

Rakna Arakshaka Lanka Company Limited – 2016/2017

The audit of Financial Statements of the Rakna Arakshaka Lanka Company Limited for the year ended 31 March 2017 comprising the statement of financial position as at 31 March 2017 and the profit and loss and comprehensive income statement, Statement of changes in equity and cash flow statement for the year then ended was carried out under my direction in pursuance in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My observations on the functioning of the company during the year under review which I consider should be furnished to the parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board of Director's Responsibility for the Financial Statements

The Board of Directors responsibility is preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements based on the audit. I conducting the my audit in accordance with Sri Lanka Auditing Standards.

1.3 Auditor's Responsibility

My Responsibility is to express an opinion on these financial statements based on the audit. I Conducting the my audit in accordance with Sri Lanka Auditing Standards.

1.4 Basis for Disclaimer Opinion

- (a) According to the financial statements for the year end as at 31 March 2017 the total balance of trade and other receivable of company was Rs.2,287.09 million at that date, a balance of 64 percent represent from it amounting to Rs.1,466.90 million had been received from the Avant Guard Maritime Service (private) Limited. Evidence of receivable to the company had not been presented to the audit.

Thus, According to financial statements the credit balance of Rs.762.80 million to be settle to the Avant Guard Company, the balance confirmation letters had not been presented to the Audit.

In addition to the above as the verdict of arbitration case in the court of Singapore by the Avant Guard Company, an amount of US Dollars 5,000,000 and Singapore Dollars 826,000 had ordered to pay to that company as the compensation on 24th November 2016, although the provision had not been done in the financial Statements regarding that.

- (b) Through the balance of trade receivable amounting to Rs.426.02 million and US Dollars 8,870,783 from debtors dues to company as at 31 March 2017 were

confirmed by debtors as Rs.15.75 million and US Dollars 38,155 respectively. Therefore balance of debtors amounting to Rs.410.27 million and US Dollars 8,832,628 respectively from debtors balance were not confirmed. Thus the balance confirmation from 11 debtors were non - compliance with balance of absolute debit as per the statement of financial position. Although a total of Rs.10.79 million and US Dollars 10,524 had been received from those debtors according to the single credit accounts of company, that value was Rs.9.56 million only according to the confirmed balance of debtors.

- (c) Balance Confirmation of other receivables including Galle floating armory amounting to Rs.377 million, weapons airlifting project amounting to Rs.83 million, employee loans and advances amounting to Rs.9 million and other receivables amounting to Rs.47.7 million had not been presented to the audit.
- (d) As per the debtors Schedules of the company as at 31 March 2017, Total minus balance of debtors of the land division amounting to Rs.6.22 million was observed. Total debtors balance amounting to Rs.3.02 million of land division and amounting to Rs.13.21 million of maritime division had not been collected for more than 5 years.
- (e) Even though Sufficient debt provision should be allocated for bad debts balances in accordance with the Sri Lanka Accounting Standards 37, 79% of the total debtors of maritime division amounting to Rs.1,085 million are more than one year of debtors balances and provision required had not been made in the financial statements.
- (f) Stocks of company in floating armories and foreign ports and weapon stocks in police armories as at 31st March 2017 had not been physically verified.
- (g) Actuarial technique should be used in term of paragraph 57 of the Sri Lanka Accounting Standards 19 when calculating the liability of employment benefits of entity Assumptions such as current service cost, Age of the employees, life expectancy of employees, impact on service turnover, retirement age, discount rate and salary and increment percentage can be used for it. However it was observed that Actuarial technique had not been use by the company when calculating of employment benefits.
- (h) The differed tax liabilities amounting to Rs.6.29 million was shown as per the financial statements in related to the financial year of 2016/2017, differed tax assets were Rs.10.33 million according to the audit calculations. Therefore profit and liabilities of the year had been over stated by Rs.16.62 million.
- (i) According to the financial statements a cost of Rs.739.46 million had been incurred for construction of main office building of the company, Although it was observed during the audit that the construction activity had been given up as at 31 December 2016 and possession of the land which was planned to construct this building had not been taken over by the company.
- (j) A difference of Rs.1.29 million was shown as at 31 March 2017 between the amount stated in the financial statement as uniforms and according to the value of physical stock calculation done on that day.

- (k) Even though stock of bullets as at 31 March 2017 should be represented to lesser amount among cost and net realization value in financial statements, sufficient evidence to examine the cost and net realization value had not been presented to audit.

2. Financial Statements

2.1 Disclaimer of opinion

Because of the significance of the matters discussed in the Basis for Disclaimer of opinion section of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.1.1 Report of the other legal and monitoring needs

The following facts are stated by me in accordance with the section 163 (2) of the companies Act No. 07 of 2007.

- (a) The basis for opinion and the scope and limitations are as mentioned above.
- (b) My Opinion,
- Under the mentioned facts in the basis for disclaimer of opinion all information and explanations that was required to audit had been obtained by me, in my examination as far as appears, proper accounting records had not been kept by the company.
 - In my opinion the financial statements comply with the requirements of section 151 of the company Act NO. 07 of 2007.

