

## **Companies Fund of the Department of Registrar of Companies - 2014**

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The audit of financial statements of the Companies Fund of the Department of Registrar of Companies for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of income and expenditure, statement of changes in funds and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 479(6) of the Companies Act, No. 07 of 2007. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

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### 2.1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Companies Fund of the Department of Registrar of Companies as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments of Financial Statements

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#### 2.2.1 Accounting Deficiencies

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The expenditure of Rs.757,360 incurred from the Companies Fund for the purchase of fixed assets had been brought to account as revenue expenditure.

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

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Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

#### Reference to Laws, Rules and Regulations

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#### Non-compliance

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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 94(1)

Except where otherwise provided for, no expenditure or commitment shall be incurred for works or supply unless financial provision exists therefor in the Annual Estimates. Nevertheless, without giving due consideration for the provision in the Annual Estimates, a sum of Rs.1,141,045 had been spent. Such expenditure had been debited to other Heads except the relevant Head.

(ii) Financial Regulation 225(2)(a)

Even though the General 70 Form should be used for making payments from deposits that Form had not been used in connection with the expenditure amounting to Rs.1,796,781.

(iii) Financial Regulation 395 (c)

Even though the Monthly Bank Reconciliation Statements should be prepared and furnished to the Auditor General before the fifteenth day of the following month, accordingly action had not been taken in connection with 05 Bank Accounts.

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| (iv) Financial Regulation 730 (1)                         | Even though goods should be verified and acknowledge receipt thereafter and take over the goods and record in the Inventory Register, there were instances in which these provisions had not been complied with.   |
| (v) Financial Regulation 752(i),<br>752(ii) and 752 (iii) | Even though the goods issued should be recorded in the Issue Side of the Inventory Register, there were instances where it had not been so done.   |
| (b) Procurement Guidelines                                |  |
| (i) Section 4.2.1 (e) Procurement<br>Plan                 | Though the Master Procurement Plan prepared at least for a period of 03 years, should be regularly updated at intervals not exceeding six months, it had not been so done by the Fund.   |
| (ii) Section 3.4.4  | Even though a maximum of 20 per cent of the contract sum can be paid on the production of an acceptable advance payment guarantee, the Mahaweli Consultancy Services Bureau had been paid a sum of Rs.250,000 which represented 50 per cent of the consultancy fee for the supply of consultancy services for the repairs carried out to the Samagam Medura. |

### **3. Financial Review**

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#### **3.1 Financial Results**

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The financial results of the operations of the Fund for the year under review amounted to a surplus of Rs.385,906,578 as compared with the corresponding surplus of Rs.351,550,815 for the preceding year. The financial result for the year under review as compared with the preceding year indicated an improvement of Rs.34,355,763 or 9.7 per cent. The increase of registration of refinancial reports by 245 per cent had been the main reason for the improvement.

#### **3.2 Analytical Financial Review**

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Even though the revenue sources, as compared with the preceding year indicated an increase and the revenue from the registration of financial reports and the Registration of Secretaries had increased by 245 per cent and 28 per cent respectively, the speed of increase in the registration of Forms and the registration of Annual Reports had been correspondingly reduced.

#### 4. Operating Review

##### 4.1 Performance

- (a) The registration of companies and others for the year under review and the preceding year is given below.

Activity	Number		Difference (Decrease) / Increase	Percentage
	2014	2013		
Registration of Companies	7,100	6,047	1,053	17.41
Examination of Files	10,838	10,847	(9)	(0.08)
Approval of Names	13,260	12,075	1,185	9.8
Certification of Copies	43,379	36,531	6,848	18.74
Registration of Forms	72,644	70,659	1,985	2.80
Registration of Annual Reports	31,324	29,853	1,471	4.93
Registration of Financial Reports	2,376	2,837	(491)	(17.12)
Sales of Forms	3,478	4,207	(729)	(17.33)
Registration of Secretaries	566	437	129	29.52

The revenue from the Registration of Financial Reports, the sales of Forms and Examination of Files for the year under review as compared with the preceding year had decreased.

