

Company's Fund - 2015

The audit of financial statements of the Company's Fund of the Department of Registrar of Companies for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and the statement of financial performance statement of changes in the Fund and the 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 these financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 judgment, including the assessment of the risks of material misstatements 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 the 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 Basic for Qualified Audit Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matter described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Company's Fund of the Department of Registrar Companies as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Although a sum of Rs.132,925 received from sale of furniture, office equipment and computers by auction had been accounted under the other income, action had not been taken to identify their cost and depreciation and eliminate from the books of accounts.
- (b) As the interest on Treasury bonds amounting to Rs.628,210 relating to the year 2014 but received in the year 2015 had been brought to accounts as interest income for the year 2015 and as such, the interest income and the interest income receivable had been overstated by that amount.
- (c) In terms of Section 131(1) and (2) of the Companies Act No.07 of 2007, the total arrears of revenue receivable from every company on their annual report to the Company's Fund as at 31 December 2015 amounted to Rs.418,826,666. However, that amount had not been indicated in the financial statements of the Fund as an arrears of revenue on annual reports of companies by the last date of the year under review.

2.3 Accounts Receivable and Payable

Arrears of revenue from the year 2008 to 2015 totalling Rs.628,239,996 had not been recovered.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

In terms of Financial Regulation 237 of the Democratic Socialist Republic of Sri Lanka, payments had to be made on a certificate given by a recognized Technical Professional to the effect that the work has been done, satisfactorily and in terms of the agreement. However, without obtaining such a certificate to the effect that the CCTV Cameras purchased for the Record Room had been properly installed and functioned, payment of Rs.5,346,000 had been made.

3. Financial Review

3.1 Financial Results

The financial results of the Fund for the year under review had been a surplus of Rs.400,693,933 as compared with the surplus of Rs.385,906,579 for the preceding year, thus indicating an increase of surplus by Rs.14,787,354 or 3.8 per cent as compared with the preceding year. Even though the interest income on Treasury Bills/ Bonds had decreased by Rs.49,176,610, increase in other income of the Fund by Rs.57,035,471 and decrease in establishment and administration expenses by Rs.6,023,120 had mainly attributed to improve the above financial results.

In analyzing the financial results relating to the period from 2011 to the year under review, the surplus of the year 2011 amounting to Rs.269,443,580 had gradually improved to the surplus of Rs.400,693,933 in the year 2015. In considering employee remuneration, depreciation on non-current assets and taxes paid to the Government, the contribution of the Fund in the year 2011, amounting to Rs.276,571,736 had continuously increased up to Rs.412,575,129 in the year 2015.

4. Operating Review

4.1 Performance

The mission of the Company's Fund of the Department of Registrar of Companies is to give Legality to businesses and the institutions under the relevant Acts in conformity with government economic and trading policies and to make effort to regularize their activities. In order to achieve these functions, the Companies Act No.07 of 2007, Societies Ordinance (Cap.123) Cheetu Ordinance No.61 of 1935 and the Public Contract Act.No. 03 of 1987 are implemented.

The following observations are made in respect of performance of activities planned to be implemented in the year under review to achieve such objectives.

- (a) In terms of Section 170(1) of the Companies Act, number of Companies by which financial statements should be registered was 7076. and the number of companies registered their financial statements was 2509. The total income earned therefrom amounted to Rs.2,509,000 out of which the amount credited to Company's Fund was Rs.1,672,666. Nevertheless, there was no methodology in the Department to identify the Companies which should register their financial statements in accordance with the Companies Act and to register the financial statements in the Department.
- (b) Registration of Limited Companies, direction of activities of these registered companies in accordance with the provisions of the Companies Act and to ensure whether they act accordingly and if they do not comply with those provisions, the Registrar of Companies had to get such registered companies done their functions in accordance with the provisions of the Companies Act, by taking action as stated in

the said Act are the statutory functions of the Registrar of Companies. Nevertheless, the Department did not have any action plan to monitor the activities of the registered companies.

4.2 Management Activities

The following observations are made.

