

## **Companies Fund – 2011**

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### **1 Financial Statements**

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#### **1.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Companies Fund as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Sri Lanka Accounting Standards**

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The following observations are made.

- (a) The Treasury Bonds valued at Rs.878,386,867 due for maturity in the year 2012 had been shown under the non-current assets instead of being shown under the current assets in the balance sheet in terms of Standard No. 3.
- (b) The information on the revenue expenditure amounting to Rs.24,144,863 incurred by the Government under the Appropriation Head of the Department of Registrar of Companies on the administration of the Fund had not been disclosed by way of Notes to the Financial Statements in terms of Standard No.3.
- (c) Action in terms of Standard 36 had not been taken either to make the necessary adjustments and account for the arrears of lease rent amounting to Rs.28 million approximately payable from the year 1994 up to date for the land belonging to the Department of Sri Lanka Railways on which the Samagam Medura is constructed or to disclose by way of the Note to the Financial Statements.

- (d) Instead of showing the sum of Rs.4,077,484 spent on the purchase of fixed assets under the investment activities in the cash flow statement in terms of Standard No.9, it had been shown under the operating activities.

### **1.2.2 Accounting Policies**

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The following observations are made.

- (a) The value of the investment made in Treasury Bonds had been computed and brought to account together with the accrued interest included in the total cost of purchase of the investment instead of computing the value by excluding the accrued interest contained in the amount spent on the purchase. Even though the Treasury Bonds should have brought to account as cost, that had been brought to account at the computed cost or the face value whichever is less.
- (b) Even though the interest on Treasury Bonds should be computed at the investment interest rates, the interest had been computed at coupon interest rates and brought to account.
- (c) A proper general journal had not been used for accounting for the opening balances, accrued expenses, prepayments, rectification of errors, etc.
- (d) Depreciation on building had been provided at 1 per cent per year without carrying out a correct assessment of the useful life of the assets.
- (e) The financial statements had been prepared without using a general ledger essential for the accounting of transactions and events in the double entry system.
- (f) The income from the registration of Forms had been brought to account in the cash basis instead of the accrual basis. As such the income receivable and the

income for the year under review had been understated by sums of Rs.92,564,000 and Rs.38,079,000 respectively.

- (g) Even though it was stated in the Notes to the Financial Statements that the rates of depreciation on computers and the associated equipment ranged from 10 percent to 25 percent, all the assets had been depreciated at 20 percent.

### **1.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) A sum of Rs.88,567 paid in respect of the ensuing years had been brought to account as expenditure of the year under review.
- (b) Audit fees amounting to Rs.168,000 had been brought to account as other expenditure.
- (c) Even though shares of a company valued at Rs.90,275,000 had been purchased in the year 2007 by spending money from the Fund the ownership of the shares was in the name of the Ministry of Co-operatives and Internal Trades. Accordingly the value of those shares without proof of ownership had been shown as an asset of the Fund.

### **1.2.4 Lack of Evidence for Audit**

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The Fund had spent a sum of US\$ 2,200 as the cost of travelling and subsistent allowance of an officer who had participated in the CRF Conference held in Singapore from 09 to 12 May 2011. The documentary evidence as to whether the institution that organized the conference had provided food and accommodation or that the officer had personally incurred the expenditure was not available in the file to ascertain the correctness of the expenditure.

### **1.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances were observed.

(a) Companies Act, No. 07 of 2007  
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- (i) There were instances of action deviating from the provisions in Section 4(2) relating to the number of shareholders.
- (ii) There were 03 instances of non-compliance with provisions in Section 7(2) in relation to the change of names of companies.
- (iii) Certain companies had not notified the changes of names within the period specified in section 8(2) and fines in terms of Section 8(5) had not been recovered from the Directors of those companies.
- (iv) Certain companies had not taken action in terms of Section 9(1) and 9(2) after the incorporation or after changing the name. Fines in terms of Section 9(3) had not been recovered from those companies and no action had been taken to cause the publication of the notice.
- (v) Instances of the failure of companies to include the name and number of the company in all letters, documents, etc., in terms of Section 12(1) were observed. Arrangements had not been set in place in terms of Section 12(2) to check whether the name and registration number of the company are displayed in the registered office of the company.
- (vi) Even though every company should notify the Registrar General of Companies of any shares issued in terms of Section 51(4) certain Companies had not complied with those provisions.
- (vii) Even though every company should at least once in each year deliver to the Registrar General of Companies an annual report in terms of Section 131(1), most of the companies had not complied with that provision. Action in that connection in terms of Section 131(4) had not been taken.

