

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Rakna Arakshaka Lanka Ltd for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

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

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my disclaimer of opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibility for the Audit of Financial Statements

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

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Even though a cost of Rs.739.4 million had been incurred for the construction of the Head Office building of the Company on a land of 2 Roods 6.4 Perches in extent located in Thunmulla area, constructions of the building had been discontinued from the year 2015. According to Sri Lanka Accounting Standard 36-Impairment of Assets, impairment adjustment relating to this building had not been made and its fair value as well had not been indicated in the financial statements.	All details relating to the construction of this building were provided upon the instructions of the Secretary to the Ministry of Defence and constructions have been suspended due to the financial issue.	Action should be taken in terms of Sri Lanka Accounting Standards.
(b) As per the judgement of the lawsuit instituted at the International Court of Arbitration, Singapore by the Avant Garde Maritime Services (Pvt) Ltd against the Rakna Arakshaka Lanka Ltd, the Company was ordered on 24 November 2016 to pay USD 05 million as compensation. Even though it had been indicated in the statement of accounts that the Company has lodged an appeal therefor, necessary disclosures had not been made in terms of Sri Lanka Accounting Standard 37.	As both parties have taken action to reach a settlement without paying the said compensation, no provision has been made in the financial statements.	Action should be taken to disclose the said case accurately in terms of Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though according to computations of the Company, the interest income on short term fixed deposits and Treasury Bills of the year under review was Rs.36,119,327, it had been indicated as Rs.36,489,966 in the final financial statements, thus observing a difference of Rs.370,639.	The value of Rs.318,080 relating to years 2021/2022 has been included in this year and it has been rectified in the financial statements of 2021/2022.	Balances should be computed accurately and differences between balances should be compared and adjusted as required.

- (b) Provision for audit fees relating to the year under review had not been made. Action will be taken to allocate provision for audit fees for the financial year of 2021/2022. Provision should be made for audit fees in the financial statements.

1.5.3 Unreconciled Control Accounts or Reports

Item	Value as per the Financial Statements	Value as per the Corresponding Reports	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Difference of Balances relating to Stocks- fire arms, explosives, ammunition, Body armors and ballistic helmets	29,346,691	28,194,322	1,152,369	Necessary measures will be taken to adjust the value of explosives and ammunition recorded in books as per the physical stock value as at 31 March 2022.	Differences between balances should be compared and adjusted accordingly.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Audit Evidence not Made Available	Comments of the Management	Recommendation
(a) Writing off of Trade and other receivable balances	1,841,407,543	Detailed reports relating to write off debtors from books, Treasury approval, relevant journal vouchers and other relevant documents	The Accounts Division was not made aware as to whether the Treasury approval should be obtained for writing off and action has been taken to draw attention of the Treasury therefor. However, a circular has been issued by Treasury stating that there is no such requirement at present.	Documents relating to confirmation of loan balances written off, should be made available to Audit.

1.5.5 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
(a) Letters of Confirmation of trade and other receivable balances amounting to Rs.557,280,454 and trade and other payable balances amounting to Rs.169,964,598 remained as at 31 March 2021 according to financial statements of the Company, had not been made available to Audit.	Even though letters are sent for calling confirmation of balances for debtors and creditors who were selected by the Auditor, we were not requested for such procedure in this instance and as such, letters of confirmation of balances were not sent. Therefore, letters of confirmation of balances could not be made available.	Confirmation of balances is the responsibility of the Company and balances should be confirmed as at the final day of every financial statement.
(b) According to the age analysis of loan balances receivable in the year under review, the loan balance receivable from 68 institutions for over a period of 05 years was Rs.80,489,945 and the Company had continuously operated activities together with those institutions without paying attention towards the recovery of loan balances remained unsettled for a long period.	A special committee has been appointed for analysing present debtors, inactive debtors, penalties etc. and procedures relating thereto is in progress.	Action should be taken to recover and confirm the relevant loan balances.
(c) Deposit balances amounting to Rs.70,202,040 included in the Deposit Account repayable as at 31 March 2021, are the balances remained over a period from 05 years to 10 years and action had not been taken to settle the said balances or to adjust to the income.	A committee has been already appointed in our Company and necessary action is being taken to confirm debtors balances, rectify the invoice values through credit notes for penalties and other recoveries and to setoff secured deposits against relevant debtors balances.	Action should be taken to settle balances remained unsettled for a long period or adjust them to the income and an accounting policy should be prepared therefor.

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

Reference with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Public Enterprises Circular No. PED/12 dated 02 June 2003			
(i) Section 6.5.1	The Company should furnish the financial statements along with the Draft Annual Report to the Auditor General and the copies thereof to the relevant Ministry and the Department of Public Enterprises within 60 days after the closure of the financial year. However, the financial statements for the year under review (Approved by the Board of Directors) had been furnished to the Auditor General on 02 December 2022 with a delay of 01 year and 06 months as at that date.	Audit of financial statements for the years 2017/2018/, 2018/2019, and 2019/2020 was subjected to a long delay and as such the said delay adversely affected the financial statements of the year 2021/2022. We are of the opinion that immediately after receiving the audited financial statements for the years 2020/2021, financial statements for the years 2021/2022 can be furnished to the Auditor General.	The financial statements along with the Draft Annual Report should be furnished to the Auditor General within 60 days after the closure of the financial year
(ii) Section 6.5.3	Annual Reports relating to the years 2017/2018, 2018/2019 and 2019/2020 had not been tabled in Parliament.	Annual Reports for the years 2017/2018 and 2018/2019 have been sent to the Ministry of Defense for tabling in Parliament by now and the Annual Report for the years 2019/2020 has been finalized and the Cabinet Paper and audit queries and replies thereto have been forwarded for Tamil translation.	Action should be taken to table the Annual Reports duly in Parliament.

