

## **Company's Fund - 2017**

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The audit of financial statements of the Company's Fund for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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**

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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**

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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 Company 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 Company 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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standards No.01**

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- (i) Even though the policy for preparation of financial statements of the institute was accrued basis, the interest income on Treasury Bills and income earned through filing of Annual Reports had been accounted on cash basis.
- (ii) A sum of Rs.416,939,230 had set off out of a sum of Rs.1,700,000,000 had been given to Deputy Secretary to the Treasury and the savings of Rs.1,283,060,770 had been accounted as advances in current assets instead of account as non-current assets.

##### **(b) Sri Lanka Public Sector Accounting Standard No.02**

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- (i) Even though the surplus for the year was Rs.572,934,730, at the time of preparation of financial statements, the net cash flow from operating activities had been overstated by Rs.370,498 owing to a sum of Rs.573,305,228 had adapted as operating surplus.
- (ii) A prior year adjustment of Rs.523,000 had adjusted to the cash flow from operating activities and the variance of accrued expenses under change of working capital had been overstated by Rs.161,202.

#### **2.2.2 Accountings Deficiencies**

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The following observations are made.

- (a) As a result of the interest receivable from Treasury Bonds of Rs.24,529,385 as at 31 December 2017 had not accounted, both of surplus and interest receivable had been understated by that amount.
- (b) According to the calculation of the audit, the value of accumulated depreciation of buildings for the year under review had been overstated by Rs.1,086,156.

- (c) The first installment of Rs.1,520,000 had given for contracted company for establishment of a new computer system during the year 2017 had been capitalized as Property, Plant and Equipment instead of being shown under work-in progress in the Statement of Financial Position.
- (d) Although the Railway Department had transferred the land owned by them extended 0.1408 Hectares in D.R.Wijewardena Mawatha in Maradana the building of Samagam Medura currently being existed, to the Registrar of Companies on 13 August 2015, the value of that land had not been brought to accounts after being estimated.
- (e) A sum of Rs.523,000 had been debited to Accumulated Fund and credited to other expenditure account for rectify the error in accrued expenses of the preceding year had understated by Rs.336,555. As a result of that, both of the Accumulated Fund and other expenditure accounts had been understated by Rs.186,445.
- (f) A sum of Rs.6,927,900 had been accounted as depreciation for end of the year under review owing to capitalized in the assets account instead of shown under working progress in the year 2014 owing to a sum of Rs.13,268,449 had incurred on waived computer system due to failure.
- (g) The Treasury Bonds will be matured in next year valued at Rs.262,681,731 had been shown under non-current assets.
- (h) The Capital Gain of Rs.83,730,684 realize on maturity of Treasury Bonds of surplus received from disposal of Treasury Bills during the year under review had not been shown separately from interest income on Treasury bills in statement of financial performance.

### **2.3 Non Compliance with Laws, Rules Regulations and Management Decisions**

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The requirement of registration of the bidder under Public Contract Act had not been shown on contract of Rs.57 million offer for procure of software and procurement for selection of qualified contractor for security service according to supplement 13 of the Procurement Guideline and Subsection 8 of Public Contract Act No.03 of 1987.

### **2.4 Transections not Supported by Adequate Authority**

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The letter No.ROC/HC/15 dated 19 October 2016 of the Registrar of Companies had been sent to the Secretary to the Treasury through the Secretary of the Ministry to approval for payment of Incentive on open of Office for Public Services during weak ends according to Budget Proposal in 2016. The Director General of Department of Management Services had been forwarded by the letter No.DMS/1122 dated 28 October 2016 to the Director General of Establishment for further actions regarding this. But any reply had not been sent regarding this up to now by the Director General of Establishment or Director General of Department of Management Services and a sum of Rs.9,938,140 had been disbursed from the Fund during the year under review for payment of incentives on approval of the Secretary to the Ministry.

### 3. Financial Review

#### 3.1 Financial Result

The financial result of the Fund for the year under review was a surplus of Rs.572,934,730 and the corresponding surplus of the preceding year amounted to Rs.408,130,934 thus indicating an improvement in surplus for the year under review by Rs.164,803,796 as compared with the preceding year. Interest income on Treasury Bills and Bonds had been increased by Rs.103,962,700 mainly attributed for the above improvement.

