

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sathosa Security and General (Private) Limited (“Company”) 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.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified on the 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 qualified 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 for Small and Medium-sized Entities (SLFRS for SMEs) and for such internal control as management determine 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 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 Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)

Non-Compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) According to the Section 27.5 and 27.7, Impairment of Assets of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), an entity shall assess at each reporting date, whether there is any indication that an asset may be impaired and if any such indication exists the entity shall estimate the recoverable amount of the asset. If the recoverable amount of the asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. However,	Noted, we have no options to recover this amount from the employees.	In the instances where the recoverable amount of the asset is less than its carrying amount, a provision for impairment should be made.
(ii) According to the age analysis given, the debtor balances which the recoverability is uncertain was Rs.13,635,489. However, the bad debt provision of the financial statement was Rs. 7,279,541.	Those are long out standings and necessary action is being taken to collect these debts. If it is not happened we will do the bad debts provision with approval from the Board.	The bad debt provision should be corresponded with the debtor balances which the recoverability is uncertain.
(b) According to the Section 10.21, Accounting Policies Estimates and Errors of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs), an entity shall correct prior period errors retrospectively restating the comparative amounts. However, a budgetary	Noted	Company should correct prior period errors retrospectively restating the comparative amounts.

allowance of Rs.120,000 paid for employees during the year 2015 which was shown in the financial statements as salary advance receivable from staff had been adjusted to the profit of the year under review instead of adjusting retrospectively.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The balance of gratuity provision account had been understated by Rs,85,300 due to the matters that the under provision related to the previous years had not been adjusted and correct appointment dates of employees had not been taken in the calculation of gratuity.	Noted	Gratuity provision should be made accurately.
(b) Fixed deposit interest income had been overstated by Rs.378,513 as the interest income for fixed deposit for the year under review amounting to Rs.1,684,120 had been accounted as Rs.2,062,633.	The FD interest has been accounted on a cash basis instead of accrual basis. Will do the needful to correct the accounting error.	Fixed deposit interest income should be accounted accurately.
(c) Fixed deposit interest income receivable for the year under review amounting to Rs.416,271 had not been accounted.	The FD interest has been accounted on a cash basis instead of accrual basis. Will do the needful to correct the accounting error.	Fixed deposit interest income receivable should be accounted.
(d) According to the financial statements, the debtor balance as at 31 March 2021 was Rs.96,114,292 and according to the age analysis of debtors, the balance as of the date was Rs.96,566,065. Accordingly, a difference of Rs.451,773 was observed.	This is a system issue and will do concern on the system technical issue with the system staffs.	The debtor balance according to the financial statements should be corresponded with the age analysis of debtors.
(e) The receivable balance as at 31 March of the year under review had been understated by Rs.235,603 due to the minus balances included in debtors and advances and other receivables.	Noted	Negative balances should be reconciled.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Comments of the Management	Recommendation
1. Receivable from Trust	1,076,539	Schedules , Age Analysis, Invoices	Those are long out standings and will do the necessary clarification on it to do the needful rectifications.	Written evidence to confirm the value should be maintained.
2. Receivable from Staff		Schedules , Age Analysis	-Do-	-Do-
i. Death donation receivable	1,470,649			
ii. Festival advance	218,500			
3. Advance and Other Receivable Uniform	2,071,657	Schedules , Age Analysis	-Do-	-Do-
4. Rent Advance received		Receipts Issued	-Do-	-Do-
i. Narahenpita	108,000			
ii. Rathmalana	324,000			
5. Security Deposit received		Receipts Issued	-Do-	-Do-
i. Narahenpita	200,000			
ii Rathmalana	300,000			
6. CWE Office Assistant Salary - Payable	2,086,433	Schedules, Age Analysis, Salary details	-Do-	-Do-
7. VAT control Account –Opening balance	1,228,754	Documents to confirm the balance	-Do-	-Do-