- (viii) Even though the financial statements of companies should be delivered to Registrar General of Companies for registration in terms of Section 170(1), certain public companies had not complied with that requirement.
  - (ix) The matters relating to meetings of creditors to be published in the Gazette in terms of Section 341(2) had been published by certain companies after delays.
  - (x) There were instances where certain companies had not taken action in terms of Section 346(1) regarding the appointment of Liquidators.
  - (xi) There were instances of names of companies struck off contrary to provisions in Section 394(2)
  - (xii) Action in terms of Section 396(2) of the Act had not been taken on the money lying to the credit of the Companies Liquidation Account. Contrary to the provisions in Section 396(4) of the Act, the interest received from the investments made from the Liquidation Account and the maturity value of the investments had been taken to the interest income of the Fund and the Cash Account of the Fund respectively instead of being paid to the Liquidation Account.
  - (xiii) A formal course of action had not been in operation in terms of Section 487(5) of the Act to takeover the properties of the companies whose names are struck off from the register.
  - (xiv) Composition fees had not been recovered from the companies which had defaulted the provisions in Section 514(1).
- (b) Action in terms of Section 4(b) of the Public Service Provident Fund (Amendment) Act, No. 17 of 2003 and the Public Service Provident Fund Circular No. 01/2003 dated 02 December 2003 had not been taken from the year 2008 up to the year under review to recover the contributors from the officers recruited on contract basis and remit such contributions together with the contributions of the employer to the Public Service Provident Fund.

(c) Public Finance Circular No.PF/ 423 of 22 December 2006  
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- (i) Even though the surplus money and matured investments of the Fund should have been credited immediately to the Consolidated Fund in terms of Paragraph 3.2 (b), it had not been so done.
- (ii) Action in terms of Paragraph 4.1 (a) had not been taken to forward the annual budget of the Fund to the Director General of National Budget and the Director General of Public Finance on or before the specified date.
- (iii) Contrary to Paragraph 4.1(c) expenditure amounting to Rs.30,652,666 had been incurred in the year under review without an approved budget.
- (iv) Even though the Report of the Auditor General and the annual financial statements of the Fund should be tabled in Parliament in terms of Paragraph 4.4 it had not been so done.

- (d) Even though the fuel consumption of motor vehicles should be tested once in every six months in terms of the Public Administration Circular No. 41/90 of 10 October 1990 it had not been so done.

**1.2.6 Transactions not supported by Adequate Authority**  
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Capital assets valued at Rs.798,004 had been purchased from recurrent provisions without obtaining the approval of the Secretary to the Ministry for the purchase of capital assets from recurrent provisions.

**1.2.7 Irregular Transactions**  
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Extraneous to the objectives of the Fund, a sum of Rs.210,000 had been spent for two officers serving in the Ministry.

**2. Financial Review**

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**2.1 Financial Results**

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According to the financial statements presented, the operation of the Fund during the year under review had resulted in a surplus of Rs.269,443,580 as compared with the corresponding surplus of Rs.284,721,762 for the preceding year, thus indicating a deterioration of Rs.15,278,182 in the financial results. The decrease in the interest earned from the Treasury Bonds had been the major reason for the deterioration of the financial results.

**3. Operating Review**

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**3.1 Performance**

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**3.1.1 Financial Performance**

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The financial performance of the Fund for the year under review as compared with the preceding year is given below.