The analysis on financial result for the year under review with 04 proceeding years had revealed that the regular improvement in the surplus since year 2013 to year 2017. Further, considering remuneration and depreciation for non-current assets, the contribution of the Institute of Rs.356,763,319 in year 2013 had been improved up to Rs.596,350,650 at the year 2017.

#### 3.2 Legal Action against the Institution and Commenced by the Institution

According to the information furnished, legal cases had been filed against the external parties by the Registrar of Companies and against the Registrar of Companies by the external parties.

### 4. Operating Review

#### 4.1 Performance

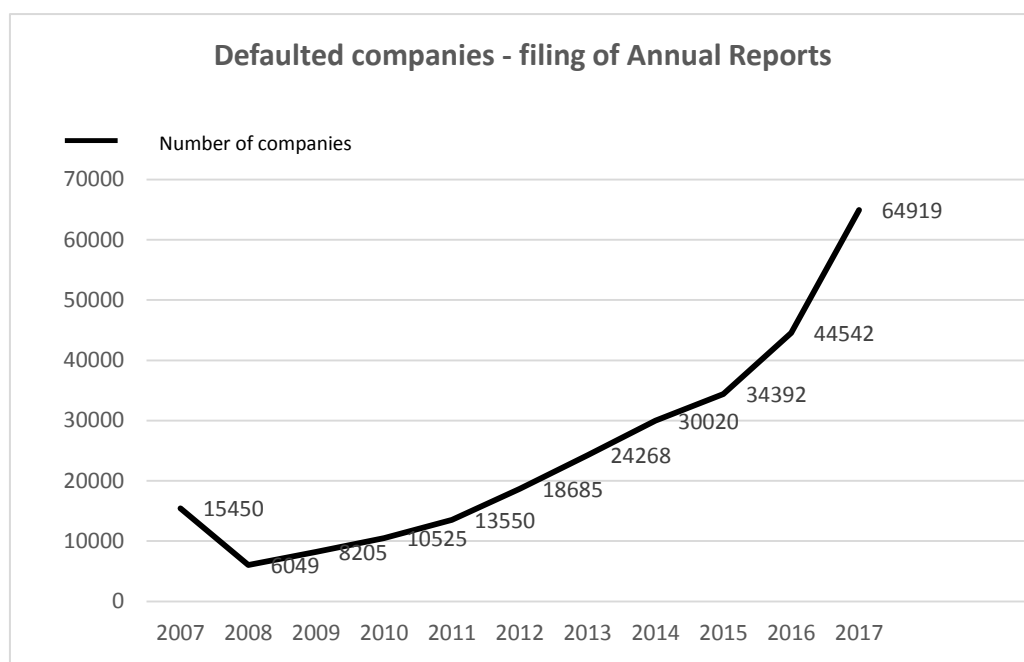
##### 4.1.1 Activity and Review

The following observations are made.

- (a) Comparison of physical and financial progress of registration of companies, registration of Annual Reports of the companies and registration of Financial Reports of the companies including other activities during the year under review and proceeding year are shown below.

Activity	Physical Progress		Financial Progress (Rs.)	
	2017	2016	2017	2016
Registration of Annual Reports of the companies	34,593	36,955	207,375,000	184,608,500
Registration of Financial Reports	2,215	2,162	4,428,000	2,162,000
Registration of New Companies	9,782	8,218	47,796,000	127,005,000
Registration of Company Secretaries	817	701	4,285,000	1,815,000
Issuing of certified copies	57,400	57,556	58,373,964	29,536,300
Examine of company files	10,580	12,674	10,580,070	6,337,040

