

CWE Economic Centers Services (Pvt) Limited -2015/2016

The audit of the financial statements of the CWE Economic Centers Services (Pvt) Limited (“the Company”) for the year ended 31 March 2016 comprising the statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of provisions in Article 154(6) of the Constitution of Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) and for such internal control as the Board 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. 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 Company’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 Company’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the CWE Economic Centers Services (Pvt) Limited. as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No 07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the company comply with the requirements of Section 151 of the Companies Act No 07 of 2007.

2.1.2 Incorporation of the Company

Cabinet approval with regard to the establishment of the Company was not made available for audit.

2.2 Comments on Financial Statements

2.2.1 Compliance with Sri Lanka Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) – Section 28

In computing the provision for Gratuity, the Company had not considered the all employees who will be eligible to claim Gratuity when their retirement on arise.

2.2.2 Lack of Evidence for Audit

The following evidence as indicated against the each item shown below had not been submitted for audit.

Item	Value	Evidence not made Available
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	Rs.	
(a) Prior Year Adjustment	2,031,740	Approval of Board of Directors
(b) Rent Expense	1,476,842	Rent agreement
(c) Liabilities such as Receipts of Rent Advance, Refundable Security Deposit and Payables on Computer Equipment and Janitorial Services	1,529,971	Detailed information and age analysis

2.3 Accounts Receivable and Payables

Action had not been taken to recover a sum of Rs.1,076,539 and Rs.3,982,956 which remained unrecovered for over 2 years as at 31 March 2016 from five Trusts and Trade Debtors respectively.

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

The following instances of non - compliance were observed in audit.

Reference to Laws, Rules and Regulations etc.	Non - compliance
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(a) Nation Building Tax Act, No. 22 of 2016	Nation Building Tax amounting to Rs. 252,138 for the year under review had not been duly paid to Department of Inland Revenue within the liable period.
(b) Value Added Tax Act, No. 07 of 2014	Action had not been taken to remit the Value Added Tax amounting to Rs.1,414,496 to the Commissioner General of Inland Revenue within the stipulated time period.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year ended 31 March 2016 had been a surplus of Rs. 2,676,180 as compared with the corresponding surplus of Rs. 7,817,522 for the preceding year, thus indicating a deterioration of Rs. 5,141,342 in the financial results of the year under review. Increase of administration expenses by Rs.4,966,898 was the main reason attributed for the deterioration in the financial results.

In analyzing the financial results of the year under review and preceding 3 years, the surplus of Rs. 6,215,839 in the year 2013 had declined to Rs. 2,676,180 in the year 2016 with fluctuations. After taking into account the employee remuneration, depreciation and taxation for the year under review, the value addition of the Company was amounting to Rs.158,571,655 in the year 2016. However, it was Rs.164,534,897 in the previous year.

4. Accountability and Good Governance

4.1 Corporate Plan

A Corporate Plan had not been prepared by the Company since 2011 in terms of Section 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

4.2 Action Plan

An Action Plan had not been prepared in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Hence, the performance of the Company could not be evaluated in audit.

4.3 Internal Audit

An Internal Audit Unit had not been established in terms of Financial Regulations 133 and 134 of the Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka.

4.4 Audit Committee

An Audit Committee had not been established in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5. Systems and Controls

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

(a) Assets Management	Failure to perform the Boards of Survey/Verification of assets.
(b) Accounting	Following cash basis for settlement of statutory payments.
(c) Control over Income and Expenses	Not taking action to control the expenditure and increase the income.