

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the LRDC Services (Pvt) Limited (“company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 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 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 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 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting standard for small and medium sized entities.

**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 standard for small and medium sized entities, 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 (Responsibility of the auditors 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 Non-Compliance with Sri Lanka Accounting standard for small and medium sized entities**

| <b>Non Compliance with the reference to particular Standard</b>   | <b>Management Comment</b>   | <b>Recommendation</b>  |
|---|---|--|
| <b>(a) Section 02 of the Standard</b>   |   |  |
| According to Concepts and Pervasive Principles Paragraph 2.52, the income and expenses of the entity should not offset each other unless it is permitted by the standard, but the fines charged by the client company had been deducted from the sales revenue, therefore sales revenue had been understated by Rs. 33.79 million.  | Penalties and surcharges are unearned sales values by the entity and only the net sales value had been accounted after these two adjustments. | Financial statements should be prepared according to the standard. |
| <b>(b) Section 07 of the Standard</b>   |   |  |
| <b>(i)</b> Contrary to the paragraph 7.2 of the standard the amount of Rs.8 million fixed deposits had been deposited by the company in a state bank for a period of 03 months had been included under investments, therefore the cash and cash equivalents had been understated and investments had been overstated by that amount in the statement of financial position at the end of the year under review. | The asset had been disclosed under investments as it is renewed repeatedly within a period of 03 months.                                      | Financial statements should be prepared according to the standard. |
| <b>(ii)</b> The interest income of Rs.16.42 million which should be removed from the calculation of the cash flow generated from operating activities in the cash flow statement had not been removed, therefore the cash flow generated from operating activities had been overstated by that amount and the cash generated from investment activities had been understated by that amount.                    | It will be corrected in the future.   | Financial statements should be prepared according to the standard. |

**(c) Section 10 of the Standard**

Although a prior period error identified by an entity in accordance with paragraph 10.21 of the Standard should be corrected in accordance with clauses (a) and (b) thereof, due to recognition of Nation Building Tax of Rs. 9.21 million related to the years 2018 and 2019 as income in the year under review, the income of the year under review had been overstated by that amount.

After the repeal of the NBT Act, it was relieved of the obligation to pay this amount to the Inland Revenue Department. Accordingly, this is a transaction that only affects the current year as it was arose in the current period.

Financial statements should be prepared according to the standard.

**(d) Section 13 of the Standard**

According to paragraph 13.19 of the standard, the company has purchased 14 sample items worth Rs.77,968, 731 Metal Detectors worth of Rs.6.77 million and 587 CCTV equipment worth Rs.2.4 million, In totally worth of Rs. 9.25 million of stock had remained unsold over 05 years, but the impairment loss related to it had not been identified.

Agree with the observation.

Financial statements should be prepared according to the standard.

**(e) Section 17 of the Standard**

- (i) According to paragraph 17.33 of the standard, the company had not made any disclosure related to the revaluation of motor vehicles carried out in the year 2021 and it was observed that there was not any participation of an independent officer for the revaluation.

Acknowledged the lack of disclosure, and the revaluation was done by a committee of three members.

Financial statements should be prepared as per the standard.

- (ii) As per paragraph 17.19 of the Standard, there were 229 fully depreciated fixed assets of Rs.12.23 million which were still in use at the end of the year under review, but any steps had not been taken to correct the estimated error in respect of those assets.

Arrangements will be made to conduct the revaluation in the future.

Financial statements should be prepared according to the standard.

**(f) Section 28 of the Standard**

As per paragraph 28.18 of the Standard, employee gratuity expense had been calculated by the Company for the period in respect of defined benefit plans was Rs.37.42 million, but company recognized only Rs.32.8 million in the income statement, therefore the profit of the year under review had been overstated by Rs.4.62 million. As per the paragraph 28.24 (a) and (b) of the

The observation under the Defined Benefit Plan is accepted and arrangements have been made to properly disclosure notes in the future.

Financial statements should be prepared according to the standard.

standard, actuarial loss of Rs.19.97 million had not been recognized under other comprehensive income and according to paragraph 28.41 of the standard, the disclosures to be made in relation to the defined benefit plans had not been made.

