Distance Learning Centre Limited - 2017

The Audit of the financial statements of the Distance Learning Centre Limited ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

This report is issued in terms of Article 154(6) of the Constitution of the 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 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 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.

1.4 Basis for Qualified Opinion

(a) Interest income on fixed deposits for the year under review had been understated by Rs.206,676 due to computation errors.

(b) According to the financial statements of the Company a sum of Rs.4,172,925 had been shown as receivable from the Department of Inland Revenue. However, as per the information received to the audit from the Department of Inland Revenue there was no such amount payable to the Company.

(c) According to the provisions in the Economic Service Charge (Amendment) Act, No. 07 of 2017, the Company is liable for the payment of Economic Service Charges for the year 2017. However, no provision had been made in the financial statements for the year under review in respect of Economic Service Charges of Rs.193,194.

(d) The Company was functioning in a building belonged to the Sri Lanka Development Administration (SLIDA) Institute obtained on lease basis for a period of two years from 2001 to 2003. Subsequently, at the end of that lease period the Company had renovated this building by incurring a sum of Rs. 49,651,765. After that the Company had entered into a new lease agreement with SLIDA for a period of 30 years in order to set off the said amount spent for renovating the building and amortize a sum of Rs.1,655,059 on annual basis. Accordingly, the value of the building to be amortized as at the end of the year under review as per the agreement should be Rs. 24,825,882. However, it had been appeared in the financial statements of the Company as Rs.23,543,166. Hence, a difference of Rs.1,282,716 was observed between these two figures.

Report on other Legal and Regulatory Requirements

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

a. The basis of opinion and scope and limitations of the audit are as stated above.

b. In my opinion:

- Except for the possible effects of the matters described in Basis for Qualified Opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examinations, 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. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in basis for qualified opinion paragraph of this report, the financial statements give a true and fair view of the financial opinion of the Distance Learning Centre Limited as at 31 December 2017 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).

2.2 Non-compliance with Public Enterprises Circulars

Instances of non-compliance observed in audit are given below.

Reference to Circulars.	Non-compliance
(a) Circular No. PED 12 of 02 June 2003	
(i) Section 4.2.6	Even though the Quarterly Performance Reports should be forwarded to the line Ministry and the Department of Public Enterprises, the Company had not complied with this.
(ii) Section 5.2.4	The Draft Budget should be placed to the Board of Directors for approval before three months prior to the financial year. However, the Budget had been placed to the Board of Directors only on 28 March 2017.
(iii) Section 8.2.2	Concurrence of the Minister of Finance and approval had not been obtained with regard to investments of Rs.61,987,684 made during the year under review.
(iv) Section 8.3.3	Several incentive schemes had been implemented by the Company without being obtained the required approvals. The total amount of incentives so paid during the year under review was Rs.572,243.
(v) Section 9.2 (a)	The Organizational Chart and the Cadre should be approved with the Department of Public Enterprises, General Treasury. Nevertheless, the Company had failed to fulfill these requirements.
(vi) Section 9.3.1	Even though every Public Enterprise should have a Scheme of Recruitments and Promotions, the Company did not have such an approved Scheme of Recruitments and Promotions.
(vii) Section 9.7	As a practice the salaries, allowances, increments had been decided by the Board of Directors of the Company without obtaining the approvals from the Secretary to the General Treasury.
(b) Circular No PED/ 2015/01 of 25 May 2015	
Section 3.1	The maximum monthly fuel limit authorized for Chief Executive Officers (CEO) is 150 liters (Rs.17,500). However, the Company has paid Rs.22,500 on behalf of 193 liters of fuel as monthly fuel allowance to CEO exceeding approved limits since the year 2013.

2.3 Transactions not Supported by Adequate Authority

The required approvals for journal entries amounting Rs.176,455 passed to correct the opening balance of the audited fixed deposit and write-off the long outstanding accrued expenses had not been obtained and furnished to audit.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs.13,017,604 as compared with the corresponding pre-tax net profit of Rs.7, 760,261 for the preceding year, thus indicating an improvement of Rs.5,257,343 in the financial results of the year under review. Increase of operating income by Rs.18,691,939 in the year under review was the main reason attributed for the above improvement in the financial results.

4 Operating Review

4.1 Performance

4.1.1 Achievement of Targets

The following observations are made.

(a) The overall objective of the Company is “building capacity in the public and private sectors and providing distance learning opportunities and knowledge sharing events. However, the fruitful actions had not been taken by the Company to achieve this objective.

(b) Although the Company had planned to recruit 04 agencies in order to launch specific marketing programs and conduct 02 training programs for internal staff, these activities had not been implemented during the year under review. Further, it was able to achieve only 50 per cent in implementation of 5S and ISO quality management systems to improve and develop internal processes and procedures.

4.2 Operating Weaknesses

The following observations are made.

(a) Incentives are paying by the Company based on the gross profit instead of being considered the net profit for the particular period. Further, the Company had paid incentives to its staff for the month of January, April and June 2017 even though there were net operating losses reported in those months.

(b) The IT Manager has received one per cent commission on the gross profit computed by using the sales that he brought to the Company and apart from that he also entitled for the incentive of 1.5 per cent on gross profit which appropriated among all other staff.

5 Accountability and Good Governance

5.1 Audit Committee

Audit Committee should meet on a regular basis at least once in three months in terms of Section 7.4.1 of the Public Enterprises Circular PED /12 of 02 June 2003. However, only two Audit Committee meetings had been held in the year 2017.

5.2 Procurement Plan

A Master Procurement Plan for the year under review had not been prepared as per Guideline 4.2.1(b) of the Government Procurement Guidelines.

5.3 Budgetary Control

The following observations are made.

(a) Significant variances up to 74 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.

(b) Even though the Company had prepared the Quarterly Reports in terms of Sections 4.2.6 of the PED Circular No. 12 of 02 June 2003, actions had not been taken to properly review those report together with Budgeted Estimates and make any changes that required achieving the budgeted targets.

6 Systems and Controls

Deficiencies in systems and controls 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 the following areas of control.

Control Area	Observation
(a) Personnel Management	- Due attention is needed in the area of leave / no pay leave and attendance of the staff.
(b) Payment of Incentives	- Matters such as target achievements, number of new programs initiated, quality of the programs conducted, individual performance, debt collection to be considered when paying the incentives.