Operating Activity	Number				Income Received			
	2011	2010	Increase / (Decrease)	%	2011	2010	Increase / (Decrease)	%
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					Rs.	Rs.	Rs.	%
Companies Registered	7,946	6,641	1,305	19.7	73,194,000	57,690,500	15,503,500	26.9
Registration Searches	14,053	13,405	648	4.8	1,851,065	1,349,150	501,915	37.2

Name Searches	15,924	13,165	2,759	21	6,404,400	4,607,750	1,796,650	39.0
Certified Copies	36,980	31,748	5,232	16.5	10,075,325	8,778,819	1,296,506	14.8
Company Fines	1,332	1,179	153	13	3,827,250	3,180,250	647,000	20.3
Registration of Forms	70,173	70,814	(641)	(0.9)	31,595,367	31,612,652	(17,285)	(0.05)
Registration of Annual Reports	26,397	24,050	2,347	10	72,213,000	60,124,250	12,088,750	20.1
Registration of Finance Reports	2,180	2,728	(548)	(21.1)	901,300	954,800	(53,500)	(5.6)
Sale of Forms	6,346	7,261	(915)	(12.6)	112,020	126,950	(14,930)	(11.8)
Registration of Secretaries	603	65	538	827	694,000	8,775	685,225	7,809.2

- (i) The number of companies registered in the preceding year had been 6,641 and that had increased by 1,305 or 19.7 per cent to 7,946 in the year under review and the income received therefrom had also increased by 26.9 per cent.
- (ii) The income from the registration of Annual Reports in the year under review, as compared with the preceding year, had increased by Rs.12,088,750 or 20 per cent.



### **3.1.2 Physical Performance**

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**Weaknesses in the Information Technology**  
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The following observations are made.

- (a) Even though a sum of Rs.9,184,137 had been spent during the period 2002 to 2011 under the World Bank aid for the improvement of the computer system, the work on the registration of companies had not been fully computerized up to date. As such an effective information system capable of instant access to the following information is not in operation in the Fund.
- (i) Computation of the arrears of revenue on a particular day
  - (ii) Ascertain the number of companies which had and had not registered the annual reports.
  - (iii) Ascertain the number of active companies out of the number of companies registered.
  - (iv) Ascertain the number of companies that should have been examined.
  - (v) Ascertain the number of companies liquidated or in the liquidation process.
  - (vi) Ascertain the number of companies on which legal action has been taken or is being taken.
- (b) The project for the computerization of the Department had been included in the Action Plan prepared for the year 2011 and provision of Rs.125 million had been made for that purpose in the annual budget for the year 2011. Even though it had been reduced to Rs.1 million in the revised budget the actual expenditure incurred on the computerization during the year amounted to Rs.394,285. Thus it was observed that the objectives of the computer project had not been achieved according to the Action Plan.

### **3.2 Management Deficiencies**

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The following observations are made.

- (a) According to the lease rent agreement entered into by the Department of Registrar of Companies with the Department of Sri Lanka Railways in the year 1989, it had been agreed to pay an annual lease rent of Rs.1,080,000 from the year 1995 for the land on which the building of the Department of Registrar of Companies had been constructed. That lease agreement was valid up to 31 December 1998. The lease rent agreement had not been renewed thereafter. Even though the lease rent payable had been confirmed by the financial statements of the Department of Sri Lanka Railways as Rs.28 million, action had not been taken up to date for the settlement of the transactions.
- (b) Even though the average monthly expenditure of the Fund amounts to about Rs.5 million, monthly balances ranging from Rs.7 million to Rs.35 million remained in the Bank Account. That surplus money had not been invested in Treasury Bills / Bonds. As such the Fund had been deprived of interest income of about Rs.1.5 million.
- (c) The balance in the current account in which the receipts to the Liquidation Account are deposited, amounting to Rs.1,460,833 had been retained for 238 days without being invested in Treasury Bonds / Bills.

**4. Systems and Controls**  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Registrar General of Companies from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Investments
- (c) Motor Vehicles Control
- (d) Budgetary Control