

Report of the Auditor General on Head 297 - Department of Registrar of Companies - Year 2015

The audit of the Appropriation Account, the Revenue Accounts and Reconciliation Statements including the financial records, books, registers and other records of the Head 297 - Department of Registrar of Companies for the year ended 31 December 2015 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Registrar General of Companies on 21 February 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account, the Revenue Accounts and the Reconciliation Statement in accordance with the provisions in Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and Public Finance and Administrative Regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Department amounted to Rs.49.20 million out of which a sum of Rs.47.44 million had been utilized as at the end of the year under review. Accordingly, the provision of Rs.1.76 million or 3.58 per cent of the total net provisions of the Department had been saved.

2.2 Revenue Accounts

Estimated and Actual Revenue

The Department of Registrar of Companies had estimated the Revenue totalling Rs.155.00 million in respect of two Revenue Codes for the year 2015 and Revenue totalling Rs.189.58 million had been collected for the year under review. It was 122.31 per cent of the estimated revenue. Details appear below.

Revenue Code	As at 31 December 2015			Revenue Collected as a Percentage of Estimated Revenue
	Estimated Revenue	Actual Revenue	Excess/ (Deficiency)	
	Rs. Millions	Rs. Millions	Rs. Millions	
20.03.02-10	140.00	169.01	29.01	20.72
20.03.02-12	15.00	20.57	5.57	37.13
Total	155.00	189.58	34.58	

2.3 Advance Account

Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Department of Registrar of Companies under Item No.29701 and the actual amounts are given below.

Item No.	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
29701	5.04	3.89	2.84	3.59	20.00	12.11

2.4 Audit Observation

The Appropriation Account, the Revenue Account and the Reconciliation Statements for year ended 31 December 2015 of the Department of the Registrar of Companies had been satisfactorily prepared subject to the audit observations appearing in the Management Audit Report referred to in paragraph 1.1. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Revenue Account

Duties such as preparation of Revenue estimates, collection of Revenue, Accounting and presentation of accounts in respect of 02 Revenue Codes had been assigned to the Head of the Department as the Revenue Accounting Officer. The following deficiencies were observed during the audit test checks carried out in respect of that Revenue Codes.

(a) Revenue Code - 20.03.02.10- Company Registrar's Fees

According to the Revenue Account presented to the audit, the areas of revenue amounted Rs.209.41 million and out of that areas revenue amounted to Rs.73.88 million for the year under review. The follow-up action for the recovery of areas of revenue was at a weak level.

(b) Revenue Code -20.03.02.12 - Fees Charged under General Contract Act

According to the Annual Budget Estimates, revenue amounted to Rs.20 million had been estimated to collect and it had been amended to Rs.15 million. But, in the year under review, the Department had been able to collect a sum of Rs.20.57 million. Even though, the estimated revenue could have been collected for the year under review, it had been amended due to the failure of the Department incorrect revenue forecasting.

3.2 Reconciliation Statement of the Advance to Public Officers Account

The following observations are made at audit test checks of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account bearing item No.29701,

- (a) According to the Reconciliation Statement presented to the audit, the balance that remained outstanding as at that date totalled Rs.137,741 and even though such balances has been prevailed for the period ranging from one year to twenty seven year, the Department had failed to recover those balances.
- (b) There was a difference of Rs.3,665 as at 31 December 2015 between the loan balance of the books of the Department and Treasury books. That difference had not been corrected in terms of the Financial Regulations.

3.3 Good Governance and Accountability

3.3.1 Annual Action Plan

The Annual Action Plan had not been prepared by the Department of Registrar of Companies in terms of Public Finance Circular No.01/2014 of 17 February 2014.

3.4 Assets Management

The Glasses removed in repairing the building of the Department of Registrar of Companies had not been valued and submitted even to the auction held on 09 October 2015. Accordingly, those glasses had been keeping here and there without security for nearly three years.

3.5 Non -compliance

Non- compliance with Laws, Rules and Regulations

Instances of non - compliance with the provisions of laws, rules and regulations observed at audit test checks are analyzed below.

Reference to Laws, Rules and Regulations

Non-compliance

Government Procurement Guidelines

- | | |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Guidelines 5.2.1(a) | Even though, all the details which are required to be response for a bid calling should be provided with bid documents, there were instances deviating from such provisions. Accordingly, bid documents had been incomplete. |
| (b) Guidelines 5.3.11(a) | Bid securities had not been obtained in bid calling. |
| (c) Guidelines 5.4.8(a) | A Performance Bond Security had not been taken in offering the contract. |

3.6 Performance

The observations on the progress of the Department according to the Annual Budget Estimate and the Action Plan for the year 2015 are given below.

(a) Activities Performed Inadequately

The activities performed by the Department comparing with the previous year are shown below. The main activities had not been performed adequately, and some of such instances observed are as follows.

