

Company's Fund - 2016

The audit of financial statements of the Company's Fund for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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 the 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 Basis for Qualified 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 as at 31 December 2016 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 Accountings Deficiencies

The following observations are made.

- (a) Accrued expenses of Rs. 336,555 on clearing, epidemic and security expenses had been understated in the accounts at the end of the year under review.
- (b) A Provision had not been made in the financial statements for accrued rates of Rs. 326,797 for year 2015.
- (c) Receivable interest income on Treasury Bond amounting Rs. 458,352 had been overstated in the accounts as at 31 December 2016.
- (d) A sum of Rs. 13,268,449 incurred for installation of a Computer System in 2014 had been capitalized and depreciation of Rs. 5,342,762 had been made thereon at the end of the year under review instead of being shown under the work- in- progress. Further, the Computer System had been abandoned without completing the installation works.
- (e) Depreciations on vehicles amounting Rs. 601,754 had been overstated in the accounts during the year under review.
- (f) Provisions had not been made for audit fees from year 2014 to during the year under review.
- (g) According to the monthly income reports, total revenue received to the Company's Fund during the year under review was Rs. 329,012,495. However, it was shown as Rs. 327,172,242 in the Financial Performance Statement. As a result, revenue of Rs. 1,840,253 had been understated during the year under review.
- (h) Receivable arrears Revenue of Rs. 575,969,333 had not been accounted at the end of the year under review and it was shown as Rs. 495,416,667 by a note only.

2.3 Accounts Receivable and Payables

Revenue on Annual Report of Rs. 572,433,332 was due from 2007 to 2016. Out of that balances aggregating Rs. 147,306,666 was due more than 03 years, balances aggregating Rs. 274,306,666 was due between 01 and 03 years and balances aggregating Rs. 150,820,000 was due below 01 year.

2.4 Non Compliance with Laws, Rules and Regulations and Management Decisions

The following non compliances were observed.

<u>Reference to the Laws, Rules and Regulations</u>	<u>Non- Compliances</u>
(a) Financial Regulation of 128 (2)(e) of the Democratic Socialist Republic of Sri Lanka	Eventhough special arrangements required to be implemented for expeditious collection of outstanding arrears revenue receivable to the Government, action had not been taken accordingly by the institute.
(b) Paragraph 04 of the Fiscal Policy Circular No 01/2015 dated 20 July 2015.	
(i) Section (a)	Proper records had not been kept clearly showing the amount of revenue due, the amount of revenue collected and amount of arrears revenue.
(ii) Section (b)	Prompt action had not been taken to recover amount in arrears and to arrest accumulation of arrears of revenue.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year under review was a surplus of Rs. 408,130,934 and the corresponding surplus of the preceding year amounted to Rs. 400,693,933 thus indicating an improvement in the financial result by Rs. 7,437,001 as compared with the preceding year. Interest income on Treasury Bills and Bonds had been increased by Rs. 33,775,207 mainly attributed for the above improvement.

The analysis on financial result for the year under review with 04 proceeding years had revealed that the continuous improvement in the surplus since year 2012 to year 2016. Further, after adjusting remuneration and depreciation for non-current assets to the financial result, the contribution of Rs. 290,829,596 in 2012 had been improved continuously as Rs. 422,320,125 at the end of the year 2016.

3.2 Legal Action Against the Institution and Commenced by the Institution

Legal cases of 101 had been filed in the court against the external parties by the Department and legal cases of 171 had been filed in the court against the Department by the external parties.

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 the activities. In order to achieve the 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.

Comparison of registration of Annual Reports and Financial Reports of the companies during the year under review and proceeding year are shown below.

Activity	Year		Increase/(Decrease) during the year under review	Increase/(Decrease) percentage
	2016	2015		
Registration of Annual Reports of the companies				

Number of companies which Presented Annual Reports	37,250	41,199	(3,949)	10
Revenue generated from Annual Reports (Rs.)	186,083,500	206,005,000	(19,921,500)	10
Registration of Financial Reports				

Number of companies	2,162	2,509	(347)	14
Revenue (Rs.)	2,162,000	2,509,000	(347,000)	14

The following observations are made.

- (a) According to the revised arrears revenue report furnished to the audit, total outstanding financial reports income which required to be paid by the every companies as per the Section (1) and (2) of Paragraph 131 of the Companies Act No. 07 of 2007 was Rs. 858,650,000. Out of that Rs. 572,433,333 of arrears of revenue was related to the Fund at the end of the year under review. Thus indicating an improvement in revenue by Rs. 153,606,667 equivalent to 37 per cent as compared with the preceding year.
- (b) Eventhough number of companies which required to be registered the financial statements as at 31 December 2016 was 7,466 as per the paragraph 170 (1) of the Companies Act, number of companies registered the financial statements was 2,162 and total revenue generated thereon was Rs. 2,162,000 out of that Rs. 1,441,333 had been credited to the Fund. The Department had not a proper arrangement to identity the companies which required to be registered the financial statements as per the Act and register such reports in the Department.

4.2 Un-economic Transactions

A contract had been awarded at Rs. 88,812,207 for computerization of registration of companies process project on 24 January 2014 and contract had been abandoned after obtaining a sum of Rs. 13,619,577 by the contractor.

4.3 Transaction in Contentious Nature

Eventhough entire expenses incurred by the Registrar of the Companies in implementing the activities mentioned in the Company Act No. 07 of 2007 could be charged to the Fund, a sum of Rs. 90,275,000 had been incurred to purchase the shares of a limited company under the request of the Secretary of the Ministry in 2007 which is not come under the approved expenses of sub section 4 of the Act. However, Return on the investment had not been received to the Fund even up to 30 September 2017 and a decision had been taken to wind up the company in 2007, due to insolvency of the company. Further, information on formal action taken to obtained right of investment or recover the amount invested to the Company's Fund had not been furnished for audit.

5. Accountability Good Governance

5.1 Action Plan

Eventhough an action plan had been prepared for the year 2016, nature of each activity to be performed to achieve the objectives of the Fund, officers who responsible for such activities and period of time spend for the achievement of the objectives had not been mentioned in clearly. Therefore, the action plan could not be utilized for evaluation of performance of the Fund.

5.2 Budgetary Control

It was observed that the budget had not been utilized as an effective instrument of management control, due to estimate and actual income and expenditure had been deviated from 15 per cent to 100 per cent.

6. System and Controls

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.

Systems & Controls

Observations

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| (a) Accounting | Notes relevant to the financial statements had not been furnished. |
| (b) Maintenance of books and records | Fixed Assets Register had not been maintained in completely and updated manner as enable to identify the addition during the year, depreciations and net value of the assets. |

- (c) Control of the revenue Adequate action had not been taken to recover the arrears of income.
- (d) Human Resource Management Action had not been taken to recruit staff for vacancies.
- (e) Control of operations A Proper computer system had not been established to obtain information about companies which registered, wind up and remove of name under the Fund.