Academy of Financial Studies (Guarantee) Limited - 2016

The audit of financial statements of the Academy of Financial Studies (Guarantee) Limited ("the Company") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial activities, 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.

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

1.2 Responsibility of the Board of Directors' for the Financial Statements

Board of Directors ("the 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 judgment, 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

1.4 Basis for Qualified Opinion

(a) Invoices in respect of a training income amounting to Rs.6,756,341 had not been made available for audit. Further, related documentary evidence for certain ledger account balances aggregating Rs. 8,851,452 shown as a summary up to 30 September 2016 had not been furnished to audit. Hence, the accuracy of those balances could not be ensured in audit.

(b) Administration expenditure relating to year 2017 amounting to Rs. 188,804 has been treated as expenditure of the year under review. Hence, the profit for the year under review had been understated by similar amount.

(c) According to the financial statements presented, the tax expense for the year under review was Rs.2,699,745. However, as per the tax computation made in audit it was Rs.2,433,610. Therefore, the tax expense for the year under review had been overstated by Rs. 266,135

(d) As per fixed assets register, the opening balance of furniture and fittings received from Ministry of Finance was Rs.58,846,836. However, it was shown in the financial statements as Rs.60,991,092. However, reasons for difference of Rs.2,144,256 was not furnished to audit. Further, due to erroneous error correction entry made to the financial statements, the balance of furniture and fittings has been understated by Rs.1,082,127.

(e) Although the Ministry of Finance- Assets Fund had been shown as Rs.97,736,546 in the statement of financial position, it was shown as Rs.99,900,802 in Note No. 6 to the financial statements.

(f) Income from training programmes for the year under review had been understated by Rs. 939,194 due to not considered some invoices in computation of the income and incorrect apportionment of training income. In the meantime, this income had been overstated by Rs. 2,380,407 due to taking training income twice in to accounts.

(g) Cash flow from operating activities shown in the cash flow statement for the year under review had been overstated by Rs. 6,527,206 while the cash flow from investing activities had been understated by similar amount due to non-adjustment of prior year items, income tax paid, interest on fixed deposits and erroneous accounting of accounts payable, accounts receivable and additions made to property, plant and equipment respectively for the year under review.

(h) Differences of Rs. 18,119,814 and Rs. 15,288,998 were observed between the turnover shown in the financial statements and the turnover taken for the calculation of the Nation Building Tax and Value Added Tax respectively. Further, the value of supply included in VAT returns was differed from summaries of quarterly invoice value.

(i) According to the bank confirmation, the value of fixed deposits was Rs.110,914,964. However, it was shown as Rs.110,469,896 in the financial statements with a difference of Rs.445,068. Further, the cash book balance of Rs.1,658,143 as at 31 December 2016 had been brought to the financial statement as Rs.1,655,144.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in Basis for Qualified Opinion of this report, the financial statements give a true and fair view of the financial position of the Academy of Financial Studies (Guarantee) Limited as at 31 December 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.

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:

- except for the effect of such adjustments as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the aforesaid paragraphs (a) to (h) above,

- 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 and,

- the financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

2.2 Accounts Receivable and Payable

Balances of loan amounting to Rs.210,414 receivable from employees attached to then institute of "Miloda" had remained unrecovered since 2013.

2.3 Non–compliance with Tax Requirements

The following instances of non - compliance were observed during the course of audit.

Reference to Laws, Rules and Regulations	Non–compliance
(a) Inland Revenue (Amended) Act, No 10 of 2006 (i) Section 25	(a) Although the allowed rate of capital allowances for computers was 25 per cent, the Company had used a rate of 33 per cent to calculate capital allowance for computers. Hence, the tax expenses had been understated by Rs.3,326,767. (b) Un-allowed foreign travelling expenses of Rs.74,990 had been included in calculating the tax computation for the year under review in contrary to the provisions in the Act.

	(ii) Section 26 (1) (v)	Although only 75 per cent of commercial advertising cost is allowed in calculating adjusted profit in the tax computation, the entire advertising expenses of Rs.20,800 had been allowed to calculate the tax expenditure for the year under review.
	(iii) Section 32	A loss incurred in any trade or business is allowed as a deduction subject to a maximum of 35 per cent of the total statutory income. However, such a loss of Rs.1,117,898 had not been deducted from total statutory income of the year under review. Hence, the tax liability had been overstated by similar amount.
	(iv) Section 113	Quarterly self-assessment income tax payments for the year of assessment 2016/17 were not paid.
	(v) Sections 120	The Company had failed to submit its annual declaration of employer PAYE on or before 30 April 2017
(b)	Section 04 of Nation Building Tax Act, No.09 of 2009	Returns and payments of Nation Building Tax (NBT) should be remitted to the Department of Inland Revenue on or before 20th of the following month of a particular quarter. However, the Company had not complied with this requirement.
(c)	Sections 26 (1A) and 64 of Value Added Tax Act, No.14 of 2002	Payments of Value Added Tax (VAT) had not been made within the stipulated time period and proper filing system in order to attach paid slips for every quarter had not been maintained by the Company.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax profit of Rs.15,147,291 as compared with the corresponding pre-tax profit of Rs.982,016 for the preceding year, thus indicating an improvement of Rs.14,165,275 in the financial results for the year under review. Increase in income for the year under revive was the main reason attributed for this improvement.

4. Operating Review

4.1 Performance

According to Section (B) 2(f) of Article of Association, the main objectives of the Company are to engage in related research and print books, journals, reports and such other publications. However, the Company was unable to achieve these objectives during the year under review.

4.2 Identified Losses

The Company had to paid a sum of Rs.39,219 as penalty due to delaying the settlement of electricity bills during the year under review.

4.3 Transactions of Contentious Nature

The Company had earned a rental income of Rs.4,200,000 during the year under review by rent out the part of office building which is not owned to the Company and retained this income with the Company without being remitted to the Ministry of Finance and Mass Media.

4.4 Idle or Underutilized Assets

A meeting room with 30 seating capacity had not been utilized for any purpose since the year 2014.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 166(1) of the Companies Act, No.07 of 2007, the Company should have prepared the annual report within six months after the balance sheet date on the affairs of the Company and the draft annual financial statements have been presented to the Auditor General within 60 days after the closure of the financial year, in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, the financial statements for the year 2016 had been presented for audit only on 01 June 2017.

5.2 Corporate Plan

Even though a Corporate Plan should have been approved by the Company and a copy of such plan should be furnished to the Auditor General at least 15 days before commencement of the next financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Company had not furnished such plan to the Auditor General even up to 31 December 2016.

5.3 Budgetary Control

Even though the copies of approved annual budget should be prepared and forwarded to the Auditor General at least 15 days before the commencement of the next financial year in terms of paragraph 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been done so.

6. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of maintaining proper general ledger.