

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Rakna Project Management Limited (“Company”) for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 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 material accounting policy 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 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 the Parliament appear in this report.

In my opinion, the financial statements of the company give a true and fair view of the financial position as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for the Opinion

I conducted the 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 this 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 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 ability of the Company 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 financial reporting process of the Company.

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 the preparation of annual and periodic financial statements of the Company.

1.4 Audit Scope

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 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;
- Whether the resources have been procured and utilized economically, efficiently and effectively within the timeframes and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

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

| Reference to Laws, Rules and Regulations etc. | Non-compliance | Comments of the Management | Recommendation |
|--|---|---|---|
| Section 220 of the Companies Act No.07 of 2007 | In a circumstance that the net assets of a company are seemed to be less than half of the declared assets of the said company, the nature and extent of the losses experienced by the company, the reason or reasons of the losses incurred by the company, and if any actions have been taken by the Board of Directors to prevent the further occurrence of such losses or to make shift with the losses incurred, the Board of Directors should prepare a report informing the shareholders about those actions and a special general meeting of the shareholders of that company should be called along with that report by the Board of Directors. However, the company had not taken actions to prepare such a report or to convene a meeting as per the said regulations even by 31 March 2024 while the net book value of Rs.2.65 million had been a negative value during the year under review. | As all the activities of the organic fertilizer production project launched under Rakna Project Management Limited have been suspended from 07.07.2022 in accordance with the instructions given in the National Budget Circular No. 3/2022 dated 26.04.2022, the board paper No. 153(06) has been presented to the 153 rd Director Board Meeting held on 30.06.2023 and in accordance with the above Board Paper, it has been informed that the board of directors of Rakna Arakshaka Lanka Company Limited has given approval to take necessary actions to legally close the Rakna Project Management Limited. | The proceeding should be made as per the provisions of the Act. |

2. Operational Review
2.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| <p>As stated in the paragraph 1.10 of the resolution that had been adopted by the board of directors of Rakna Arakshaka Lanka Company Limited on 15 June 2021, it was stated that the Presidential Task Force had informed to start a project to produce organic fertilizers immediately as a solution for the scarcity of organic fertilizers in the country during that time. This Rakna Project Management (RPML) had been established for the organic fertilizer manufacturing process and the objectives of the Article of Association of the company were not specified. However, this project had been started by including only a resolution signed by the board of directors expecting the approval of the Cabinet of Ministers for the organic fertilizer production project. According to the financial statements as at 31 March 2022, a loss of Rs.2.65 million had been experienced from the organic fertilizer production activities. Even if all the activities of the organic fertilizer production program had been stopped on 07 July 2022, the approval of the board of directors had not been obtained thereto.</p> | <p>As the Rakna Project Management Limited is a company established under the Companies Act No. 07 of 2007, the proceedings should be made as per the provisions available under the Companies Act for the legal closure of the said company, and the instructions have been given by the board of directors to take the necessary steps to close this company legally while giving instructions for the board paper 153(06) presented to the 153rd Director Board Meeting on 30.06.2023. According to the said instructions, the audited account reports of the company are mandatory for the closure of Rakna Project Management Limited, and further activities related to the closure of this company can be done after receiving those account reports. Accordingly, as further stated in the audit observation, it can be accepted that there has been a financial loss since the organic fertilizer project is a failed project in the entire country.</p> | <p>The formal actions should be taken in respect of the failed project.</p> |