improves.	Prompt action should be taken to recover the receivables.
(b)	The trade debtor balance as at end of the year under review amounted to Rs.892.86 million. Out of that, sums of Rs.46.95 million, Rs.64.41 million and Rs.17.88 million had not been recovered for a period ranging from 1 – 2 years, 2 to 5 years and for over 5 years respectively.	All those analytical clarifications are accepted and have been informed to the Ministry of Health and the National water supply board about this outstanding debtor balances. Action will be taken to recover that outstanding amount step by step in future.	Prompt action should be taken to recover the debtor balances in arrears.
(c)	The amount to be recovered for providing man power service was Rs.164.57 million at the end of the year under review. It was observed that there was an increase of Rs.19.2 million compared to the previous year.	Debtor balances which were due one year and more were under the parent company and it is expected to be resolved this situation satisfactory in the future.	Prompt action should be taken to recover the debtor balances in arrears.
(d)	The company's receivable balances in the fields of Technological Solution, Security Equipment and events & tournaments were Rs.18.74 million at the end of the year under review and out of that, Rs.4.64 million had not been recovered for 2-3 years. Also, Rs.1.67 million amount which was to be recovered since more than 4 years had not been recovered from the corporation for the installation of the CCTV system at the Kerawalapitiya garbage yard.	The analysis in this regard is accepted and all the steps have been taken to recover the balances. Further actions will be taken regarding the Rs.1.67 million which was to be recovered for CCTV system, after receiving the recommendations of the committee which was consisting of Senior Management.	Prompt action should be taken to recover the debtor balances in arrears.

(e)	Adequate actions had not been taken to recover the festival advance balances amounting to Rs.10.24 million that were existed as at end of the year under review. Out of that, Rs.5.72 million was remained as unrecovered since more than a one year.	Most of the Rs.5.72 million more than one year are advances due to people who have left the service of them informally. Some of them will be settled with the formal resignation process.	Action should be taken to recover the advance receivables immediately.
(f)	Even though confirmations were called for total debtors amounting to Rs.892.86 million by 131 letters, only 21 letters amounting to Rs.96.67 million were confirmed the balance to audit. Out of that, 13 letters were not agreed by Rs. 38.19 million or 36 percent with the Rs. 105.50 million of company figures stated in the accounts. Unconfirmed debtor balance amount was Rs.796.19 million.	Debtor confirmations for the purpose of audit were prepared by covering entire debtor balance and the response for these letters is at a very low level. The main reason for the non-agreed amounts in the debtor confirmations were the difference of revenue recognitions methods of entities and cash in transits.	Arrangement should be made to obtain debtor confirmations.
(g)	Even if 01 to 04 years have passed since the tenancy has been vacated and the rent agreement has expired, the amount of Rs.533,000 related to the 6 deposits to be collected from the tenants had not been recovered in August 2022 by company.	An analysis has been made regarding the receivable deposits of the tenants and the relevant officers have been instructed to take further steps.	Actions should be taken to recover the receivables deposits promptly.

1.6.2 Accounts Payables

Audit Observation	Management Comment	Recommendation
Even though the VAT liability of the company was calculated on a cash basis with the approval of the Inland Revenue Department, the VAT amount that had not been paid to the Inland Revenue Department at the year under review was Rs.379.41 million.	According to the accounts, VAT payable balance is Rs.379.41 million, but payable balance as VAT on 31 December 2021 is Rs.286.29 million. The reason for that is, the accounts are prepared on an accrual basis but VAT is paid on a cash basis.	Statutory payables should be settled promptly.