### 1.5.2 Accounting Deficiencies

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| (a) The unidentified debtor balance of the company at the end of the year under review was Rs.1.28 million and by the end of the year under review, any action had not been taken to identify these debtors and rectify the respective debtor accounts and this amount had been deducted from the debtor balance in the statement of financial position.  | Unidentified debtor balance of Rs.1.27 million will be identified in 2024.  | The debtors should be identified and accounted correctly.                 |
| (b) A difference of Rs. 24.4 million was observed in relation to the 9 confirmation letters for the debtor balance of Rs.45.7 million as on 31 December 2023, while the amount agreed to be paid was Rs.21.3 million. The reasons for this had not been explained to the audit.   | The reason for the difference is that the client institutions are not following the balance as of the end of the year, instead of the debtor balance as of the date the balance is being confirmed. | Reasons for changes in debtor balances should be identified and resolved. |
| (c) The company had reduced of Rs.1.59 million from sales in the financial statements in relation to a CCTV contract received from the parent company, which the company had not been received, Therefore the sales revenue had been understated by that amount.  | Agree with the observation. This will be corrected in the future.   | Sales revenue should be shown in the financial statements correctly.      |
| (d) During the year under review, the company had provided security services worth of Rs.2.48 million and manpower services worth of Rs.4.88 million to its parent company, the Land Reclamation and Development Company, and security services worth of Rs. 89.15 million and manpower services worth of Rs. 426.11 million to Its main ultimate parent company Sri Lanka Land Development Corporation during the year under review and the basis for determining the inter-company price in providing those services had been shown in the financial statements had not been disclosed. | Those disclosures will be made in the 2024 financial statements.  | Relevant disclosures should be made in the financial statements.          |

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| (e) | Between the financial statements provided by the company and the financial statements obtained from the accounting software, the cost of sales was Rs. 50.43 million, and administrative and other expenses was Rs. 67.66 million hence difference in financial expenses of Rs.1.84 million were observed. | This situation has arisen when there is a format change in the financial statements, it cannot be done in the same way in the QB Package. | The reasons for the different should be identified and corrected. |
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## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| (a) Trade debtor balance of the company was Rs.1,557.36 million at the end of the year under review and out of that balance Rs. 62.89 million was between 1 and 2 years, and the value to be collected between 2 and 5 years was Rs. 110.18 million. Also, the value that should have been collected over 5 years was Rs. 25.33 million. From that debtor balances of Rs. 1,251.6 million related to the providing of security services and more than 53 per cent of that balance and Rs. 669.63 million was the remaining amount due from the Ministry of Health and furthermore 14 per cent or Rs. 171.78 million was the remaining amount due from the National Water Supply and Drainage Board. Moreover From that debtor balance Rs.302.54 million had to be recovered from 04 institutions for providing manpower. | Agree with these observations. By during paying close attention to the debt collection process and managing it this debtor balance has decreased from Rs. 1557 million to Rs. 1150 million. | Arrangements should be made to recover the debtor balances promptly. |
| (b) For the providing of security services and manpower services respectively, from the parent company, Land Reclamation and Development Company Rs. 17.86 million and Rs. 25.13 million and from Sri Lanka Land Development Corporation (Ultimate parent) Rs. 41.05 million and 82.94 million were receivable balances for the end of the year under review. For the providing of manpower services from the land reclamation and development company Rs. 15.44 million was due for a period of 4 years and Rs.20.5 million was due to the company for the technological Solution, other receipts and expenses had incurred to the Sri Lanka Land Development Corporation in the previous years.  | Agree with the analysis given regarding the arrears due. I would like to inform you that when REDECO's financial situation is good, it is possible to collect these loans.                  | Arrangements should be made to recover the arrears promptly.         |

## 1.6.2 Payables

| Audit Issue  | Management Comment   | Recommendation                             |
|--|--|--|
| Rs.49.76 million had been shown in the financial statements as salaries to be paid at the end of the year under review in relation to the officers who left the service of the company and of this, Rs.17.72 million related to the year under review and the remaining of Rs.32.04 million was between 1 and 5 years. | There are about Rs.49.75 million in unpaid salaries and all the unpaid salaries for more than 05 years are considered as other income. | Unpaid salaries should be settled on time. |

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

| Reference to Laws, Rules Regulations etc.                          | Non-compliance   | Management Comment  | Recommendation  |
|--|--|---|---|
| (a) Paragraph No. 166 of the Company Act No.07 of 2007             | Although the board of directors of every company shall prepare an annual report on the affairs of the company for the accounting period ending on that date within 06 months after the balance sheet date but the company had not done so.   | Instructions have been given to the relevant officers to prepare the annual reports as scheduled.                                       | Should be acted as per the provisions of the Company Act. |
| (b) Paragraph No.15 of the National Audit Act No.19 of 2018        | Although the annual report with the audited financial statements and the opinion of the Auditor General should be tabled in the parliament, the company has not arranged to table the audited financial statements and annual reports in the parliament since 2018.  | The matters related to that find out and corrections will be made in the future.  | The provisions of the Audit Act should be followed.       |
| (c) Public Enterprises circular No. 01/2021 dated 16 November 2021 |  |   |   |
| (i) Paragraph 2.3 of the manual                                    | Providing security services, technical solutions ,security investigations, manpower Services and providing and other investigating services are the main functions of the company, but the company had not been prepared an action plan indicating the physical and financial goals expected to be achieved under those functions. Also, Key Performance Indicators for the main functions of the company had not been prepared by the | Agree with an observation. In the year 2024, the action plan for 04 years has been prepared and the board of directors has approved it. | Circular instructions should be followed.                 |

management for the year under review. Due to this, it was not possible in the audit to evaluate the performance of the company in the year under review.

