

Natural Resources Management Services (Private) Ltd. – 2017

The audit of the financial statements of the Natural Resources Management Services (Private) Ltd. for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My observations on the operations of the Company for the year under review which I consider should be presented to the 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 on the Financial Statements

The 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 Entities (SLFRS for SMEs) and for such internal control as management determines is necessary to enable the preparation of financial statements whether due to fraud or error.

1.3 Auditor’s Responsibility

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 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 risk 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 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 qualified audit opinion.

1.4 Basis for Qualified Opinion

(a) Sri Lanka Accounting Standards for Small and Medium- sized Entities (SLFRS for SMEs)

Even though, the fixed deposit belonging to the Company amounting to Rs.5,802,607 which mature in 06 months should be reported as current assets in terms of Section 4.5 of Sri Lanka Accounting Standards 4, for Small and Medium- sized Entities, it was shown under non-current assets.

(b) Accounting Deficiencies

The advances granted for the Somawathie Water Supply Project amounting to Rs.25,000 had been shown as expenditure in the financial statements instead of shown under current assets.

(c) Lack of Evidence for Audit

The evidence indicated against the following items had not been made available for audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
Withholding Tax (WHT)	75,767	Tax certificates
Revenue Receivable	433,118	Confirmations of balances

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the financial statements of the Natural Resources Management Services (Private) Ltd. give a true and fair view of the financial position as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities. (SLFRS for SMEs)

2.2 Report on other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No.07 of 2007, I state the following.

- (a) The basis of opinion and scope and limitations of audit are as stated below.
- (b) In my opinion;
- I have obtained all the information and explanations that were required for audit and as far as appears from my examination, proper accounting records had been maintained by the Company, and
 - the financial statements of the Company comply with the requirements of Section 151 of the Companies Act No.07 of 2007.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Sri Lanka Mahaweli Authority Act No.23 of 1979.	
(i) Section 39(1)	The Board of Directors of the Company should comprise with 07 Directors including the Directors appointed by the Minister of Line Ministry on behalf of the Government and the Directors appointed by the shareholders representing the shareholders. Nevertheless, the present Board of Directors comprising 04 members had been appointed by the Director General of the Mahaweli Authority.
(ii) Section 42 (1)	Even though, the capital of the Company should comprise with the ordinary shares of Rs.100, according to the Memorandum of Association, the authorized capital of the Company has comprised 10,000,000 shares of Rs.10. Of that, 1,500 shares had been issued to Sri Lanka Mahaweli Authority and 02 shares had been issued to then two Directors of the Sri Lanka Mahaweli Authority.
(iii) Section 45(1)	The Board of Directors of the Company should select and appoint the Chairman of the Company. Nevertheless, the Chairman of the Company had been appointed by the Director General of the Mahaweli Authority.
(b) Paragraph 6.5.1 of the Public Enterprises Circular No.12 dated 02 June 2003.	The Draft Annual Report had not been presented to audit along with the financial statements of the year 2017.
(c) Public Enterprises Circular No.03 dated 17 June 2015	
(i) Section 2.2	The approval of the Board of Directors should be obtained with the concurrence of the Minister of Finance and the recommendation of the Secretary to the line Ministry to pay monthly allowances of the Chairman of the Government Owned Companies coming under

the purview of sub category 'F' of the categorization of companies. Nevertheless, the recommendation of the Secretary of the line Ministry and the concurrence of the Minister of Finance had not been obtained for the allowances paid to the Chairman for the years 2016 and 2017 amounting to Rs.112,500 and Rs.450,000 respectively.

(ii) Section 2.10

Even though, the relevant taxes should be deducted from the monthly allowance of the Chairman and from the attendance allowances for the participation of meetings of the non-executive Directors, the Withholding Tax amounting to Rs.50,400 had not been deducted from the allowances of Rs.450,000 paid to Chairman and from the attendance allowances of Rs.54,000 paid to 09 non-executive Directors for the participation of the meetings and had not been remitted to the Department of Inland Revenue.

(iii) Section 2.11

Even though, the allowances for attendance of meetings should be paid only to the non-executive Directors, a sum of Rs.6,000 had been paid for the Accountant and for the Manager as allowances for the attendance of the meetings.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Company for the year under review had been a deficit of Rs.1,380,891 as against the surplus of Rs.814,640 for the preceding year, thus indicating a deterioration of Rs.2,195,531 in the financial results of the year under review as compared with the preceding year. The increase of remuneration of employees and the Board of Directors by Rs.974,725 and the decrease of the revenue of the Company by Rs.1,904,205 had mainly attributed for the deterioration of the financial results in the year under review as compared with the preceding year.

In an analysis of the financial results for the year under review and 04 preceding years the net profit after tax of the Company for the year 2013 amounting to Rs.785,270 had turned to a net loss after tax in the year 2017 amounting to Rs.1,380,891. However, the contribution of the Company remained as Rs.1,428,383 in the year 2013 had decreased in the year 2014 and increased in the years 2015 and 2016 and decreased again in the year under review as Rs.689,414 in re-adjusting the depreciation and the taxes of the employees remuneration and non-current assets for the financial results.

4. Operating Review

4.1 Performance

According to the Memorandum of Association, the basic objectives to establish the Company are to map, analyse and describe soils, land forms, topography, land use, vegetation, bio diversity, land ownership, water quality and any other environmental parameters from ground surveys, air photography, satellite imagery, geographic information systems and global positioning systems in Sri Lanka and else where and to advise, plan, train and provide technical guidance on land resource assessment and land use planning, soil erosion and soil conservation, protected area management, medicinal plants and sustainable organic farming systems while, one of the main activity of the Company is to provide environmental certification. As a staff with the technical knowledge required thereon was not made available in the Company, the environmental reports are get preparing from an external party and the Company has no possibility for certification of the accuracy of that reports.

4.2 Staff Administration

The staff of the company comprised with 03 employees and the approval for the specific cadre and for the recruitment procedure had not been obtained from the Department of Management Services or Board of Directors. Therefore, the recruitments, promotions for the staff of the Company and the qualifications relating to the staff and the accuracy of the salary decisions could not be examined.

5. Accountability and Good Governance

5.1 Establishment of the Company

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

5.2 Corporate Plan

Even though, a Corporate Plan in respect of execution of the objectives of the establishment of the Company should be prepared in terms of Section 5.1.3 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003, such a plan had not been prepared.

5.3 Action Plan

An Action Plan for the year under review had not been prepared for the efficient operations of the activities of the Company in terms of Public Finance Circular No.01/2014 dated 17 February 2014.

5.4 Budgetary Control

A budget for the year under review had not been prepared in terms of Section 5.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

6. Systems and Controls

Weaknesses 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 controls.

Areas of Systems and Controls

Observations

(a) Accounting	In preparation of financial statements certain Accounting Standards were not followed.
(b) Preparation of Plans	Non-preparation of Corporate Plan and Action Plans to execute objectives.
(c) Performance	Action not taken to implement objectives stated in the Memorandum of Association.
(d) Staff Administration	Un-availability of specific staff for the Company and non-preparation of recruitment procedure.