Activity -----	Quantity -----		Difference Increase (Decrease) -----	Percentage -----
	2015 -----	2014 -----		
Registration of Annual Reports of Companies -----				
No; of Companies	41,199	31,305	9,894	31.61
Income in Rupees	206,005,000	156,525,000	49,480,000	31.61

Registration of Financial Statements

No; of Companies	2,509	2,376	133	5.60
Income in Rupees	2,509,000	2,376,000	133,000	5.60

Registration of New Companies

No; of Companies	8,361	7,100	1,261	17.76
Income in Rupees	128,895,000	109,435,000	19,460,000	17.78

Renewal of Accounts Inspector' Registration

No; of Auditors/ Audit Firms	406	532	(126)	(23.68)
Income in Rupees	1,267,748	927,632	340,116	36.66

Registration of Company Secretaries

No; of Secretaries/Secretary Companies	565	566	(1)	(0.18)
Income in Rupees	1,465,000	1,462,500	(2,500)	(0.17)

Issuing of Certified Copies

No; of Copies	51,207	43,379	7,828	18.05
Income in Rupees	26,279,380	22,795,784	3,483,596	15.28

Checking of Companies' Files

No; of Company Files	12,066	10,838	1,228	11.33
Income in Rupees	6,033,040	5,420,090	612,950	11.31

Filing of Annual Reports of Societies

No; of Societies	31	19	12	63.16
Income in Rupees	31,000	19,000	12,000	63.16

Following observation is made in this connection.

(a) The receipt of revenue had been Rs.205,995,000 for the year under review out of the annual reported revenue which should be paid by the every company in terms of Sections 131(1) and (2) of the Company Act, No.7 of 2007. Further, areas of revenue as at 31 December 2015 had been Rs.628,239,996 and it had been prevailing the period ranging from the year 2008 and year 2015.

(b) Company Act, No.7 of 2007

The limited companies should be registered as per the provisions of the Company Act and operations of those registered companies should have carried out as per the said provision. It was one of the statutory activity assigned to the Registrar of Companies to monitor whether the companies act according to the provisions of the Company Act and if not, to act as per the powers vested with in terms of the provision of the Act in order to streamline the activities of the companies as per the provisions of the Act. It was observed at the audit test checks that the monitoring of activities of the registered companies was at weak level. Further, the Department had failed to prepare an active programme in respect of companies which are registered under Company Act but are in the inactive status at present.

(c) Society Ordinance, No.16 of 1891

Twelve thousand three hundred and eleven societies had been registered by the end of the year under review and out of those eleven thousand seven hundred fifty societies should have been filed Annual Reports. But, the 31 registered companies filed Annual Reports as at 31 December 2015 and the revenue collected was only 0.26 per cent of the revenue should have been collected from those societies.

(d) General Contracts Act No 3 of 1987

The every contract which exceeded the value more than Rs.5,000,000 should be registered under Registrar of Companies in terms of the provisions of General Contracts Act No 3 of 1987. In the year under review, 12,217 General Contracts had been registered and revenue collected from those was Rs.20,568,000. That was 10,387 in the previous year and income received from this was Rs.17,016,000. Accordingly, it was observed an increase of 29 per cent in the year under review as compared with the previous year.

3.7 Transactions of Contentions Nature -----

A sum of Rs.90,275,000 out of the Company Fund had been spent by the Trade and Consumer Service Ministry to purchase shares of a private company on the approval of Cabinet of Ministers on 29 March 2007. Even though, it was revealed that the said company had been bankrupt since the year 2013, any action what so ever had not been taken in that regard even by 31 December 2016.

3.8 Management Inefficiencies

The contract of computerizing the process of registration of companies had been offered for a value of Rs.88,812,228 on 21 January 2014. A sum of Rs.13,619,577 had been paid to the contractor by the Department without taking a performance security for that contract. The contractor had given up the contract. Even though, as per the decision of the Cabinet of Ministers dated 29 July 2015, approval had been received to commence the project after recalling bid, the contract had not been offered even by 31 December 2016.

3.9 Human Resources Management

Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows

Category of Employee -----	Approved Cadre -----	Actual Cadre -----	Number of Vacancies -----	Number of Excess -----
Senior level	11	05	06	-
Tertiary Level	03	02	01	-
Secondary Level	123	76	47	-
Preliminary Level	24	21	03	01
Others (temporary)	-	01	-	-
Total	161 ====	105 ====	57 ====	01 ====

The following observations are made.

- (a) The posts of the Registrar General of Companies the most senior post of the Department of Registrar of Companies had been vacant since 08 May 2015 and a permanent officer had not been appointed for the post.
- (b) As there was no proper programme to train the employees of the institution, 90 per cent of the provision made out of the company Fund had been saved.