

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Rakna Property Holdings Limited for the year ended 31 March 2022 comprising the statement of financial position as at 31 March 2022 and statement of profit and loss and other 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 financial statements give a true and fair view of the financial position of the company 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 qualified Opinion**

My opinion is qualified based on 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 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 determines 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 for accounting unless management either intends 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 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 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 judgement 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 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 discussions 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 preparation of the financial statements

### 1.5.1 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though there is no possibility of recovery of Value Added Tax of Rs.12.4 million paid to the land in which the commercial office complex building had been constructed, such value had been accounted as the prepayments and other trade receivables. .	Since the notice for refund of Value Added Tax can be obtained from Department of Inland Revenue and the rebate tax for the construction projects is not received at the beginning most probably, this had not been noted under receivables.	The preparation of the financial statements and accounting should be accurately performed.

## 1.6 Non-compliance with laws, rules, regulations and management decisions

<b>Reference to laws, rules and regulations</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Section 220 of the Companies Act No.07 of 2007	In a circumstance that the net assets of the company are less than half of its declared assets of 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 action 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	The members of Board of Directors of RALL act as the members of Board of Directors of RPHL and the facts had been frequently discussed in relation to the maximum measures to be taken for resolving the conflicting situations prevailing in this company not only in the meetings of Board of Directors of RALL but also in the meetings of Board of Directors of RPHL. Furthermore, the approval of the cabinet of ministers had been granted to the cabinet memorandum submitted for requesting approval for	The action should be taken as per the provisions of the Act.

Board of Directors. However, the company had not taken action to prepare a meeting as per the said regulations while the net book value of rs.101.98 million had been negative value during the year under review.

performing a forensic audit to take further legal proceedings in relation to the misconducts observed at the audit carried out by Ministry of Defence with regard to the activities and financial expenses done in relation to this project by the cabinet decision No.CP/23/0436/603/009 dated 14.03.2023.

## 2. Operational Review

### 2.1 Deficiencies in the Contract Administration

Audit Observation	Comments of the Management	Recommendation
<p>(a) The project for construction of head office building had been commenced by the parent company in 2014 and the construction activities halted on 03 July 2015 owing to the issues arisen on providing of funds required for the construction and ownership of the relevant land. When the construction activities of the project were halted, an expense of Rs.828.3 million had been incurred for this project by the parent company. Subsequently, new project for construction of the commercial office complex on such building structure in 2021 by altering the building plan of the project and this subsidiary company had been established in the name of Rakna Property Holdings Ltd. on 08 March 2021 under the Companies Act No.07 of 2007 on behalf of that. These approvals had been obtained after establishment of the company instead of obtaining the approvals from the Board of Directors of parent company and the cabinet of ministers before registration of this subsidiary company. A gross estimate had been prepared for this project and its estimated value was Rs.5016.87 million. Rs.301.01 million otherwise 6</p>	<p>This project which was halted halfway in 2015 had been handed over to Maga Engineering Private Limited and Design Group Five International Private Limited by former management including the Chairman for the construction activities and consultancy services again by revising it as a mixed development project in 2020 with novel appearance. It had been estimated the construction cost of this new project as Rs.5.016 billion.</p> <p>The cabinet memorandum No.MOD/CP/SMONS/69/2021 dated 17.05.2021 presented by a mixed development project had been approved at the meeting of cabinet of ministers held on 24.05.2021 and it had been informed by the letter No.21/0912/303/069 dated 25.05.2021 of Office of the Cabinet of Ministers and it had been indicated that it was decided to be carried out the future activities of this project from the institutions obtained the construction works and the consultancy services of the first phase of this project by the cabinet memorandum. The procurement process had not been followed for the construction works and a report had been submitted having performed a feasibility study with a business plan for implementation the project.</p>	<p>The legal measures should be taken in relation to the illegal activities carried out by this project since commencement up to now.</p>

percent of contract value had been contracted for the consultation services of this project. An amount of Rs. 1326.7 million had been incurred by this subsidiary company for this construction at the end of year under review. When selecting the contractors for this construction, the contractors and the consultancy firm had been selected respectively contrary to the sections 2.7, 2.8 and 3.2 of the Procurement Guidelines and section 35 of the Procurement Manual dated 05 March 2020 and the chapter 2.10.1 and 3 of Consultancy Services Guidelines Manual and its construction activities had been halted up to date of this report since July 2022 on issue of providing of funds.

- (b) Even though as at 12 December 2022, 13 bills worth of Rs. 1127.39 million related to the work for this construction had been certified by consultancy services company, the contractor had requested the claims for Rs.1, 432.36 million such as late fees, additional expenses to be paid for cessation of the project, opportunity cost loss and loss of profit and it had not been verified that the concurrence of the consultancy services company for that. The bills worth of Rs. 88.46 million for the consultancy services had been submitted to the company by the consultancy services company. The both parties had agreed to not to obtain and pay the remaining amount to be paid to the contract company and consultancy company in accordance with a request made by the company on non-availability of the fund to the company. Taking into consideration this situation, even though the Secretary of Ministry of Defence had ordered to identify a suitable local or foreign investor by adhering a formal
- The measures had been taken to appoint an independent committee with full powers with the approval of ministry and perform a formal investigation and take future action after identification the responsible persons for that at the meeting of Board of Directors held on 30 October 2023 in order to find out the other conflicting situations including the conclusions and decisions of former board of management including Chairman who had headed to commence the second phase of this project and not obtaining a prior written approval of the ministry before making payments related to the project by the letter No. SMONS/NS/RALL/CORPORATE TOWER dated 28.12.2021 submitted with the signature of Secretary of Defence. Accordingly, since this company has no financial possibility for carrying out this project for future, the approval of the cabinet of ministers had been obtained for handing over the project having identified a suitable local or foreign investor. At the discussions held between Urban Development Authority and Sri Lanka Board of Investments, the concurrence of
- The action should be expeditiously taken as per the Cabinet Decision.

procedure with Urban Development Authority to be implemented this project as a mixed development project which is most appropriate instead of this construction project by a cabinet decision dated 14 March 2023. Such facts had not been settled at the date of this report.

the parties had been obtained in relation to finding out a new investor for this project and BOI had agreed to assign the BOI approval to the person if the project will find an investor for this project It had been agreed .at the above meeting not to charge the installments annually charged for the land by UDA until an investor will be found.