

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Rakna Property Holdings Ltd (“Company”) for the year ended 31 March 2023 comprising the statement of financial position as at 31 March 2023 and the statement of profit or loss and other comprehensive income, statement of changes in equity statement of cash flow, 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 report to Parliament appear in this report.

In my opinion, because of the significance of the matters discussed in the paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 March 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards

1.2 Basis for Adverse Opinion

Matters have described in paragraph 1.5 of this report for my adverse opinion

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 Adverse 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 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 Authority, etc. 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 skepticism 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 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
a.	The outstanding balance payable to the Urban Development Authority as of March 31, 2023 in accordance with the terms of Lease Agreement No. 1863, entered into on July 7, 2021, for a construction project on a 99-year lease basis was understated by Rs. 17,589,188. Furthermore, as lease rentals, ground rents, and penalties for late payment amounting to Rs. 4,826,110 were understated in the accounts, the loss for the financial year was also understated by that amount pertaining to the year under review	As the advance payment of Rs. 155,000,000 which is representing 25% of the total amount required under Lease Agreement No. 1863 entered into with the Urban Development Authority on July 7, 2021, for the acquisition of land on a 99-year lease was settled during the 2021/2022 financial year, arrangements are being made to record the first installment in the financial statements on the basis that payments commence from the year under review.	Steps must be taken to record the total expense pertaining to the period in accordance with the agreement.
b.	It was not possible to verify the accuracy of the interest expense of Rs. 13,686,945 recorded in relation to a loan of Rs. 400,000,000 granted by the parent company to the subsidiary company because the information required calculating this amount was not provided for audit	As indicated by the audit observation, Rakna Arakshaka Lanka Limited settled loans obtained from a state bank on May 24 and 26, 2022, and proceeded to obtain new loans of the same value on those very days; subsequently, the	Necessary records must be properly maintained to substantiate the values accounted for during the year.

entire loan amount was settled on September 8, 2022, and interest amounting to Rs. 13,686,945 accrued up to September 7, 2022 was recorded in the accounts.

1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Although Notes 2.7.2 and 2.8 to the financial statements clarified matters regarding the company's going concern status, key financial ratios remained at adverse levels as of the end of the 2022/2023 financial period; specifically, the current ratio stood at 0.000085:1, the net asset value was a negative Rs. 166,201,424 (reflecting a 63% deterioration compared to the previous year), and the return on assets ratio was zero. Furthermore, it was observed that the disclosures made in the aforementioned notes were inaccurate due to circumstances such as the inability to secure funding for the construction of the commercial office complex the very purpose for which Rakna Property Holdings Limited was established, the breach of agreement terms with the Urban Development Authority they are owner of the land on which the complex was built, leading to the suspension of that agreement, and the complete cessation of the company's operations during the year under review.	. Construction on this project which had been halted in 2015 resumed in 2020 following a revision that transformed it into a mixed-development commercial office complex; however, although Cabinet approval was granted to secure a loan of Rs. 5.5 billion for the project, the funds could not be obtained after the Ministry of Defense advised against it. Due to the violation of agreement terms with the Urban Development Authority regarding the land acquisition and the company's lack of financial capacity to proceed, Cabinet approval has been obtained to identify a suitable investor and hand over the project. During the 2022/2023 financial year, the operations of Rakna Property Holdings Ltd were not completely terminated only the commercial office complex construction project was suspended. The 2022/2023 financial statements have been prepared on a going-concern basis, as the company must continue operations until a suitable investor for the project is identified and the transfer is finalized.	Financial statements must be prepared with greater attention to the impact on the going concern assumption.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Companies Act No. 07 of 2007			
(a) Section 150(1)	Although management is required to prepare the company's financial statements reflecting a true and fair view as stipulated in Section 151 of the Act within six months of the balance sheet date or within any extended period determined by the Registrar of Companies, the company failed to prepare the financial statements for the period ending 31 March 2023 within that timeframe or the extended period granted by the Registrar.	Due to the failure to prepare and submit the financial statements for the 2021/2022 financial year for audit within the stipulated timeframes and the consequent inability to avoid delays in all subsequent processes it has not been possible to submit the financial statements for the 2022/2023 financial year for audit by the expected date. Furthermore, please be advised that failure to submit financial statements by the due date in the future will result in action being taken in accordance with Section 150(1) of the Companies Act No. 07 of 2007.	Arrangements must be made to prepare and submit financial statements by the due date, in accordance with the provisions of the Act.
(b) Section 220	In instances where a company's net assets are found to be less than half of its stated capital, the Board of Directors is required to prepare a report detailing the nature and extent of the losses incurred, the	Rakna Arakshaka Lanka Limited (RALL) holds 100% ownership of Rakna Property Holdings Limited (RPHL), and the current management has consistently discussed the crisis facing RPHL at RALL	Steps must be taken to prepare a report and convene a meeting in accordance with the provisions of the Companies Act.

causes of such losses, (shareholder) board and any measures meetings. As there is no taken by the Board to financial capacity to prevent further losses continue the or to recoup those construction project, already incurred and Cabinet approval has to convene an been obtained to Extraordinary General identify a suitable Meeting of investor and hand over shareholders to the project. Measures present this report. are currently being However, despite taken to gradually Rakna Property resolve existing issues, Holdings Limited and plans are in place recording a negative to determine future net asset value of Rs. actions regarding 166,201,434 during RPHL subject to Board the financial year approval once these under review, the issues are settled. the company failed to take steps to prepare such a report or convene a meeting in accordance with the said regulations.

