

Title Insurance Fund – 2016

The audit of financial statements of the Title Insurance 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 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 read in conjunction with Order No.41(1) of the Orders prepared by Minister of Lands and Land Development under Section 67 of the Title Registration Act, No.21 of 1998 and published in the Extraordinary Gazette No.1616/23 of 24 August 2009 of the Democratic Socialist Republic of Sri Lanka. My comments and observations on the above 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 matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Title Insurance 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 Sri Lanka Public Sector Accounting Standards

Investment activity of investing in Treasury bills and operating activity of interest amount on investment had not been reported separately when preparing the cash flow statements as per the paragraphs 32 and 34 of Sri Lanka Public Sector Accounting Standard No. 02. Further actions had not been taken to present the surplus of Rs. 9,901,616 in the year under review, under operating activities in the cash flow statements.

2.2.2 Accounting Deficiencies

Following observations are made.

- (a) A sum of Rs. 253,770 debited by the bank to the official bank account of title revenue collection had not been identified properly. Therefore in tile registration income had been understated by Rs. 101,508 which the 40 per cent should be received to the Fund.
- (b) Provisions had not been made for the audit fees of Rs. 79,920 with relating to the year under review.

2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances were observed.

Reference to Laws, Rules and Regulations	Non- compliance
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(a) Title Registration (Insurance Fund) direction No. 01 of 2009 published in the Extraordinary Gazette No.1616/23 of 24 August 2009 of the Democratic Socialist Republic of Sri Lanka	
(i) Direction 9	A sum of Rs. 25,620,078 had been invested in 53 Treasury bills during the period from the year 2011 to 31 December 2016

without obtaining commenced from the relevant supervision Director in charge of Central Bank of Sri Lanka and Deputy Secretary to the Treasury.

(ii) Direction 12

Even though the Annual Administration Report should be published with the Annual Audit Report, an Annual Administration Report had not been prepared from the year 2010.

(iii) Direction 13

The member represent the Central Bank of Sri Lanka had not participated in the whole 03 Board Meetings conducted in the year under review.

(iv) Direction 15 (1)

Though the Annual General Meeting of the Fund should be held in January of each year, no General Meeting had been held from the year of establishment of the Fund in 2010 to the year under review.

(v) Direction 39

Though the authority of certification should be delegated to Additional or Deputy Title Register General by approving the payments of the Fund by the Title Register General, a sum of Rs. 14,379,061 had been paid from 39 payment vouchers in the year under review by approving payments by the Deputy Register General and payments had been made by the Chief Accountant of the Department without a such authority delegation.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December of the year under review had been a surplus of Rs. 9,901,617 as compared with the corresponding surplus of Rs. 7,269,267 for the preceding year thus indicating an improvement of Rs. 2,632,350 in the financial result. Increase of income from title registration by Rs. 2,065,610 and interest income from investments by Rs. 875,192 had been the main reason for that improvement.

An analysis of the financial result of the year under review and 05 preceding years, revealed that the total income amounting to Rs. 800,515 in the year 2010, in which the Fund was established, had continuously improved up to a sum of Rs. 10,524,201 by the end of the year under review.

4. Operating Review

4.1 Performance

Even though the objective of the Fund in terms of the directions included in the Extraordinary Gazette No.1616/23 of 24 August 2009 of the Democratic Socialist Republic of Sri Lanka is to pay compensation for indemnity occurred relating to fraudulent or erroneous title registration with regard to title of land. Public had not been aware about this matter and any indemnity compensation had not been paid from the date of establishment of the Fund in 01 March 2010 up to the end of the year review.

4.2 Management Activities

Following observations are made.

- (a) Revenue of Rs. 2,472,400 had been credited to title income collection bank account without identifying correctness of credited amount by comparing with revenue statements, 40 per cent of that income amounting to Rs.988,960 which is entitle to the Fund had been accounted in the year under review as revenue of Title Insurance Fund.
- (b) It was not satisfied in audit that the staff had worked in due care as there were reasons such as non-comparing of revenue statements properly, deficiencies in accounting records and financial statements. However allowances of Rs. 334,955 had been paid to the staff in the year under review for the performance of duties of the Fund.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Though the financial statements and performance report of the Fund should be submitted to the Auditor General within 02 months after ending of the accounting year in terms of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the year 2016 had been submitted to Auditor General on 30 March 2017, however the financial statements were withdrawn due to deficiencies in preparation and those financial statements had been re submitted on 28 December 2017 after a delay of 09 months period.

5.2 Internal Audit

An internal audit had not been conducted relating to activities of the Fund in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka.

5.3 Budgetary Control

Though the amended budget estimate had been prepared in the month of August 2016, the approval of the relevant Minister in this regard had not been obtained. It was observed that the budget had not been made use of as an effective instrument of management control due to the 50 per cent variation in the budgeted and actual revenue and 47 per cent variation in budgeted and actual expenditure remained from the approved initial budget estimate. The amended budget had been taken into presented financial statements as budget estimate which had not been approved.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Registrar General from time to time and special attention is needed in respect of reviewing progress by preparing performance reports and presenting financial statements on time by maintaining accounting records properly.