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
The debtors balance amounting to Rs.13,635,489 receivable over a period of more than 05 years and a balance amounting to Rs.12, 244,835 receivable over a period from 1-5 years had not been recovered.	Necessary action is being taken to collect these debts. If it is not happened we will do the bad debts provision with approval from the Board.	Receivable balances should be recovered without delay.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Building rent payable to Corporative Wholesale Establishment as at 31 March 2021 had been Rs.14,892,442. Out of which Rs.6,884,848 was the rent payable for the period prior to the year 2018.	Noted	Payable balances should be settled without a delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 40(1) of National Audit Act, No. 19 of 2018	The Company had not appointed an Internal Auditor.	Comments had not been given.	An Internal Auditor should be appointed.
(b) Management Service Circular No. 01/2020 dated 21 February 2020	Although all recruitments of primary level employees had been suspended, 12 primary level employees had been recruited in the year under review and a sum of Rs.1,914,655 had been paid as salary , EPF and ETF.	We got the board approvals for the said recruitments.	Provisions of the circular should be followed.
(c) Section 02 of the Public Enterprise Circular No PED 1/2015 (i) dated 27 October 2016	An officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs.50,000 and such officer shall not be provided with a driver or driver's allowance. However, two officers of the Company had been paid a monthly transport allowance of	Noted	Provisions of the circular should be followed.

Rs.50,000 and Rs.30,000 respectively provided with a driver. A sum of Rs.839,152 had been incurred by the Company for the salary, EPF and ETF of the drivers provided to the said officers during the year under review.

(d) Section 47 of the Employees' Provident Fund Act No 15 of 1958 and Section 44 of the Employees' Trust Fund Act No 16 of 1980.	Cost of living allowance, special living allowance and other similar allowances should be considered as earnings. However, the Company had not paid the contribution of Employees' Provident Fund amounting to Rs.671,000 and the contribution of Employees' Trust Fund amounting to Rs.100,650.	Noted	Provisions of the act should be followed.
(e) Public Enterprises Circular No PED / 12 dated 02 June 2003	(i) Section 6.5.1 The financial statements of the Company should be submitted to audit within 60 days after the close of the accounting year. However, financial statements for the year under review had been presented to audit on 28 July 2023 after a delay of 26 months and the draft annual report had not been presented.	Agreed, We will take necessary actions to submit the upcoming financial statement with in the stipulated time frame mentioned in the section 6.5.1 of the Public Enterprises Circular PED/12 dated 02 June 2003.	The financial statements of the Company should be submitted to audit within the prescribed period.
(ii) Section 9.2 (d)	The approved carder had not been registered with the Department of Public Enterprises.	A revised carder has been submitted to the Public Enterprises. The approval is in progress.	The approved cadre should be registered with the Department of Public Enterprises.
(iii) Section 9.3.1	The Company has no Scheme of Recruitment and promotion for each post.	Already informed to the HR division to prepare a scheme of recruitment and	The Scheme of Recruitment and Promotion should

promotion for each post. be prepared and approved by the Board and the appropriate Ministry with the concurrence of the Department of Public Enterprises.

1.8 Cash Management

Audit Observation	Comments of the Management	Recommendation
The bank account of the Company had been overdrawn in several occasions over a period of 10 months and the overdrawn bank balances had been ranging from Rs. 74,111 to Rs. 14,936,137. The interest for the overdraft paid during the year under review had been Rs.400,409.	Noted, this is because of the delay in security payments from Lanka Sathosa Limited.	The paying officer should ensure that the bank balances is adequate to meet all the payments made by cheques and avoid bank account getting overdrawn.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.3,615,256 and the corresponding profit in the preceding year amounted to Rs.10,170,623. Therefore a deterioration amounting to Rs.6,555,367 of the financial result was observed. The main reason for the deterioration is the decrease of total revenue by Rs.23,334,432.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a)90 percent of the security services income of the Company had been represented by the security services provided to Lanka Sathosa Ltd. However depending on single income source may adversely affect to the going concern of the Company.v	Agreed, we are fully depend on Lanka Sathosa Limited, as such we will do necessary actions to diversify our services with new clients.	Income sources should be diversified.
(b)A sum of Rs.949,027 had been paid to six employees as salaries and allowances without confirming the attendance to work.	Noted	Attendance to work should be confirmed in order to pay salaries and allowances.