Securities and Exchange Commission of Sri Lanka – 2015

The audit of financial statements of the Securities and Exchange Commission (SEC) of Sri Lanka 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 reserves 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 read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 37(2) of the Securities and Exchange Commission of Sri Lanka Act, No.36 of 1987.

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 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 Commission'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 Commission'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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Securities and Exchange Commission of Sri Lanka 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 Non - compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non- compliance with Laws, Rules and Regulations were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions.	**Non-compliance**
(a) Commission Paper No. 364/26 of 08 December 2015	Three vehicles are being utilized for more than 10 years without being auctioned. In the meantime, a new vehicle had been purchased for Rs. 7,990,000 without obtaining approval from the line Ministry.
(b) Commission Decision No. 249 of 27 August 2009	Even though the Commission had decided to provide distress loans only for non-executive grade staff under specific circumstances in order to partially finance in acquisition of motor vehicles, the distress loan amounting Rs.1,500,000 had been given to executive grade staff member for this purpose in contrary to the Commission's decision.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Commission for the year ended 31 December 2015 had resulted in a surplus of Rs.31,936,710 as against with the deficit of Rs. 13,190,265 for the preceding year, thus indicating an improvement of Rs.45,126,975 in the financial results for the year under review. The decrease of capital market development expenses by Rs. 47,455,621 was the main reason attributed for this improvement.

3.2 Analytical Financial review

The revenue of the Commission for the year under review was Rs. **3**82 million including the transfers from the Cess Fund to meet operational expenses amounting to Rs.**3**53 million as compared with that of Rs.**3**64 million (including transfers from the Cess Fund amounting to Rs.3**3**4 million) in the preceding year representing an increase of **4.**9 per cent in the total income. In the meantime, the expenditure incurred for capital market development activities during the year under review was Rs. 55 million and it was Rs. 10**3** million in the preceding year, thus indicating a decrease of 47 per cent in this expenditure. The significant variances in the revenue and expenditure of the Commission during the year under review, as compared with the preceding year are shown below.

	2015	**2014**	**Variance {favourable/(adverse)}**	
	Rs. Millions	Rs. Millions	Rs. Millions	Percentage
Transfer from Cess Fund	353	334	19	5.7
Sundry income and recognition of grant	16	18	(2)	(11.1)
Personal and administration cost	(294)	(274)	(20)	(7.3)
Capital market development expenses	(55)	(103)	48	46.6
Surplus/(Deficit) for the year	32	(13)	45	346.1

It was observed that only 16 per cent out of the total expenditure had been spent in the year under review for capital market development activities and it was 27 per cent in the preceding year. Further, 51 per cent of the total expenditure had been incurred for personnel emoluments in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Performance of Divisions of the Commission

(a) Supervision Division

There were 128 entities under the purview of this Division as at 31 December 2015. Although the Division had scheduled to visit 102 entities in the year under review, it had visited to only 72 entities excluding 4 special visits or 70 per cent by the end of the year under review as compared with this 92 per cent in the preceding year.

(b) Corporate Affairs Division

(i) Out of 85 complaints received during the year under review from market intermediaries and investors, 82 complaints or 96 per cent had been resolved by this Division up to the end of the year under review.

(ii) The number of "off the floor transfers" approved during the year under review under Section 28 of the Commission's Act was 108 and it was 162 in the preceding year, thus showing a decrease of 33 per cent as compared with the preceding year.

(iii) The total number of annual reports received for full review was 124 and completed only 108 reports or 87 per cent during the year under review.

c) Investigation Division

Out of 19 cases handled by the Investigation Division up to the end of the year under review, only 5 cases had been completed and 4 cases had been referred to the Attorney General's Department whilst one case referred to the Colombo Stock Exchange (CSE). In the meantime, another case had been directed for further investigation by the Surveillance & Investigation Committee and remaining 8 cases were in the process of investigation.

4.2 Human Resources (HR) Management
Cost of Personnel

The cost per employee for the year under review and for the previous three years period is given below.

Year	2015	2014	2013	2012
Total cost of personnel (Rs.)	178,614,001	166,060,617	159,203,688	140,311,036
Number of employees	75	80	83	82
Cost per employee (Rs.)	2,381,520	2,075,757	1,918,116	1,711,110
variance (percentage)	14.7	8.2	12	8

Cost per employee for the year under review had increased by 14.7 per cent as compared with the preceding year. The Chairman had informed me that, " the staff cost escalation is mainly due to granting the Government increases in relation to the cost of living allowances, special allowances and the newly introduced monthly allowances . In addition to that the annual increment is also reflected in the increased personal cost."

5. Budgetary Control

Significant variances ranging from 35 per cent to 100 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Commission from time to time. Special attention is needed in respect of the following area of control.

Budgeting	–	In some instances the entire budgeted allocations had not been utilized