2.2 Non – Compliance with Laws, Rules, Regulations and Management Decisions

The Following non – compliances were observed.

| Reference to Laws, Rules and Regulations | Non – Compliance |
|--|--|
| ----- | ----- |
| (a) <u>Sri Lanka Accounting Standers</u> (i) LKAS 39 – Paragraph 46 (b) | Even though held - to - Maturity investments and financial instruments which shall be measured at amortised cost, A value of Rs.698.01 million of fixed deposit of company had been shown at face value in the financial statements. |
| (ii) SLFRS 7 – – Paragraph 14 | Even though the value of the financial assets held for |

the pledge and the Rules and conditions of the pledge should be disclosed in the financial statements, A value of Rs.216.79 million of fixed deposit held by the company as pledge for security services it had not been disclosure in the financial statements.

(b) Inland Revenue Act, No. 10 of 2006

(i) Section 61 (b) (i)

The returns relevant to the assessment of dividends tax liability had not been presented to the audit.

(ii) Section 113

Even though self – assessment income tax payment for income tax shall be paid on or before, any self – assessment income tax payment had not been paid for the year of assessment 2016/2017.

(c) Section 5 of payment of gratuity Act No. 12 of 1983

Even though gratuity payment shall be paid within one month from date of retire of employee, at the audit sample test, it was observed that there were unsettled Rs.1.82 million gratuity payments within a month.

2.3 Transaction not Supported by Adequate Authority

A value of Rs.12.44 million from interest income from the fixed deposit had been credited to a separated ledger account in the year under review, A balance of Rs.23.81 million as at 31 march 2017 had been confirmed by the bank in the bank account held for it. The purpose of held of that bank account had not been defined.

3. Financial Review

Financial Results

According to the financial statements presented, the operating result of the company for the year under review had been surplus of RS.48.61 million as compared with the corresponding surplus of Rs.356.67 million for the preceding year thus indicating a decrease of Rs.308.06 million in the financial result for the year under review as compared with the preceding year. For the above, decrease below mentioned circumstances had been caused mainly.

| Description | Accounting Year | | Income/ Expenditure (Increase/Decrease) | percentage | |
|---------------|-----------------|-------------|--|------------|----|
| | 2016/ 2017 | 2015 / 2016 | | | |
| | Rs.million | Rs.million | Rs.million | % | |
| <u>Income</u> | | | | | |
| Land | Operational | 637.67 | 996.58 | (358.91) | 36 |

| | | | | | |
|-----------|-------------|--------|--------|----------|----|
| Division | | | | | |
| Maritime | operational | 285.20 | 807.66 | (522.46) | 65 |
| /Division | | | | | |

Expenditure

| | | | | |
|----------------------------------|------|------|------|----|
| Training Allowance Land Division | 8.85 | - | 8.85 | - |
| Donation | 1.25 | 0.72 | 0.53 | 74 |
| Training School Expenditure(Net) | 2.51 | 2.29 | 0.22 | 9 |

4. Operational Review

For the confirm of a value of Rs.1.29 million as lease obligation which was stated in the financial statements had not been received a credit confirmation letter from bank.

4.1 Analytical Review

| | Accounting Year | | Increase/(decrease) % |
|--------------------------------|-----------------|-----------|--------------------------|
| | 2016/2017 | 2015/2016 | |
| | ----- | ----- | ----- |
| (a) Gross Profit Ratio | 11.42% | 29.01% | (17.59) |
| (b) Net Profit Ratio | 6.75% | 26.45% | (19.7) |
| (c) Ratio of Earning Per Share | 463 | 823 | (44) |

The Gross Profit Ratio Net Profit Ratio, and Earning Per Share of the company had reduced by 18 per cent, 20 per cent and 44 per cent respectively when compared to the previous year.

4.2 Unreconciled Control Accounts

Regarding customer deposit include in payable deposit balance, A value of Rs.124.84 million has been represented in the schedule that presented to the audit, although an balance of Rs.96.14 million only was stated in financial statement .Therefore a difference of Rs.28.70 million had been represented among that balances.

5. Accountability and Good Governance

Presentation of Financial Statements

Even though the financial statements of 2016/2017 should be presented to the audit within 60 days of the end of the accounting year in terms of the Public Enterprises Circular No. PED/12

of 02 June 2003, the financial statements of company had been delayed to presented 370 days (one year and five days)

6. Systems and Controls

Deficiencies in systems and controls were observed during the course of Audit were brought to the notice of chairman of the company from time to time. Special attention is needed in respect of the following areas of control.

- (a) Presentation of financial statements
- (b) Debtors and Creditors
- (c) Sri Lanka Accounting Standards
- (d) Stock Verification
- (e) Taxation
- (f) Construction of the Headquarter building