

Rakna Security Lanka Company Limited – 2015/2016

The audit of Financial statements of the Rakna Security Lanka Company Limited for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 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 that are free from material misstatements, whether due to fraud or error.

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 of Opinion

- (a) When preparation of financial statements, the accounting principles and policies used by the company in terms of section 10 of the Sri Lanka Accounting Standards 01. It had not been revealed whether give a view of the consistency of following those accounting policies.
- (b) Even though it should not be adjusted assets and liabilities except when allowed or needed by a standard, in terms of section 32 of the Sri Lanka Accounting Standards 01. By adjusting 13 number of credit balances of debtors amounting to Rs. 18,118,028 as at 31 March 2016 to the debit balances of debtors as at that date had been shown in the financial statements.
- (c) The opening balance of differed tax liabilities had been shown less by Rs. 2,616,217 in the year under review and relevant disclosures had not been done regarding liabilities of income tax during the year in accordance with the Sri Lanka Accounting Standards 12. Thus allocations for differed tax had not been done for the year under review.

- (d) Non-compliance with the Sri Lanka Accounting Standards 16 depreciation amounting to Rs. 1,624,380 had been done by exceeding the cost of assets due to the depreciation of 04 items of assets which carrying amount was zero.
- (e) Even though the anticipated unit credit method should be used in terms of section 64 of the Sri Lanka Accounting Standards 19 when calculating provisions of post employment benefits, inconsistently calculations had been done considering the salary last received and the service period of the employees, according to the schedules which calculated as per presented to the audit, though the liability to gratuity allowances Rs. 53,143,463 a difference observed amounting to Rs. 953,790 due to that amount stated in the financial statements as Rs. 54,097,253.
- (f) A sum of Rs. 1,458,107 had been shown less according to the calculations of audit, when exchange of US Dollars 74,935 received to the company as deposits received from the customers. Thus at the end of the year under review, when adjusting balances of deposits accounts of the customers with Dollars ratio of the United States of America. Even though a loss of exchange amounting to Rs. 1,388,402 had not been adjusted in those accounts.
- (g) Payee tax which had deducted from the officers amounting to Rs. 1,894,309 relevant to the year under review had been shown as an expenditure in the financial statements, when being paid by the company. Even though the balance Rs. 574,971 of payee tax payable to 31 March 2016 according to the calculation of audit it had been shown in the financial statements as Rs. 2,189,287 over stating by Rs. 1,614,316.
- (h) Fixed deposits interest receivables as at 01 April 2015 had been overstated by Rs. 2,470,047 and due to errors in calculating interest on fixed deposits by the Land and Marine Security sections of the company, the interest income for the year under review had been overstated by Rs. 8,153,049.
- (i) A cost of Rs. 739,461,677 had been incurred for prior activities of constructions such as soil testing, consultation services and drawing plans, relating to construct the main building of the company and the construction activity had been given up from the 3 July 2015. However this cost had been shown as building construction under the assets of the statement of financial position. It was not existence in physically.
- (j) Even though the department of Inland Revenue had informed a sum of Rs. 408,162,229 should be paid as a penalty regarding elapsed 4 valuation years, due to non payment of income tax. It had not been disclosed in the financial statements.

- (k) Even though the value of stock of bullets of the company, amounting to Rs. 38,128,032 in accordance with the physical stock verification reports. Being a value stated in the financial statements amounting to Rs. 26,438,889 as per the inventory register. It was observed a difference of Rs. 11,689,143.
- (l) A sum of Rs. 36,519,077 shown under trade debtors (Local Section) receivable from three Government Institutes. According to the financial statements of relevant Government Institutes, being that value was Rs. 25,887,599. A difference of Rs. 10,631,478 was observed.
- (m) Balances receivable as at 31 March 2016 from 12 debtors as amounting to Rs. 32,101,487 and US Dollars 22,335 had confirmed by relevant debtors as Rs. 13,047,135 and US Dollars 374 respectively. Therefore a difference were in Rs. 19,054,352 and US Dollars 21,961 of balances respectively.
- (n) According to the financial statements as at 31 March 2016 total balance of trade debtors of the Marine Security Section amounting to Rs. 1,418,390,685. Being that amount as Rs. 1,398,444,298 according to the schedules presented to the audit, there was a difference of Rs. 19,946,387 and actions had not been taken to reconcile that difference.
- (o) Is the balances of Rs. 2,289,588,565 of trade debtors and other receivables of company as at 31 March 2016, the balance included Rs. 1,770,603,355 of receivables from the Avernt Guard Maritime Services (Private) Limited and the balance of Rs. 762,731,509 stated in the financial statements as payable to that Company had not reconciled by that company. Thus an arbitration Case which was filed against the Rakna Security Lanka Company, in the court of Singapore by the Avernt Guard Company. Although an amount of US Dollars 5,000,000 and Singapore Dollars 826,000 had ordered to pay for the Avernt Guard Maritime Services (Private) Limited as the verdict a disclosure or provision had not been done in the financial statements regarding that.
- (p) Adjustments had done by the company for the correction of errors in the financial statements amounting to Rs. 34,536,430 during the year under review, but those Journal entries and adjustments could not be accepted in the audit due to non approving those adjustments by an authorized officer.
- (q) Schedules regarding debit balance of Rs. 4,575,458 in a control account and credit balances of Rs. 90,882,492 in another two control accounts which was stated in the financial statements of the company had not been presented to the audit.
- (r) Direct confirmations for balances regarding fixed deposit value of Rs. 115,818,757 stated under short-term deposits and the liability of Rs. 2,261,874 stated under Financial Leasing Liability, had not been taken.

