

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 2023 comprising the statement of financial position as at 31 March 2023 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 report 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 2023, 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 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 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 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)

	Non Compliance with the reference to Particular Standard	Management Comment	Recommendation
(a)	Although the revenue should be recognized on accrual basis as per paragraph 2.36 of Sri Lanka Accounting Standards for Small and Medium-sized Entities fixed deposit interest had been identified on cash basis, hence interest receivable and interest income for the year under review amounting to Rs.1,431,031 and Rs.867,408 respectively had been understated.	Agreed	Income should be recognized on accrual basis as per the SLFRS for SMEs.
(b)	Although assets and liabilities should not be offset as per paragraph 2.52 of Sri Lanka Accounting Standards for	Agreed	Assets and liabilities should not be offset.

Small and Medium-sized Entities payable balances totaling Rs.309,028 had been offset to debtors. As a result, current assets and current liabilities had been understated by the same amount.

- | | | | |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------------|
| (c) | Provisions for contingencies had not been made in the financial statements as per the paragraph 21.4 of Sri Lanka Accounting Standards for Small and Medium-sized Entities regarding the events of two cases which had been filed for non- payment of budget relief allowance and minimum salary for security officers. However, on those two cases the company had paid Rs.2,909,080 on 02 February 2024 and Rs.4,100,710 on 06 June 2024 respectively. | Agreed | Provisions for contingencies should be made as per SLFRS for SMEs. |
| (d) | Contrarily to the paragraph 27.5 and 27.7 of Sri Lanka Accounting Standards for Small and Medium-sized Entities the Company had only made provision for bad debts amounting to Rs.7,279,541 without assessing the recoverability of debtors. | Agreed | The bad debt provision should be made as per SLFRS for SMEs by assessing the recoverability of debtors. |

1.5.2 Unreconciled Control Accounts or Records

Item	Audit Issue			Management Comment	Recommendation
	As per Financial Statements Rs.	As per corresponding Records Rs.	Difference Rs.		
Debtor balance	85,651,942	92,590,887	6,938,945	Agreed	Balances of financial statements should be reconciled with relevant schedules.

1.5.3 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
Detailed schedules, age analysis, and invoices, for receivables totaling Rs.5,078,760 and schedules, age analysis, tax calculations and payroll for payables totaling Rs.6,516,494 had not been presented to the audit.	Agreed	Corresponding documents for balances in the financial statements should be presented to the audit.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
Accrued expenses and other payables amounting to Rs.14,992,478 had remained over 5 years without been settled.	Agreed	Prompt action should be taken to settle the payable balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Operational Manual for State Owned Enterprises published by Public Enterprises Circular No. 01/2021 dated 16 November 2021			
(i) Paragraph 3.1	The carder of the Company had not been approved by the Management Service Department.	Agreed	The approval for the carder should be obtained from Management Service Department.

(ii) Paragraph 3.5	<p>A driver of the Company had been released on 11 November 2020 to the Ministry of Trade, commerce and Food security without the approval of the Cabinet of Ministers. Further Rs.815,660 had been paid to the employee as salary and allowances and Rs.111,099 as contribution for EPF and ETF for the year 2022 and 2023. The said employee was working in the Ministry by the date of audit on 30 June 2025.</p>	Agreed	<p>Approval of the Cabinet of Ministers should be obtained to release employees to other institutions. Payments made to the released employee should be reimbursed from the Ministry.</p>
(b) Section 02 of Public Enterprise circular No. PED 1/2015(i) dated 27 October 2016	<p>A Deputy General Manager of the Company had been paid a monthly transport allowance of Rs.30,000 with a driver. According to the circular, when paying a transport allowance to such an officer, shall not be provided a driver, at here a driver had been provided. A sum of Rs.583,783 had been incurred by the Company for the salaries, EPF and ETF of the driver provided to the said officer during the year under review.</p>	Agreed	<p>Payments made contrary to the circular should be recharged.</p>
(c) Paragraph 4.2.1 of	<p>A procurement plan including the</p>	Agreed	<p>The procurement plan should be</p>

Procurement Guidelines of Sri Lanka	expected procurement activities had not been prepared for the years 2022/2023 and 2023/2024.	prepared according to the provisions of Procurement Guidelines annually.
-------------------------------------	----------------------------------------------------------------------------------------------	--------------------------------------------------------------------------

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.19,301,535 and the corresponding loss in the preceding year amounted to Rs.5,271,216. Therefore a deterioration amounting to Rs.14,030,319 of the financial result was observed. Although there is an increase in revenue by Rs.24,331,196, the increase in cost of labour Supplied by Rs.31,606,186, the increase in administrative expenses by Rs.2,499,655 and increase in other operating expenses by Rs.4,759,549 were the main reasons for the deterioration.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
A Cash theft amounting to Rs.4,852,622 occurred at the Ja-ela Sathosa Mega Store in 2022, where the company provided security services. Without conducting an investigation to recover the damages from responsible party, the company was held responsible, and allowed to offset Rs. 2.4 million of the stolen amount against the security fees of Lanka Sathosa Limited during the year under review.	Agreed	Action should be taken to recover the amount offset by conducting an investigation to identify the responsible party.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company had paid Rs.3,066,750 as lease rent for 9 months for the floor area rented out by the Sathosa General Secretariat Building without	Agreed	Action should be taken to renew the rent agreement promptly.

entering into a lease agreement from 01 April 2022 to 31 December 2022. Further, the lease agreements for the periods from 01 January 2023 to the date of the audit on 30 June 2025 had not been renewed.

- | | | | |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------|
| (b) | Out of the total security service income, a sum of Rs.272,675,728 which is 94 percent had been received from the security services provided to Lanka Sathosa Limited. | Agreed | Action should be taken to identify a different client base to diversify the income sources. |
|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------|

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company had assigned 12 regional managers to supervise the service of security officer's island wide and no proper procedures had been introduced to review their progress, performance and attendance. But the Company had paid them Rs.13,263,211 as the salaries for the year under review.	Agreed	Action should be taken to introduce an internal control system for review the performance of regional managers.
(b) Salaries and allowances amounting to Rs.535,906 had been paid from October 2021 to February 2024 for an officer who was recruited for the post of office assistant on a casual basis without confirming the attendance, assigned workplace and duties performed.	Agreed	Attendance and performance of duties should be confirmed before the payment of salaries and allowances.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
The chairman of the Company had been provided the transport facility by providing a rented	Agreed	Procurements should be carried out by following procurement procedures.

vehicle for 7 months during the year under review. The Company had paid Rs.60,000 to Rs.70,000 monthly rent for a private company which had not been selected by following proper procurement procedure.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
<p>Even though draft annual report and financial statements should be handed over to the Auditor General within sixty days after the close of the financial year, financial statements for the year under review had been presented to the Auditor General on 8 April 2025 with a delay of 1 year and 11 months. Draft Annual report for the year under review had not been presented along with the financial statements.</p>	<p>Agreed</p>	<p>Financial statements and draft annual report should be submitted to the audit before the due date.</p>

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>An Internal Auditor had not been appointed to the company</p>	<p>Agreed</p>	<p>Prompt actions should be taken to appoint an internal auditor.</p>