(a) Record Room

The record room of the Department had stored 100,000 company files, 20,000 society files and 30,000 other files and the number of files daily exchange is between 800 to 1,000. In addition to that, 40 to 50 files are added daily. However, there was no sufficient space facilities in the record room therefore, and the documents had not been stored safely by following a recognized methodology. A sufficient number of staff had not been attached to the record room and 5 officers of the Private Security Service had been attached thereto. There was no system of keeping “backup” in the Record Room.

(b) Dissolution of Limited Companies

In terms of Section 394(3) of the companies Act, No.07 of 2007, the name of the companies which do not file financial statements be struck off the register. In that, the arrears of revenue which could not be recovered from the struck off companies had not been deducted from the total arrears of revenue. Without using the formal registers relating to the liquidation activities, temporary registers had been used.

(c) Any dividend whatsoever had not been received to the Company’s Fund on the investment of Rs.90,275,000 made in a Public Company in the year 2007. According to the Cabinet Memorandum dated 02 January 2013 this Company had become bankrupt since the year 2013 and any action whatsoever had not been taken to get back the invested money and benefits relating thereto.

4.3 Operating Activities

The following observations are made.

(a) A sum of Rs.3,863,750 had been paid from the Company’s Fund for filling the old files having being scanned under the development of a software project for the computerization of activities of the Department of Registrar of Companies. As the project had halted halfway, 54,000 of specially prepared four holes files had been used as normal files as expected objectives had not been achieved.

(b) A specific program had not been prepared for the training of employees and 90 per cent of the provision made in the Company’s Fund had been saved in the year under review.

5. Accountability and Good Governance

5.1 Action Plan

Although an action plan had been prepared for the year 2015, nature of each activity to be performed for the achievement of the objectives of fund, the officers responsible therefore and the time periods to achieve those objectives were clearly not stated therein. Action plan had not been prepared indicating the budget information in terms of Public Finance Circular No. 01/2014 of 17 February 2014.

5.2 Budgetary Control

variations ranging from 20 per cent to 137 per cent between the budgeted and actual income and expenditure were observed and as such it was observed that the Budget had not been made use of as an effective instrument of management control.

5.3 Procurement and Construction Process

The following observations are made.

- (a) The expected procurement activities for the ensuing 3 years had not been listed in the procurement plan prepared by the Fund in terms of Guideline 4.2.1 of the Government Procurement Guidelines, and it had not been reviewed and updated.
- (b) As the Procurement of computerization Project had been awarded without obtaining a security in terms of guideline 5.3.11 of the procurement guidelines, a sum of Rs.13,268,430 could not be recovered from the unsuccessful contractor. Similarly, according to the Cabinet Memorandum dated 21 July 2015, the Cabinet approved had been granted to call for fresh quotations for the supply of software of this project and to get consultancy services. However, action had not been taken to recommence and to implement this project, even by 31 December 2016.
- (c) In terms of Guideline 2.6.1 (a)(1) of the Procurement Guidelines, bid evaluation should be done within a minimum period of time. However, it was observed in audit that in purchasing two cash machines by spending a sum of Rs.261,960 one DOT Marix Printer valued at Rs.58,600 and 10 UPS valued at Rs.687,232 bid evaluation had been done after a considerable period of delay.

6. Systems and Control

Weaknesses 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.

Arrears of Systems and Control -----	Observations -----
(a) Accounting	<ul style="list-style-type: none"> <li data-bbox="751 302 1513 392">(i) Fixed assets not revalued and their fair value not included in the financial statements. <li data-bbox="751 414 1513 459">(ii) In disposing assets, not correctly posted and accounted. <li data-bbox="751 481 1513 638">(iii) In posting the opening balances at the beginning of the year under review and accruing the year end expenses it had been done without using Journal entries.
(b) Collection of Revenue	<ul style="list-style-type: none"> <li data-bbox="751 649 1513 772">(i) A methodology not established in the Fund to recover arrears of revenue existed from January 2008 to the year 2015. <li data-bbox="751 795 1513 1019">(ii) As non-availability of a formal computer system to ascertain the correct proof data in respect of the number of active companies and number of inactive companies and societies, the collectability income of the Fund could not be correctly identified.
(c) Procurement	Non-compliance with the Government Procurement guidelines.
(d) Personnel Administration	56 Vacancies existed in the approved cadre. This had badly affected to achieve the objectives of the Fund.