- (s) Information regarding deposits of customers amounting to Rs. 96,775,692 included under deposits payable, in the financial statements of the company had not been presented to audit.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 1.4 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 Other Matters

The financial statements of the Rakna Security Lanka Company Limited for the year ended 31 March 2015 had been audited by a private audit company and the audit report had been issued on 16 May 2016 with a qualified opinion.

2.1.2 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 disclaimer of opinion and the scope and limitations are as mentioned above.
- (b) The basis for disclaimer of opinion in this report under the important limitations mentioned in the paragraph,
- All information and explanations that was required had obtained, in my opinion as far as appears from and examination of them, proper accounting records have 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 - compliances

(a) Company Act. No. 07 of 2007

(i) Section 131

Even though the annual return shall be completed within thirty working days from the date of Annual General Meeting for the year. The company shall forthwith forward to the Registrar a copy of the return. The company had not been forwarded a copy of the annual return regarding year 2014/2015

(ii) Section 150 (1)

Even though the financial statements for the year under review should be presented for the audit before 30 September 2016 those financial statements had been presented on 12 July 2017.

(iii) Section 184 (a)

Even though the business and affairs of company shall be managed by or under the direction or supervision of the board of the company, a period of two months from 28 January 2015 to 07 April had been done without the board of directors.

(iv) Section 223 (2)

A changes in the particulars contained in the register in respect of a board of directors of the company had not been registered in the company Registrar Office.

(b) Financial Regulations of Democratic Socialist Republic of Sri Lanka

The inventory register had not been maintained relating to the stocks valued at Rs. 32,875,204.

- (c) Treasury Circular No. 842 dated 19 December 1978 A fixed assets Register had not been maintained for fixed assets cost of Rs. 146,632,843.
- (d) Section 26 (1) L of Inland Revenue Tax Act of No. 10 of 2006 Tax liability had been overstated by Rs. 9,462,236 as stated by adding the Nations Building Tax expenditure value of Rs. 33,793,700 to the profit the calculating profit which charge of tax.

2.3 Transaction not Supported by Adequate Authority

A cash amounting to Rs. 535,681,123 and US Dollars 1,000,000 had invested in fixed deposit and value of Rs. 20,607,193 had invested in Treasury Bills by the company without approval of the Treasury.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operating result of the company for the year under review had been surplus of Rs. 356,674,678 as compared with the corresponding surplus of Rs. 727,118,969 for the preceding year thus indicating a decrease of Rs. 370,444,291 in the financial result for the year under review as compared with the preceding year. The operating income had decreased by Rs. 779,578,114 on changing of National Policies and Board of Management had been mainly attributed to the above deterioration.

4. Operational Review

4.1 Performance

4.1.1 Planning

The action plan had not been prepared for year under review in terms of public Finance Circular No. 01/2014 dated 17 February 2014.

4.1.2 Operating and Review

The analysis of the operational activities during the year under review and previous two years of the company shown below.

	Description	2015/2016	2014/2015	2013/2014
(a)	Operational income			
	Marine Defence Operations Rs.	807,661,049	1,450,210,877	1,817,787,672
	Land Defence Operations Rs.	996,584,466	1,133,612,752	1,120,557,361
(b)	Security officers employed			
	Marine Defence Operations (number)	835	825	695
	Land Defence Operations (number)	2143	2736	2684
(c)	Number of Institutes with drawn			
	From taking Land Security services	19	22	04

According to the above statistics marine defence operational income and Land defence operational income had been decreased by Rs. 1,010,126,623 and Rs. 123,972,895 respectively during the year under review as compared with year 2013/2014

Government institutions had been subjected to competitive after the year 2015 and due to prices presented by the company higher than the other institutions, the share of market which is supply of security services for Government sector had mainly attributed to the decrease of operational income.

However it is observed that there is a risk of losing the main business opportunities due to the changes of national policies and the company had not been implemented suitable actions to minimize the risk by analyzing new business opportunities.

4.2 Analytical Review

	Description	2015/2016	2014/2015	Increase(decrease)
(a)	Gross Profit Ratio (%)	29.01	38.08	(9.07)
(b)	Net Profit Ratio (%)	26.44	35.75	(9.31)
(c)	Ratio of Earning per share	713.06	1,453.64	(51) (presentage)

The Gross Profit Ratio, Net Profit Ratio and Earning Per Share of the company had reduced by 9 per cent, 9 per cent and 51 per cent respectively when compared to the previous year.

4.3 Management Activities

A service of cafeteria for external parties had been implemented by the company non-compliance with the objectives of the company, mentioned under the Memorandum of Articles of Association.

4.4 Staff Administration

An organizational plan had not been prepared in accordance with the 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and in terms of section 9.3, scales of salaries of the employees, Recruitments and promotions procedures had been implemented without approval of the Public Enterprises Department.

5. Accountability and Good Governance

5.1 Internal Audit

An internal Audit had not been done for the year under review.

5.2 Audit committees

Audit and management committees had not been implemented during the year under review, in terms of paragraph 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5.3 Procurement and contract Procedure

A Master Procurement Plan had not been prepared by the company, in terms of paragraph 4.2 of the Government Procurement Guideline in 2006. Therefore, there was not a proper plan relating to needs of procurement goods, timeline those should procure, ways of procure.

5.4 **Budgetary control**

A budget had not been prepared for the year under review, in terms of paragraph 5.2.7 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

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.

<u>Areas of Systems and Controls</u>	<u>Observations</u>
(a) Financial Control	Non approval for investment and non preparing budget, Procurement plan and action plan.
(b) Accountability	Non compliance with accounting standards and without being done relevant disclosure and non-accounting of transactions accurately.
(c) Taxation	Non –calculating of tax payable accurately and non payment on due date.
(d) Staff Administration	Non obtained the approval for recruitment of employees and promotion procedures.