1.7 Related Party Transaction

	Audit Observation	Management Comment	Recommendation
(a)	As per the financial statements of the company, the receivable amount from the Sri Lanka Land Development Corporation amounted to Rs.167.07 million. However as per the financial statements of the	The receivable amount to LRDC is Rs.167.07 million and as per the Accounts of SLLDC, payable balance is Rs.158.38 million. Thus, the difference is	Arrangement should be made to identify reasons for the difference between balances.

	corporation, the corresponding payable balance amounted to Rs.158.39 million. Accordingly, the reasons for the difference of Rs.8.68 million between the two balances were not submitted to the audit.	Rs.8.68 million.	
(b)	As per the financial statements of the company, the receivable amount from the Sri Lanka Land Reclamation and Development Company amounted to Rs.30.93 million. However as per the financial statements of the Sri Lanka Land Reclamation and Development Company, the corresponding payable balance amounted to Rs.29.57 million. Accordingly, the reasons for the difference of Rs.1.36 million between the two balances were not submitted to the audit.	The reason for this difference is that the bills amounted to Rs.1.36 million issued by the company was not included in the books of Land Reclamation and Development company since they had not been certified.	Arrangements should be taken to make relevant amendments in a formal manner.
(c)	Even though the related party transactions should be maintained separately, it was maintained commonly with the debtor and creditor accounts by the company. Thus, the accuracy of the related party transactions shown in the financial statement could not be confirmed.	Actions were taken to identify the receivable and payable balances of related party accounts separately. But this ledger account has been identified as a client only for trade receivables.	Related party transactions should be identified separately.

1.8 Non – Compliance with the Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules, Regulations etc.	Non – Compliance	Comment of the Management	Recommendation
(a)	Public Enterprise circular No. PED/12 Dated 02 June 2003.			
	(i) Paragraph 9.14.2	As per the circular, the concurrence should be obtained from the Secretary to the Treasury for manual of procedure prepared by the company and approved by the board of directors. But without getting such approval, Rs.11.50 million were paid as incentives during the	The relevant officers were instructed to make the future payments under the relevant approvals.	Action should be taken as per the circular instructions.

		year under review, according to the internal procedure manual.		
	(ii) Paragraph 9.2	As per the provisions of the circular, the relevant salary structure of the company was not approved by the Management Services Department and the approved cadre was not registered in the Department of the Public Enterprises in the General Treasury.	As per Management Services Department circular 02/2016, the revision of the salary and post has been revised by the Board of Directors to be effective from 01.01.2020. Although the salary has been paid according to the relevant circular, the approval of the Management Service Department has not been obtained. This will be discussed and further actions will be taken.	The approvals for recruitment and the promotion procedure should be obtained from the relevant Ministry and the Public Enterprise department. Action should be taken as per the circular instruction.
	(iii) Paragraph No. 9.3.1 and Management Services Circular No.30 dated 22 September 2016	Even though a recruitment and promotion procedure of the company should have been prepared and it should have been approved by the relevant Ministry and the Department of Public Enterprises and the Management Services Department, it had not been followed.	-do-	-do-
(b)	Paragraph No. 4 of Nation Building Tax (Amendment) Act No. 10 of 2011	Nation Building Tax (NBT) should be remitted to the Inland Revenue Department on or before 20^{th} of next month. However, action had not been taken to remitted the	Attention has been given to Rs.9.21 million amounts belonging to the previous years (2018 and 2019) to be remitted to the Inland Revenue Department	Action should be taken as per the tax regulations.

		NBT amounting to Rs.9.21 million related to the year 2018 and 2019, up to end of the year under review.	and Payment will be made in installments or in future.	
(c)	Paragraph No. 11 of Value Added Tax (Amendment) Act No. 08 of 2006	Value Added Tax (VAT) for the Particular month should be remitted on or before 20th day of the following month. However, VAT collected from the clients amounting to Rs.266.94 million for the years 2019 and 2021 had not been remitted to the Inland Revenue Department up to July 2022.	This observation related to the non-remittance of part of the VAT amount for 2019 and 2021 is accepted. Rs. 48 million which was due for the year 2021, is planned to remit in the year of 2022 and to settle the arrears in the future.	Action should be taken as per the tax regulations.

2. Financial Review

2.1 Financial Results

The operating result of the Company for the year under review was a pre-tax profit of Rs.54.98 million and compared to the corresponding pre-tax profit of the preceding year amounted to Rs. 39.98 million, the profit of the year under review was increased by Rs.15 million.
Decrease of Administration and other expenses by Rs.35.90 million compared to the preceding year is a reason for that growth. Main reason for that decrease is the amount of Rs.47.89 million which was the previous year over-allocation provision of bad debt was not recognized as an income and deducted it from administrative expenses.

