

## **Head 297 - Department of Registrar of Companies**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Registrar of Companies for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, and cash flow statement for the year then ended, 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 . The Summary Report containing my comments and observations on the financial statements of the Department of Registrar of Companies was issued to the Accounting Officer on 06 July 2020 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 13 January 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in accordance with the provisions of State Accounts Circular No. 271/2019 dated 03 December 2019 give a true and fair view of the financial position of the Department of Registrar of Companies as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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 Chief Accounting Officer and the Accounting Officer on Financial Statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control , obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.5 Report on Other Legal Requirements

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I declare the following matters in terms of Sub-section 6 (1)(d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Financial Performance

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
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As a result of the income of Societies amounting to Rs. 6,621,000 collected online from March 21 to October 15 of the year under review was identified as the fees of the Registrar of Companies, the revenue to be remitted to the Deputy Secretary to the Treasury had been remitted in less by Rs. 1,103,500 . Therefore, non-tax revenue and others in the statement of financial performance had been overstated by Rs. 1,103,500 .	The revenue to be remitted to the Deputy Secretary to the Treasury should be accurately computed.	Since the half of the income of the Societies which was credited to the Deputy Secretary to the Treasury has been erroneously set off, actions will be taken to correct by the revenue of June 2020 .

## 1.6.2 Cash Flow Statement

### Audit Observation

### Recommendation

### Comments of the Accounting Officer

Even though the recoveries of advances amounting to Rs. 445,685 should be stated under investment activities in the cash flow statement prepared for the year ended 31 December 2019, that amount had been stated under Operational Activities. Further, instead of indicating the payment of advances amounting to Rs.8,600,000 also under investment activities it had been shown under financial activities.

Cash flow statements should be prepared in accordance with Public Accounting Standards No. 02

I have made a note to indicate under investment activities in preparing the accounts of 2020 .

## 2. Financial Review

### 2.1 Revenue Management

The following observations are made.

### Audit Observation

### Recommendation

### Comments of the Accounting Officer

#### (a) Revenue Code No. 20.03.02.10

Arrears income to the Consolidated Fund from the revenue receivable for the Annual Returns to be submitted by the registered companies at the end of the year

Methodologies should be set to recover the arrears income promptly.

Arrangements are being made to recover the arrears income by

under review was Rs. 764,002,000 in terms of Sections 131 (1) and (2) of the Companies Act No. 07 of 2007. Further, the revenue recovered during the year was Rs.35,064,000 out of the income of Rs.658,200,000 which was in arrears at the beginning of the year under review . Although it was the duty and responsibility of the Accounting Officer to collect these arrears of revenue receivable to the Government in accordance with Financial Regulations 128(2)(e), arrangements had not been so made.

deploying officers in the duty of filing of the Annual Returns and since the registration of companies has already been commenced under the online system, newly incorporated companies have the ability to file Annual Returns in a regular manner.

- (ii) Even though the number of companies required to register financial statements in the year under review in terms of the Section 170 (1) of the Companies Act was 6,893, the number of companies which had registered financial statements was 1922 . The total income received from this was Rs. 3,844,000 and the amount credited to the Consolidated Fund was only Rs.1,281,333. A formal programme had not been implemented to identify and register the financial statements of the companies which were required to do so under the above section of the Companies Act .
- Actions should be taken to regulate the activities of companies in accordance with the provisions of the Act.
- Steps have been taken to notify companies and their directors by letters informing them to file financial reports and there is a possibility of filing financial reports from those companies as required since the registration of companies has already been commenced under the online system.

(iii) The Annual Returns required to be filed by the Societies registered under the Societies Ordinance (Amendment) No. 11 of 2005 and the total number of Societies registered as at end of year under review was 16,042. The number of registered societies out of that during the year under review was 2452 and the number of Societies whose names have been written off was 191 . Out of 13,399 Societies, only 129 Societies had filed Annual Returns during the year under review. Accordingly, although Rs.13,399,000 should have been collected for filing Annual Returns for the year under review, only Rs. 129,000 had been collected.

It should act in accordance with the Societies Ordinance (Amendment) Act No. 11 of 2005 .

A programme is being implemented to identify active Societies because most of the Societies out of registered are non-active Societies. Thereafter, actions can be taken to file the Annual Returns of those Societies. Since the process of computerization of registration of companies has already begun, the Annual Returns can be properly filed from registered Societies and steps can be taken to use the same income to calculate arrears of income.

