

## **Natural Resources Management Services (Pvt) Ltd. - 2016**

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The audit of financial statements of Natural Resources Management Services (Pvt) Ltd. for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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. My observations relating to the performance of the Company in the year under review which I consider should be furnished to Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- Sized Enterprises 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**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Establishment of the Company**

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This Company, which had been registered under the Companies' Act No.17 of 1982 as a private company with effect from 20 July 1999 in compliance with the Mahaweli Authority of Sri Lanka Act No.23 of 1979, had been re- registered on 16 June 2008 under the Companies Act No.07 of 2007.

## 1.5 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

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### 2.1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of Natural Resources Management Services (Pvt) Ltd. as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium- Sized Enterprises.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Sri Lanka Accounting Standards on Small and Medium- Sized Enterprises

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Even though fixed deposits amounting to Rs.6,926,566 which will be matured in six months should be stated as current assets in terms of Section 4.5 of Chapter 4 of Sri Lanka Accounting Standards for Small and Medium- Sized Enterprises, it had been stated in the financial statements as non- current assets.

#### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) Even though computers and computer equipment costing Rs.865,700 of which the carrying amount being zero had been sold in the year under review, their cost and the accumulated depreciation had not been written- off from accounts.
- (b) Even though the loan amounting to Rs.600,000 obtained from a State Bank had been settled on 11 January 2016, the loan interest amounting to Rs.14,748 had been stated in the accounts as further payable.

#### 2.2.3 Lack of Evidence for Audit

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Evidence indicated against the following items was not furnished to audit.

<b>Item</b>	<b>Value</b>	<b>Evidence not furnished</b>
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	Rs.	
Income Receivable	391,154	Confirmation of balances
Goods and Services Taxes Payable	109,498	Schedules of Tax Calculation
Intangible Assets	29,500	Written evidence relating to the confirmation of value

## 2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non- compliance were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non- compliance</b>
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| (a) Mahaweli Authority of Sri Lanka<br>Act No.23 of 1979<br>(i) Section 39(1) | Even though the Board of Directors should consist of 07 members consisting of the Directors of the Government appointed by the Line Minister and the Shareholding Directors appointed by the Shareholders, four numbers of present Board of Directors had been appointed by the Director General of the Mahaweli Authority of Sri Lanka. |
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| (ii) Section 42(1) | Even though the capital of the Company should consist of ordinary shares of Rs.100 as stated in Mahaweli Authority of Sri Lanka Act, the Authorized Capital consisted of 10,000,000 shares of Rs.10 according to the Incorporation Order of the Company. One thousand Five hundred shares and 2 shares had been issued to the Mahaweli Authority of Sri Lanka and to two former Directors of the Mahaweli Authority of Sri Lanka respectively. |
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| (iii) Section 45(1) | Even though one Director out of the Directors should be selected and appointed as the Chairman of the Company, the Chairman of the Company had been appointed by the Director General of the Mahaweli Authority of Sri Lanka. |
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## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the financial result of the Company for the year under review had resulted in a profit of Rs.814,640 as compared with the corresponding profit of Rs.389,210 for the preceding year, thus indicating an improvement of Rs.425,430 in the financial result in the year under review as compared with the preceding year. The increase of other income of the year under review by a sum of Rs.650,399 as compared with the preceding year had been the main reason for this improvement.

In analyzing financial results in the year under review and 04 preceding years, the net loss of the Company in the year 2012 amounting to Rs.444,164 had been improved as a net profit amounting to Rs.814,640 in the year 2016. After adjusting personnel emoluments, depreciation for non- current assets and income tax, the contribution of the Company in the year 2012 amounting to Rs.392,550 had been improved to a sum of Rs.1,816,432 in the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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The main objectives of the Company in terms of the Incorporation Order of the Company are mapping environmental parameters such as soil, land structures, topography, use of lands, flora and fauna, bio- diversity, the quality of water by land survey in Sri Lanka and outside the country, aerial photography, satellite photography, geographical information system, analyzing, estimating land resources, planning on the use of land, soil erosion and soil preservation, management of protectorates, plantation of herbs and consulting for sustainable plantation systems, preparing plans and training. Providing Environmental Reports had been a key function of the Institution and bringing to account the money received by the Institution which the function is received as an income and bringing to account the amount paid to the external party which the function being executed as expenditure had been the policy of the Institution.

The following observations are made in this connection.

- (a) The Company did not acquire an ability of certifying the accuracy of the reports on the Company not being acquired with a staff with technical knowledge.
- (b) Preparing an Environmental Assessment Report relating to the removal of trees of a land only had been carried out in the year under review.
- (c) Even though 17 years had been lapsed since the establishment of the Company, Action Plans had not been prepared to achieve the objectives of the Company mentioned in the Incorporation Order of the Company.

##### **4.2 Management Activities**

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The office of the Company is maintained in a building in Kandy belonging to the Mahaweli Authority without an agreement entered into between the two parties and a sum of Rs.600,000 had been brought to account as the rent payable in this connection as at 31 December 2015 despite of the non- existence of any initial document to decide the monthly rent. Later this amount payable had been written- off in the year under review without any approval and had been brought to account as other income.

### **4.3 Identified Losses**

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An interest income of Rs.70,574 that could have been obtained from the two fixed deposits according to the calculations of audit had been forfeited on two fixed deposits valued at Rs.1,532,265 being encashed before maturity for incurring recurrent expenditure in the year under review.

### **4.4 Staff Administration**

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The following observations are made.

- (a) The approval for a specific staff and a Scheme relating thereto had not been obtained either from the Department of Management Services or by the Board of Directors and the present staff of the Company consisted of 03 persons.
- (b) Even though a female officer had been recruited for the post of Accountant on contract basis in the year under review, an advertisement had not been published and a proper interview had not been conducted in this regard.
- (c) The service of the officer acting as the Manager of the Company from the year 2007 and the service of the female officer recruited for the post of Accounts Assistant on casual basis on October 2014 had been extended regularly on assignment basis from the year 2016 to 19 May 2017.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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A Draft Annual Report had not been furnished along with the financial statements of the year under review in terms of the Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and the financial statements had been furnished to audit on 02 February 2017 and the revised financial statements had been furnished to audit on 29 June 2017 again by rectifying various accounting errors observed in audit.

### **5.2 Corporate Plan**

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Even though the Corporate Plan approved by the Board of Directors should be furnished to the Line Ministry, the Treasury and to the Auditor General 15 days before the commencement of the Financial Year in terms of Sections No.5.1.2 and No. 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, at least a Corporate Plan relating to the year under review had not been prepared.

### **5.3 Action Plan**

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Annual Action Plans had not been prepared and the approval of the Board of Directors had not been obtained for monitoring the functions of the Company efficiently, in the year under review.

#### **5.4 Budgetary Control**

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The budgeted data and the actual data could not be compared as a budget had not been prepared for the year under review.

#### **6. Systems and Controls**

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The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Personnel Administration	Not preparing and getting the approval for a specific staff and a Scheme of Recruitment for the Company.
(b) Budgetary Control	Not preparing the budget.