- (b) Out of the Limited Companies registered as at the end of the year under review, the Limited Companies which should submit Annual Reports had been 59,113. Nevertheless, the number of Limited Companies which had submitted the Annual Reports as at that date had been only 14,886 and as such 44,227 Limited Companies had not submitted Annual Reports and arrears of registration fees not collected as at that date amounted to Rs.221,135,000. Out of that a sum of Rs.147,423,333 remained outstanding for the Companies Fund and the sum not credited to the Consolidated Fund amounted to Rs.73,711,667.

- (c) Companies Act, No. 07 of 2007  
The following observations are made.

(i) Regulation of Limited Companies

Even though the registration of limited companies in accordance with the Companies Act, the direction of the operations of the limited companies in accordance with the provisions made therein and ensure that they act in accordance therewith and in instances of not so doing, taking action as prescribed in the Companies Act and cause the companies to act in accordance with the provisions in the companies Act are the statutory functions devolved on the Companies Registrar General, audit test checks revealed that the regulation of the operations of the registered companies is

weak. An Action Plan for the regulation of the operations of the registered companies was not available in the Department of Registrar of Companies.

(ii) Registration and Renewal of Registration of Auditors

Seventy seven new Auditors had been registered in the year under review and the revenue therefrom amounted to Rs.136,590. The revenue received from the registration of 74 new Auditors in the year 2013 amounted to Rs.9,900 and as compared with the preceding year, the revenue had increased by 1,279 per cent.

The renewal of registered Auditors in the year under review had been 532 and the revenue therefrom amounted to Rs.927,632. The number registered in the preceding year had been 556 and the revenue amounted to Rs.12,232. The increase of the revenue of Rs.915,400 in the year under review despite the decrease of the number registered in the year under review by 24 as against the preceding year had been due mainly to the increase of registration of auditors from 01 of August and upward revision of registration fees.

- (d) Sixty seven Societies had been registered during the year under review, in terms of the Societies Ordinance No. 16 of 1891 and the revenue received amounted to Rs.9,325. Even though 169 Societies had been registered in the preceding year the revenue collected amounted to Rs.4,225. The main reason for the increase in the revenue had been the abolition of stamp duty charges under the Societies Ordinance and the introducing of a fee charging system.
- (e) In terms of the provisions of the Public Contracts Act, No. 3 of 1987 all contracts over Rs.5 million should be registered with the Register of Companies and the total number of Public contracts registered in the year under review had been 10,384 and the revenue received therefrom amounted to Rs.17,016,000. That number for the preceding year had been 4,320 and the revenue received amounted to Rs.6,966,000. Accordingly, the number of public contracts registered during the year under review had increased by 6,064 and represented 140 per cent.

## 4.2 Management Inefficiencies

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The following observations are made.

(a) Implementation of the Restructure Programme

The contract for the computerization of the Registration of Limited Companies Activity had been awarded on 21 January 2014 to a private institution for a sum of Rs.88,812,227 and according to the contract agreement the work should have been completed before 20 October 2014. Nevertheless, of present the contractor had, at present stopped the work halfway and abandoned the contract. At the time of the award of the contract, it had been agreed to scan 61,000 files of companies and societies. But the contractor had scanned only 33,938 files. It was observed that the Department had not properly directed and supervised the contract work and had not carried out any follow-up and progress review. The contract had been awarded

without obtaining a performance guarantee in terms of Section 5.4.8 (a) of the Procurement Guidelines.

In view of this situation, the work is at a standstill at present and the expenditure of Rs.13,619,577 spent up to date on the project abandoned by the contractor was observed as a fruitless expenditure. Nevertheless, the Fund had, without considering the usability of the work, capitalized the entire amount spent.

- (b) The contract for repairing the Samagam Medura had been awarded to a private company for Rs.12,664,317 on 23 April 2014 and according to the agreement, the work should have been completed on 31 December 2014. But the work had not been completed up to date. Liquidated damages in terms of the agreement had also not been recovered.