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| (ii) | Code of Guidelines paragraph 3.5   | While it was stipulated that officers of public enterprises should not be released for the service of the ministry or other government institutions, but 3 employees of the company had been released to other government institutions and the amount of Rs.2.02 million had been paid to the employees in the year under review was not reimbursed.  | In the year 2023, it was acknowledged that three (03) employees of the company have been released for the services of the corporation and debit notes have been prepared and handed over in relation to all their payments.   | Guidelines should be followed.          |
| (d)  | Public Enterprises Circular No. PED/P/2/25(i) dated 20 November 2019 and paragraph 2.7 of National Budget Circular No. 04/2022 dated 08 April 2022 | Although it has been advised that all social welfare activities should be suspended by the government-owned enterprises until further notice and if any social welfare activities are carried out, the Chief Accounting Officer, members of the Management Board and the Chief Executive Officer should be personally responsible in this regard contrary to that, the company had spent Rs. 5.05 million for a social care activity. | The “Diyathsara Nethru” social welfare project was carried out over several years as a social program to get rid of the hardships and sufferings faced by the general public due to reasons like Corona. This project was carried out under the approval of the Board of Directors. | Circular guidelines should be followed. |

## 1.8 Non-compliance with tax regulations

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| In the year 2019, the value added tax on cash basis was Rs. 110.91 million and it had been remained payable at the end of the year under review. It was observed that money had been used for the working capital of the company. | The amount of arrears VAT payable on cash basis was Rs.110.91 million as at 31 December 2023. | VAT payable should be remitted to the Inland Revenue Department on or before the 20th day of the following month. |

## 2. Financial Review

### 2.1 Financial Result

The operating result for the year under review was Rs. 123.98 million net profit before tax and correspondingly preceding year net profit before tax was Rs. 81.48 million. Accordingly, an increase of Rs 42.5 million was observed in the financial result. Compared to the previous year, the main



income was Rs. 759 million or 26 per cent and other income by Rs 9.15 million or 31 per cent was increased in main reason for this growth. Compared to the previous year, the cost of services has increased by Rs.702.87 million or by 27 per cent and institutional and other expenses by Rs.23.24 million or by 13 per cent, but the percentage of growth in expenditure had decreased compared to the per centage of growth in income.

## 2.2 Trend Analysis of major Income and Expenditure items

According to the information included in the presented financial statements, following were observed in the evaluation of the financial results of the institution in relation to the year under review and the preceding year.

| Description                               | 2023<br>Rs. Million | 2022<br>Rs. Million |
|---|---------------------|---------------------|
| Revenue                                   | 3,638.35            | 2,879.23            |
| Other Income                              | 38.25               | 29.09               |
| Institutional and Administration Expenses | 206.60              | 183.36              |
| Finance Cost                              | 4.94                | 5.27                |

- (a) Compared to the previous year, the income of the company had grown by 26.37 per cent and the increase of security services income by 12.25 per cent and as well as manpower income by 86.12 per cent in the year under review was mainly attributed for this situation.
- (b) Due to the increase of company's car repair and maintenance expenses by 126.16 per cent compared to the previous year, and advertising expenses had also increased by 124.46 per cent the Institutional and administrative and other expenses had increased by 12.68 per cent.

## 2.3 Ratio Analysis

As per the information presented some important ratios of the company for the year under review compared with the previous year are given below.

|                                       | 2023   | 2022   |
|---------------------------------------|--------|--------|
| Gross Profit Margin (percent)         | 8.1    | 8.37   |
| Net Profit Margin (percent)           | 2.41   | 2.15   |
| Current Ratio (times)                 | 1.49:1 | 1:54.1 |
| Debtors Turnover Ratio (times)        | 2.57   | 2.67   |
| Debtor Collection Period (no of days) | 142    | 136    |

- (a) Compared to the previous year, the gross profit ratio of the company had decreased by 0.27 per cent, revenue of company increased by 26.37 per cent or Rs.759.13 million, while the cost of sales increased by 26.64 per cent was mainly affected to their situation.

- (b) As a norm the current ratio which should be 2:1, has further deteriorated from 1.54:1 to 1.49:1 corresponding to previous year. The increase of 33.61 per cent in trade creditor and other payable balances were mainly affected to this situation.