2.2 Ratio Analysis

According to the information presented, some important ratios of the company for the year under review are compared with the previous year as follows.

	2021	**2020**
Gross Profit Ratio (Percentage)	6.97	8.05
Net Profit Ratio (Percentage)	2.59	2.1
Current Ratio (Times)	1.64	1.54
Debtor Turnover Ratio	2.49	2.61
Debt Collection Period (Days)	146	140

(a) Compared to the preceding year, the gross profit of the Company was decreased by Rs.10.43 million and Revenue of the company was increased by Rs.170.28 million. Increase of overtime expenses paid to Security Service Officers and Manpower Supply employees by Rs.119.98 million was the main reason attributed for this situation. Also, the clients deducted amount from the invoices submitted by the company had increased by Rs.11.47 million when compared to the previous year.

(b) Previous year Debtor turnover ratio of 2.61 and debt collection period of 140 days were 2.49 and 146 respectively in the year under review. Therefore, Debt collection period had increased in 6 days and it was observed in audit that the debt management activities of the Company were not in a satisfactory level.

3. Operational Review

3.1 Management inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Even though the Company had obtained a land situated in Attidiya, extent of 120 perches, for 30 years of lease period for Rs.16.52 million in the year 2018 from the Parent Company for constructing the head office of the company, Even primary construction works had not been started up to July 2022 at the land.	The preliminary plan for the building has been prepared and the approval for the plans had not been obtained so far. This is basically due to the bad economic situation in the country.	Prompt action should be taken to get the expected benefits from the acquired Company assets.
(b)	By the end of the year under review, the company had not completed 11 tasks out of the 35 tasks included in the strategic process included in the corporate strategies which were prepared by the company in 2017.	The unfulfilled tasks are mainly targeted at new business strategies and related tasks. The problematic situation of targeting into new business function due to the pandemic situation of the country in 2020 and 2021 years was affected to this entity.	It is the responsibility of the company to fulfill the tasks included in corporate strategies.
(c)	Although the salary advance paid from an employee's salary should be recovered from the salaries of the respective months, the unrecovered salary advance balance at the end of the year under review was Rs. 2.39 million. Out of that, balance of 2.35 million had not been recovered since more than a year.	Action will be taken to identify and to settle the salary advances which was given during the 2021 year.	Salary advances should be recovered in installments basis from the salary of the respective months as agreed.

(d)	The sub- imprest amounting to Rs. 462,400, given in 6 instances which had been exceeded the time limits of 14 days to 263 days after the completion of the relevant task, had not been settled even at the year under review. Also, it took 32 days to 307 days after the completion of the task to settle the advance amount of Rs.3,278,250 which was given to the officers in 51 instances ranging from Rs.7,000 to Rs.758,000.	This observation related to sub-imprest is correct and the related tasks have been planned to minimize these delays and carry out these activities with significant progress.	Arrangement should be made to settle the advances quickly after the completion of tasks.
(e)	The board of survey was not conducted regarding the non-current assets amounting to Rs.61,530,396 at the end of the year under review. Last board of survey relating to Non-Current assets was conducted and physical accuracy was checked in the year 2018.	This observation is accepted and it is planned to start this board of survey in the third week of October this year.	Board of survey should be conducted annually to verify the physical existence of assets.

3.2 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The company had started a new business of providing labours for the security services to foreign countries in 2017 under business diversification. Company had spent Rs.234,634 for obtaining the license and other expenses, but the license had expired by July 2020. However, the business had collected an income of Rs.52,475 at the end of the year under review and it had not been decided whether the license would be renewed and the business would continue at the year under review.	This observation is accepted and it will be decided after discussion with the top management whether to proceed with this business by considering the current economic situation in the country.	A proper study should be conducted regarding the feasibility of continuing the business and decided.
(b)	In order to conduct a sea sand selling project, a bank current account had been opened by the Company in the 2019 year. However, any transaction had not been conducted through that bank account during the year under review and a sum of Rs.305,900 was in idle in that account.	Action will be taken to close down the current account which has the balance of Rs.305,900 , opened for Sea sand selling project in future.	Necessary actions should be taken regarding the non – performed bank accounts.