#### **4.3 Operating Inefficiencies**

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Glasses removed during the repairs carried and to the buildings of the Department of Registrar of Companies had not been shown in the Report of the Annual Board of Survey for the year under review. The value thereof as well had not been computed. Action had not been taken to auction the glasses that had been kept in different places without any protection and subject to breakage.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) Even though all expenditure incurred by the Registrar of Companies in the discharge of the duties and functions of the Companies Act, No. 07 of 2007 could be met from the Companies Fund, a sum of Rs.90,275,000 had been spent on the purchase of shares of a limited company which does not fall within the expenditure approved under Sub-section 4 of the Companies Act. No return whatsoever from the investment had been received up to date. The ownership of the shares had been in the name of the Ministry of Co-operatives and Internal Trade. The company was to the liquidated as it had become bankrupt. No action whatsoever had been taken up to date for the recovery of the rights relating to the investment or the sum invested.
- (b) A sum of Rs.599,200 had been spent out of the Fund during the year under review for the publication of newspaper advertisements extraneous to the objectives and functions of the Companies Fund.

#### **4.5 Idle and Underutilised Assets**

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The following observations are made.

- (a) Fifteen racks valued at Rs.453,750 purchased for storing the scanned documents under the Programme for the Computerisation of the work of the Department of Registrar of Companies are being kept in the stores without being used.

- (b) Even though a stock of special four hole files valued at Rs.2,180,000 had been purchased on 24 November 2014 filling the documents scanned under the restructure, 54,500 files out of that had not been used up to date.
- (c) Books valued at Rs.683,910 purchased for distribution among school libraries concurrently with the Deyata Kirula Programme 2015 had been kept in the stores without being distributed to the schools. Any course of action whatsoever had not been taken up to 27 March 2015 for the distribution of those books.
- (d) Even though a sum of Rs.147,360 had been spent for establishing a separate Internal Audit Unit in the Department of Registrar of Companies, that unit had become inactive at present. As such the computers and the Internet facilities purchased for the Unit are underutilized.

#### **4.6 Staff Administration**

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 The following observations are made.

- (a) A permanent officer had not been appointed over a period of 4 years to the post of the Registrar General of Companies which is the Chief Executive Officer post of the Department of Registrar of Companies and the Companies Fund while an officer had been appointed to attend to the duties. In addition, the post of the Registrar of Companies and 3 out of 7 posts of Assistant Registrar of Companies in the approved cadre remained vacant.
- (b) Eight posts of Assistant Business Analyst remained vacant and no action whatsoever had been taken up to date for the filling of those vacancies.
- (c) Even though 4 posts had been approved for the post of “Inspector of Companies” which is a specialized post relevant to the Department, only one officer is in service at present. As such it was observed in audit that this position would have direct repercussions in areas such as instituting legal action against companies which violate the provisions in the Companies Act and appearing in Courts representing the Registrar General of Companies.
- (d) A methodology for the direct supervision of 12 Development Officers recruited and attached to the District Secretariats for the purpose of district level expansion of the work of the Department of Registrar of Companies was not available in the Department. A Staff Officer in charge of the work as well had not been appointed.
- (e) Even though the total cadre of officers approved for the Department by the Department of Management Services had been 162 the actual number of officers in the Department as at 31 December 2014 had been only 104. As such 58 posts had been vacant and that this position would not adversely affect the operation of the Companies Act cannot be ruled out in audit.

## **5. Accountability and Good Governance**

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### **5.1 Action Plan**

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Even though an Action Plan for the year under review had been prepared, the nature of each activity carried out by the Fund for the achievement of the objectives of the Fund, the officers and divisions responsible, the time period for the achievement of the objectives, etc., had not been shown separately. As such it was difficult in audit to carry out an evaluation of the Fund with the Action Plan.

### **5.2 Internal Audit**

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An adequate internal audit of the Companies Fund, as envisaged in the Circular No. DMA/2009(1) dated 09 June 2009 had not been carried out during the year under review.

### **5.3 Budgetary Control**

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Variances ranging from 04 per cent to 78 per cent between the budgeted expenditure and the actual expenditure and variance ranging from 42 per cent to 70 per cent between the budgeted income and the actual income were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

## **6. 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) Implementation of Projects
- (b) Regulation of Limited Companies
- (c) Procurement
- (d) Fixed Assets Control
- (e) Human Resources Management