2. Financial Review

2.1 Financial Result

The operating result for the year under review was a loss after tax of Rs. 64,224,933, compared to a loss of Rs. 101,976,502 in the previous year; this represents an improvement of Rs. 37,751,569 in the financial result. This improvement was primarily driven by a reduction in finance costs by Rs. 64,833,902 or 68.2% compared to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

During the period under review, the company's total revenue remained at zero consistent with the figure reported for the previous period while administrative expenses increased by Rs. 27,082,334 (395%) and finance costs decreased by Rs. 64,833,902 (68.2%) compared to the previous period.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although the Cabinet decision dated 14 March 2023 directed that a suitable local or foreign investor be identified by following a formal procedure in collaboration with the Urban Development Authority to implement the commercial office complex construction project as a more viable mixed-development project, these measures had not been fulfilled as of the date of this report.	In accordance with the Cabinet decision, the task of identifying a suitable local or foreign investor for this project in collaboration with the Ministry of Defense, the Urban Development Authority, and Rakna Arakshaka Lanka Limited has been entrusted to the Urban Development Authority, which is currently proceeding with the necessary actions.	Action must be taken to find a suitable investor in accordance with the Cabinet decision
(b) Rakna Property Holdings Limited did not have a formal recruitment and promotion procedure for its staff. Furthermore, although the company's operations were not active during the 2022/2023 financial year, a sum of Rs. 5,072,899 was expended on staff salaries, wages, and allowances.	Although no operational activities took place during the 2022/2023 financial year, the Company is paying the salary and allowances of the Project Director who oversaw the project because all other project-related activities, including administrative functions, had to be continuously maintained.	Steps must be taken to formulate and obtain approval for a formal recruitment and promotion procedure for the company.

3.2 Procurement Management

Audit Issue	Management Comment	Recommendation
The parent company had initiated the head office building construction project in 2014. However, construction work was halted by July 3, 2015, due to issues regarding the sourcing of necessary funds and the ownership of the relevant land, with the parent company having incurred	Construction work commenced on May 20, 2014, but legal ownership of the land has not been acquired. The Board of Directors, including the then Chairman, commenced construction of this building without conducting a proper	Steps must be taken to identify the misconduct that occurred during the implementation of this project and to initiate legal

an expenditure of Rs. 828.3 million on the project by that time. Subsequently, a new project for the construction of a commercial office complex was initiated in 2021, and a subsidiary company named 'Rakna Property Holdings Limited' was incorporated on March 8, 2021, under the Companies Act No. 07 of 2007. However, the required approvals from the parent company's Board of Directors and the Cabinet of Ministers were obtained after the company's incorporation rather than prior to its registration. The estimated value of this project was Rs. 5,016.87 million. An agreement was entered into for consultancy services at a cost of Rs. 301.01 million, representing 6 percent of the contract value. By the end of the year under review, the company under administration had incurred an expenditure of Rs. 2,334.5 million on this construction project. The selection of contractors and the consultancy firm for these works was carried out in violation of Procurement Guidelines 2.7, 2.8, and 3.2, as well as Guideline 35 of the Procurement Manual dated 05 March 2020, and in contravention of Guideline 2.10.1 and Chapter 3 of the Consultancy Services Guidelines Manual, respectively.

study regarding the necessary funds or cash flow. However, due to the company's poor financial position, construction was temporarily suspended effective July 3, 2015. By the time construction on the first phase was suspended, Rs. 828.36 million had been spent. There is currently no responsible party employed by the company to clarify the decisions made by the management including former chairpersons nor does the company possess the relevant documentation and information. The management including the then Chairman failed to appoint a procurement committee or a technical evaluation committee to handle the awarding of construction and consultancy contracts for the project, which had been revised into a mixed-development commercial office complex in 2020. This situation arose due to a hasty decision made by the management, including the former Chairman.

action against the parties involved.

4. Accountability and Good Governance

4.1 Presentation of financial statements

Audit Issue	Management Comment	Recommendation
(a) Although it was stipulated that accounting records and books must be maintained to enable the proper preparation of	Due to the failure to submit the financial statements for the 2021/2022 financial year for audit within the stipulated	In accordance with the Audit Act, arrangements must be made to

annual financial statements in accordance with Sections 16(1) and 16(2) of the National Audit Act No. 19 of 2018 and that financial statements must be submitted to the Auditor General for audit within the timeframes specified by relevant legal requirements, the financial statements for the financial period ending on March 31, 2023, were submitted for audit only after a lapse of two years and six months specifically, on October 22, 2025.

timeframe as required by Sections 16(1) and 16(2) of the Audit Act No. 19 of 2018 it has not been possible to submit the financial statements for 2022/2023 for audit by the expected date. Furthermore, the financial statements for the 2025/2026 financial year will be submitted within the prescribed period.

prepare financial statements and submit them for audit by the due date.

- (b) Although Sri Lanka Accounting Standard No. 07 (paragraphs 13 and 17) requires that cash flows generated from operating activities and financing activities be separately identified and reported in the Statement of Cash Flows, the Statement of Cash Flows presented by the company for the year under review overstated the interest expense paid in cash by Rs. 4,565,187; consequently, the net cash flow generated from financing activities was understated by that amount, while the net cash flow generated from operating activities was overstated by the same amount due to the adjustment of that figure under changes in working capital within operating activities.
- This occurred due to a classification error during the preparation of the cash flow statements; measures are being taken to ensure that cash flow statements for the 2023/2024 financial year are presented in a manner that avoids such observations.
- The preparation of the cash flow statement must be carried out in accordance with the provisions set out in Sri Lanka Accounting Standard No. 07.