(b) **Revenue Code No. 10.03.07.08**

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(i) The collection of Annual Company Registration Levy was commenced again from November 2018 under Part IX of the Finance Act No. 35 of 2018 published on 02 November 2018 and previously charged fees were also revised. As a result of this fees revision, a sum of Rs.468,900,000 had been overpaid by 15,630 private companies, as per the payments made in previous years by the end of the year under review. A sum of Rs.184,000,000 had been received in less from 184 listed public limited companies and a sum of Rs. 119,250,000 had to be received from 795 other companies, including foreign companies.

Recovery of revised fees and arrangements should be made against those who have received excess money.

Other companies including foreign companies, public limited companies and private companies, which have paid registration levies in the years 2016/2017 have been identified separately and functioning against the companies which had not paid money will be occurred in future after the completion of recovery of the special levy.

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| <p>(ii) It had been stated that the special levies should be received from 71,802 companies registered before 2016 as per the information received from the Department and out of these, only 17,486 companies had made payments at the end of the year under review. Accordingly, this amount of levies had to be received from 54,316 companies furthermore.</p> | <p>Fees should be charged as per the Gazette Notification.</p> | <p>The number of companies registered before 01 January 2016 is 50,131 as per the updated database and the number of taxable companies among those companies were only 32,642 by 30 December 2019 .</p> |
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## 2.2 Statement on Advances to Public Officers Account

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>It was observed that 03 loan balances amounting to Rs. 120,741 for more than 19 years had been brought forward in the accounts up to now without acting in accordance with Paragraphs 3 (a) and 4 of Public Finance Circular No. 05/2019 dated 27 June 2019. Further, even though it had been informed for many years that these account balances would be settled, actions had not been taken to settle these debts even by now.</p>	<p>Actions should be taken in accordance with Paragraphs 3 (a) and 4 of the Public Finance Circular No. 05/2019 dated 27 June 2019 .</p>	<p>It is informed that the actions will be taken to settle these debt balances in future.</p>

### 3. Operating Review

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#### 3.1 Annual Performance Report

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Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>The total number of registered companies as at 31 December 2018 was 93618 as per the Project carried out at a cost of Rs. 4,617,505 aiming to establish a database of Registered Companies by the end of 2018 and out of these, 22687 companies had been identified as inactive. However, the total number of registered companies had been calculated as 95841 including 84478 total registered companies as at 31 December 2018 and 11363 newly registered companies in 2019 within the Performance Report of the year 2019 . As a result of this discrepancy in the information of the Statistics Division, the Establishment Division and the Accounts Division The number of actual active companies at the end of the year under review as well as the accuracy of the arrears of income calculated for the day could not be ascertained.</p>	<p>-----</p> <p>The number of actual operating companies should be identified.</p>	<p>-----</p> <p>Because of the Performance Report 2019 reflects the number of companies registered under the online system there was no similarity with the files in the database.</p>

### 4. Human Resources Management

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The number of approved, actual and vacant staff of the Department was 156, 126 and 30 respectively at the end of the year under review.

The following observations are made.



**Audit Observation****Recommendation****Comments of the  
Accounting Officer**

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(i) Two posts of Registrar of Companies Grade I have been approved in the Service Minute and because of those two positions are in vacant, two officers of the Registrar of Companies Grade II had been appointed for this purpose on the basis of performing their duties from 01 July 2015 to 07 November 2016 up to now. Accordingly, due to non-recruitment of officers for these two senior posts in the Department, an officer who could be appointed to the post of Registrar General of Companies which would be in vacant on 02 January 2021 had not fulfilled the qualifications in the Department.

Actions should be taken to fill the essential staff vacancies promptly.

Letters are being exchanged with the Public Service Commission to promote the two officers appointed on the basis of duty to the first grade.

(ii) Although 10 Company Inspector positions have been approved for many years, recruitments for those posts had not been made. This situation was observed as a factor that directly affects the problematic situation in the Department with regard to the regulation of registered companies. Further, the post of Assistant Director (Administration) and Legal Officer are also in vacant and the 02 posts of Librarian, Building Overseer and 07 posts in the office staff service as well had remained in vacant.

Actions should be taken to fill the staff vacancies for essential posts promptly.

The results of the recruitment examination for the posts of Company Inspectors have been received and it is stipulated to carry out recruitments on the instructions of the Public Service Commission. Recruitment activities with regard to other vacancies as well are being done .