(c)	Even though the total cost incurred for operating the Boat services amounted to Rs.7.75 million, the actual income earned from the service amounted to Rs.2.51 million. Thus, the loss incurred by the Company amounted to Rs.5.24 million.	A loss of Rs.5.24 million was sustained by the Company in 2021 due to the service could not be operated with full efficiency in the face of various problems that arose in the country. Actions will be made to maintain it with full efficiency in the future.	Action should be taken either to operate the boat service in proper manner or not to underutilize the boats.
(d)	The Company has providing the security services to the Pallekele International Cricket Stadium since 28 April 2020. However, it was not entered into an agreement with the clients up to end of the year under review.	A draft agreement related to entering into a written agreement for the Pallekele International Cricket Stadium had been sent to the client organization. Bill settlements have been done properly up to now.	Formal agreements should be made with the client organizations and should be followed.
(e)	Without identifying the requirement in the market, 1000 units of hand held metal detectors which were worth of Rs.2.34 million and 737 Security Equipment belonging to 9 items which were worth of Rs.11.98 million and 1113 CCTV equipment belonging to 32 items which were worth of Rs.7.64 million had been imported in the 2018 year. Out of the above goods, 506 metal detectors which were worth of Rs.1.18 million and entire stock of 737 units of the Security equipment and 32 units of the CCTV equipment had risk of non-moving and risk of expiry of the warranty period. Therefore the Valuation Department had valued them at cost of Rs.0.40 million, Rs.6.79 million and Rs.4.46 million respectively. Accordingly total finance loss would be Rs.9.15 Million and company was not able to achieve the desired objectives by purchasing that equipment.	The reason for the purchase of 9 items of Hand Held Metal Detectors and CCTV equipment was the prevailed situation in the country and the related market in 2018. But the company is already making profits on CCTV equipment and there was no clear market has been created for the 9 items of metal Detectors. The organization took various measures to find suitable suppliers by publishing newspaper advertisements for the related sales, but those efforts were unsuccessful.	By evaluating the market requirement, the stock should be purchased matched with marketable levels.

3.3 Procurement Management

	Audit Observation	Management Comment	Recommendation
(a)	Even though the arrangements were made with the supplier to procure 6,500 sets of uniforms amounted to Rs.8.90 million to the Security officers of the company for the year under review before 31 December 2021, only 1691 uniforms sets were provided by the supplier.	The sewing of the uniform sets has been delayed due to the Covid-19 situation in the country and the non-importation of materials required for sewing in the year 2022. They have provided those uniform sets up to now.	Procurement guidelines should be followed to ensure that uniforms required for the year can be provided at the beginning of the year.
(b)	According to Section 2.12 of the Procurement Guideline, the procurement / technical evaluation committee members should provide a declaration that protects the confidentiality of the procurement activities. But such declarations were not given in 09 instances of procurement of Rs.11,079,000.	A procurement committee has been appointed by the corporation to our institution and that procurement committee is effective throughout the year. It is accepted to failure of obtaining declarations and instructions were given to do it in future.	The procurement guideline should be followed.
(c)	According to section 5.4.4 of the procurement guideline, bank securities should be obtained for the advance payment in procurement works, but the company did not obtain bank securities for 04 procurement instances of Rs.5,140,000. Also, as per section 5.3.11 of above guideline, a bid security equal to 1-2 percent of the total cost was required to be obtained at the time of inviting bids, but this requirement was not followed.	Due to the Covid-19 situation in the country, the security was not obtained considering the financial condition of the suppliers.	Arrangements should be made to obtain relevant securities in accordance with the procurement guidelines.
(d)	According to Section 8.9.1 of the Procurement Guideline, the agreements should be signed for the Procurement over Rs.500,000. However, action had not been taken accordingly for 08 instances of procurements made for Rs.530,000 and Rs.2,000,000.	Observation is accepted and necessary actions will be taken in future.	It is mandatory to enter into a formal agreement with the suppliers in accordance with the procurement guidelines.