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| (iii) | Section 7.4.5 | A Register of Fixed Assets had not been maintained in an updated manner. | This can be obtained from the Logistics Department. | Action should be taken to maintain a Register of Fixed Assets in an updated manner. |
| (iv) | Section 9.3 | A Scheme of Recruitment and Promotion had not been prepared for the staff from the date of incorporation of the Company up to date and obtained approval from the Department of Public Enterprises. | In terms of Public Enterprises Circular No.01/2021 of 16 November 2021, opportunity has been given to perform all functions of the Human Resource Management on approval of the Board of Directors since the year 2021. Action will be taken accordingly. | Action should be taken to prepare a Scheme of Recruitment and Promotion and to obtain approval therefor without delay and to take action as per prevailing rules. |

2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a profit of Rs.132,062,916 as compared with the corresponding profit of Rs.271,577,352 of the preceding year, thus observing a decline of Rs.139,514,436 in the financial result. The increase in the direct cost and financial cost by 62 per cent and 305 per cent respectively, had mainly attributed to this decline.

2.2 Trend Analysis of Major Income and Expenditure Items

The expenditure on fuel in the preceding year and the year under review were Rs.1,426,825 and Rs.3,113,920 respectively and as compared with the preceding year, the said expenditure had increased by 118 per cent in the year under review. Moreover, salaries for the Executives and officers were Rs.41,540,074 and Rs.108,972,586 in the preceding year and the year under review respectively and as compared with the preceding year, the said expenditure had increased by 162 per cent in the year under review.

2.3 Analysis of Ratios

As compared with the preceding year, the Gross Profit Ratio and the Net Profit Ratio of the year under review have decreased by 6.44 per cent and 11.98 per cent respectively. Moreover, the Current Ratio and the Quick Assets Ratio had been 3.10 and 3.05 respectively. Attention of the Management should be drawn towards performing the operations of the Company in an efficient manner.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The main source of income of the Rakna Arakshaka Lanka Ltd. is determined on supply of local and maritime security services. However, the attention of the Management has not been drawn towards by proper invoicing of income and sending them to relevant institutions and introducing internal control methods appropriate for proper management and control by identifying differences with those institutions. It was observed that this situation has adversely affected the timely recovery of outstanding money.	Steps have been taken to issue invoices only through the computer system, obtaining approval from the relevant division before issuing, obtaining approval of the Divisional Head for relevant credit notes in entering cash receipts, progress in cash collecting and steps have been taken to draw attention of the Top Management and at special debt collecting meetings for identified weaknesses in internal control and to forward reminders and letters of demand to long term debtors.	A proper internal control system should be introduced and implemented continuously.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A building had been purchased in the year under review without adhering to the Government Procurement Guidelines on 31 August 2020 by spending a sum of Rs.337 million for operating the Head Office of the Company. Once the building was purchased, it had been valued by the Valuation Department on 19 November 2020 on its present market value of Rs.275.5 million and accordingly, an overpayment of Rs.61.5 million had been made in excess of the Government valuation.	The purchase had been made at Rs.61.5 million in excess as mentioned in the report of the Government Valuation Department. Moreover, a loan has been approved by the Bank of Ceylon for a value exceeding 118 per cent mentioned in the report of the Government Valuation Department.	The valuation reports should be obtained and action taken accordingly before the purchase is made. Moreover, an inquiry should be held relating to the overpayment and action taken accordingly.
(b) It had been recommended that the shortage of 108 Body Armours and 94 Ballistic Helmets valued at Rs.5,394,600 and Rs.1,409,530 respectively observed according to the report No.RALL/Armoury/Bewrd/2022 dated 17 December 2022 of the committee consisting five officers, should be recovered from 08 officers involved. However, action had not been taken in terms of the said committee decision.	Three officers involved in this are deceased while 05 persons had left the service.	Future action should be expedited on implementation of recommendations.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) In terms of Guideline 8.9.1(b) of the Government Procurement Guidelines, a formal agreement should be entered into on goods contracts exceeding Rs.500,000. However, action had not been taken accordingly.	Action will be taken in terms of a formal agreement.	Action should be taken in terms of Procurement Guidelines.
(b) In terms of Guideline 4.2 of the Government Procurement Guidelines, action had not been taken to plan the procurement process efficiently so as to achieve the best market price, to prepare the annual procurement plan and to implement same.	Action will be taken to prepare a Procurement Plan and to act accordingly.	-do-

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
In terms of Public Enterprises Circular No.PED 12 of 02 June 2003 and paragraph 5.1.2 of the Public Enterprises Guidelines for Good Governance, the Corporate Plan should be prepared so as to enable the evaluation of performance of functions which should be performed. Nevertheless, the financial and physical targets had not been indicated in the four year Corporate Plan prepared by the Company for the period from 2020 to 2023.	The budget relating to the year 2020/2021 has been submitted and the Corporate Plan has been included therein. Particulars relating to restaurants and catering division as well have been included in the said budget.	Action should be taken in terms of circulars.

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
It was observed that the budget of the Company had not been made use of as an effective instrument of financial control.	The budget relating to the year 2020/2021 has been submitted and the Corporate Plan has been included therein. Particulars relating to restaurants and catering division as well have been included in the said budget.	The budget should be made use of as an instrument of financial control by minimizing the variance between the budget and the actual income and expenditure.