### 3. Operational Review

#### 3.1 Management Inefficiencies

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| (a) In 2018, the company had acquired a 120-perch plot of land in Aththidiya from the parent company on a 30 years long term lease for Rs. 19.91 million to construct its main office building. However, as of June 2024, since six years enter into the lease period, any construction had not been taken place. In 2019, the company had built a wall approximately 700 feet long around the land at a cost of Rs. 5.87 million, which included enclosing a part of the land of the parent company. Additionally, the company had incurred expenses amounting to Rs. 2.72 million from 2018 to the end of the review year for security, electricity, and water for the land. During the audit, it was observed that the selection of this land was problematic due to the presence of 33KVA high-tension electricity lines running across the land, which could hinder construction. Furthermore, it was noted that the expenses incurred for this project could potentially become non-economic costs in future. | Agree with the observations. This land is to be handed over to SLLDC and a decision will be taken in consultation with the parent company regarding the financial value to be paid back to the institution. | Should be focused to achieve the desired goals.                                       |
| (b) At the end of the year under review, the company had made a 100 per cent provision for doubtful debts of Rs.13.40 million in the debtor balance. Out of this, provision for doubtful debts of Rs.1.43 million is due to the fact that the company does not have the source documents related to the debtor bills.   | Because the balances are old and the possibility of collecting money on these loans at very low, a hundred per cent provisions made for doubtful debts.   | Source documents relating to debtor balances should be secured.                       |
| (c) As per Company's Revenue Recognition Policy No. 2.4.1, non-preparation of invoices based on verified evidence that can be reliably measured, there was a loss of revenue of Rs.59.07 million invoiced due to refusal of payment by client institutions during the year under review. Although the company had replied to the audit in last year, that it was working to reduce this situation, but it had not done so.  | All efforts will be made to bring this situation to a satisfactory level in future by strengthening of control measures.  | Invoices should be prepared based on verified evidence that can be reliably measured. |

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|-----|---|--|--|
| (d) | <p>Out of 1,669 CCTV equipment had been purchased by the company for sale in the year 2018 at \$49,537.90 (equal to Rs. 8.73 million), only 248 units had been sold during the year under review. And 587 units, worth of Rs. 2.4 million had remained even at the end of the year under review. Due to this, the money of the company was unnecessarily trapped in the stock. Also, due to the inability to sell the goods and due to their technological obsolescence, stock write-off of Rs.3.19 million had also been made in year 2021. And the company had failed to take legal action against officers who made purchases contrary to the Procurement Guidelines.</p>  | <p>An inspection has been conducted and reported by the internal audit of the corporation of the weaknesses in the procurement process followed in connection with the purchase. Based on that report, a complaint had been made to the Criminal Investigation Department.</p> | <p>After identifying the market requirement, procurement should be done accordingly and Disciplinary action should be taken against the parties who had engaged this purchase.</p> |
| (e) | <p>Without properly identifying the requirement in the market, In the year 2018, 506 units out of 1000 units of Hand Held Metal Detectors with Chargers had been imported at Rs. 2.34 million and 731 Security Equipment belonging to 8 items imported at a cost of Rs.10.77 million could not be able to sell even in the year under review. The warranty period of these devices had expired and no local agent was identified for after sales services. Due to the inability to sell the goods and due to technological obsolescence, Rs.5.18 million worth of stock had been written off from the equipment in the year 2021. And an investigation by the Criminal Investigation Department is also going on in connection with this transaction from the year 2021, but the company had not been conducted any investigation related those transactions.</p> | <p>An inspection has been conducted and reported by the internal audit of the corporation of the weaknesses in the procurement process followed in connection with the purchase. Based on that report, a complaint was made to the Criminal Investigation Department.</p>      | <p>After identifying the market requirement, procurement should be done accordingly and Disciplinary action should be taken against the parties who made this purchase.</p>        |

### 3.2 Operational Inefficiencies

| Audit Observation  | Management Comment  | Recommendation  |
|--|---|---|
| <p>(a) For the boat service had operated by the company without proper evaluation of the market requirement, the income of the year under review was Rs. 7.81 million and the actual cost incurred during the year for running the boat service was Rs. 14.23 million, hence the company had to bear a loss of Rs.6.42 million. Lack of proper income and poor expenditure management had directly affected to this situation.</p> | <p>In order to reduce the financial loss of the boat service in future, the company will revise the prices charged for pleasure boat rides and reduce the service work.</p> | <p>Attention should be paid to identify market requirements accurately and business should be conduct in a manner that minimizes the costs.</p> |

### 3.3 Human Resource Management

| Audit Observation  | Management Comment  | Recommendation   |
|--|---|--|
| (a) During the year under review, 3672 officers had been recruited for security service and other services, and 3156 officers had resigned or left the service without giving any notice. But the company had not taken any action to reduce this employee turnover. | Due to the very low salaries in the security service, it is very difficult to retain employees. Salary increases are the only motivation for reducing employee turnover, which is currently demanded by major client organizations. | Strategies should be identified to minimize employee turnover. |