(e)	According to section 4.2 of the procurement guideline, the master procurement plan should be prepared to include procurement activities for a period of at least three years and according to section 4.2.1, a procurement plan should be prepared including detailed information, but company had not followed the guidelines.	This situation occurred due to the decrease in the procurement activities of the institution and actions will be made to reduce this situation in future.	The management should work to implement the annual plan and annual procurement plan as per the guidelines.

3.4 Human Resource Management

	Audit Observation	Management Comment	Recommendation
(a)	The approved cadre of the Company as at 31 December of the year under review was 91 and the actual cadre of at that date was 87. Thus, 4 vacancies and 4 excess staff were existed.	The Excess staffs are as follows; Appointed an Administrative Officer (Tenders) in place of Manager (Control) as per requirement of the organization. Security Manager Assigned to monitor and supervision of security services provided to SLLDC. Special Project officer Assigned for the tank project of SLLDC and necessary arrangements are in progress for reimbursement of his salary. Payroll Management Officer Appointed to this position subject to board approval.	The staff should be approved for the needs of the company and action should be taken to maintain the staff.
(b)	7 officers were recruited for positions without publishing newspaper advertisements and without making interview during the year. Out of the 7 appointments, there were 01 coordination position, 04 management assistant positions and 02 driver positions.	These employee vacancies were filled promptly due to the overload of duties. However the newspaper advertisements will be published and recruitment of employees will be done according to the prescribed procedure in future.	Recruitment procedures should be followed.

(c)	6 officers of the company had been released to the Srilanka Land Development Corporation and the company had spent Rs.3,908,459 for those officers in the year under review. The amount was not recovered from the parent company even by July 2022.	Necessary arrangements have been made for reimbursement of salaries paid to officers who are fully employed in SLLDC in the year 2021.	Releasing to officers to other institutions is problematic and the company should make arrangements to reimburse the money spent on those officers.
(d)	1417 personals had been recruited during the year under review and 1520 personals had resigned or vacated from the posts. Thus, the security service of the company is decrease. The reasons for employees continuously leaving the service were not evaluated and necessary actions were not taken by the company even by August 2022.	The security personals those who passed the grade 8 had been recruited on contract basis. Those personal, rapidly resigned from the service and vacated from the posts.	Necessary actions should be taken to maintain the income sources of the company stable.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Management Comment	Recommendation
According to public enterprise circular No. 01/2021 dated 16 November 2021 issued by the public enterprise department of the General Treasury; the financial statements of the company for the year under review should be furnished to auditor general on or before 28 February 2022. However, the financial statements had been furnished for audit on 3 months later, i.e. on 27 May 2021.	The delay in submitting the financial reports for the year 2021 is accepted and the situation will be corrected in the year 2022.	Action should be taken according to the circular instructions.

4.2 Tabling of Annual reports

Audit Observation	Management Comment	Recommendation
According to section 6.6 of the Public Enterprises Circular dated 16 November 2021; the Annual Report of the company should be tabled in Parliament within 150 days after closing of the financial year. However, the company's annual reports had not been tabled in Parliament since the year it is established.	Arrangements will be made to table the company's annual report in the Parliament as per the relevant circular.	Circular instructions should be followed.

4.3 Annual action Plan

Audit Observation	Management Comment	Recommendation
According to the section 5 (2) of the finance circular No. 01/2014 dated 11 February 2014 and 5.1.3 section of the Public Enterprises Circular No. PED/12 dated 02 June 2003, action plan should be prepared including expected commercial activities which is planned to conduct in upcoming year based on the corporate plan. Corporate plan approved by the Board of Directors should be forwarded to the Line Ministry, Department of Public Enterprises, General Treasury and the Auditor General's Department at least 15 days before the commencement of each financial year. But company is not followed those guidelines.	The Corporate Plan had been prepared for 2022 year.	Annual action plans should be prepared and followed.

4.5 Budgetary control

Audit Observation	Management Comment	Recommendation
Compared to the budgeted net profit for the year under review with the actual net profit, a variance of 31.2 percent was observed. Thus, it was observed that the budget had not been made use as an effective control tool.	Although there is a variance of 31.2 percent in the budgeted net profit compared to the actual net profit, budgeting will play a very important role in the analysis whether to identify the result of the company has reached the expectations or not.	The budget should be used as an effective management tool.