- (i) The company (fees) had been revised from Gazette Notification No.1990/12 published on 25 October 2016. Accordingly, the charges of the Department of Company Registrar had revised being effect from 01 January 2017 and therefore the income for the year had been increased relative with the previous year. Increase in charges had been effected to increase in income.
- (ii) Whereas the fees had charged base on charges prevailed in the year 2016 for the months of January and February without consider the charges revised with effect from 01 January 2017, charges from companies were furnished Annual Reports in 87 instances by Rs.87,000, fees on issuing certificate of charges in 210 instances by Rs.519,000 had been undercharged.
- (iii) The total number of registered companies from year 2007 to year 2017 were 72,865 and 16,148 companies had not furnished any Annual Report during the period that Annual Reports required to be filed. The Annual Report had not been filed by 2,555 companies out of 25,071 re-registered companies during prescribe time period.  
The names were removed in 3,485 companies and the Annual Reports were not filed be the reason for remove the names of 2,715 companies thereof. Thus an income of Rs.33,911,333 was lost to the Fund owing to remove the names.
- (iv) The Accounting Officer had not been functioned according to the paragraph 04(a) and (b) of the Fiscal Policy Circular No.01/2015 dated 20 July 2015 and Financial Regulation No.128(2)(e). A sum of Rs.575,412,000 less than 03 years and a sum of Rs.507,008,000 more than 03 years had included in arrears income balance of Rs.1,082,420,000 receivable to the Fund from year 2007 to 31 December 2017 and the Fund had not a formal procedure to recover this arrears balance.
- (v) Eventhough 7,468 companies required to be registered the financial statements as at 31 December 2017 as per the paragraph 170 (1) of the Companies Act, the actual number of companies registered the financial statements were 2,215. Nevertheless the Department had not a proper arrangement to identity the companies which required to be registered the financial statements as per the Act and were registered such reports in the Department.
- (vi) The number of companies default to filing of Annual Reports were increased and the details regarding to this are mention below.



- (b) Even though the registration of limited companies in accordance with the Companies Act, the direction of the operations of the limited companies in accordance with the provisions made therein and ensure that they act in accordance therewith and in instances of not so doing, taking action as prescribed in the Companies Act and cause the companies to act in accordance with the provisions in the companies Act are the statutory functions devolved on the Registrar General of Companies, an Action Plan for regularize of the operations of the companies was not available in the Department.

## 4.2 Management Activities

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The following observations are made.

- (a) The contracted company had been failed to deploy agreed amount of employees in the category of supervisors, labours and others relevant to the period from 01 April 2017 to 31 December 2017 for Cleaning Services and the unemployed man days in some months had been wide ranged from 11 to 61.
- (b) The contract period had extended till 28 February 2018 in several times despite of the Security Service agreement for the year 2015/2016 had to be expired as at 31 July 2016 and had been allowed to the contracted company to provide that service without an agreement and without enter in to a new agreement or extend the agreement period even the audited date as at 30 June 2018.
- (c) It had been failed to establish a computer system as at 31 December 2017 need to be continue the activities systematically of the Fund.

## 5. Sustainable Development

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### 5.1 Achievement of Sustainable Development Goals

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According to the United Nations year 2030 on Sustainable Development, every public entity should act in accordance with that “agenda”. The Department of Registrar of Companies had made aware how it would perform its functions within the own scope. Nevertheless, Sustainable Development goals had not been recognized to be achieved according to the own scope on aware about year 2030 agenda.

### 5.2 Unresolved Audit Paras

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Action had not been taken on following matters shown in the Auditor General’s Report in year 2016.

<b>Reference to para in the report</b>	<b>Audit observation</b>
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(a) Para 4.3	<p>A contract on computerization of the process of company registration project amounted to Rs.88,812,207 had been offered to a contractor as at 24 January 2014. Base on failure to complete the contract during agreed time, action had been taken by the Department to cease the agreement and the project had been waived before it was completed. A sum of Rs.13,268,449 had been paid by the Fund to the contractor at the moment.</p> <p>The purchase value of 6,275,000 Ordinary Shares of Rs.10 each and 3,000,000 Preference Shares of Rs.10 each with zero market value at the year under review had purchased at Rs.90,275,000 in year 2006 had been shown under Non-Current Assets. Therefore, the statement of financial position had been overstated by that amount.</p>
(b) Para 4.4	<p>Even though all expenditure were incurred by the Registrar of Companies for performing of the functions and duties of the Company Act No.07 of 2007 can be beared by the Fund, a sum of Rs.90,275,000 had been disbursed during the year 2006 on request of the Chief Accounting Officer to purchase of shares of a limited liability company running in loss under unallowable expenditure according to the Section 4 of the Companies Act. Any benefit had not been received to the Fund until 30 June 2017 from this investment and the company was decided to wind up owing to bankrupted of the relevant company. Therefore, recovery of rights or invested money again to the Companies Fund relevant to above investment is in doubtful.</p>

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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Although only 03 audit queries had issued during the year 2017 by the Internal Audit Unit of the Department consist of three officers including Internal Auditor, the desired subject field had not been covered according to the Audit Plan of the Internal Audit Unit.

### **6.2 Procurement and Contract Process**

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#### **6.2.1 Procurements**

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The following non-compliances were observed in the Consultancy Procurement Guideline and the Government Procurement Guideline.

- (a) The following observations are made on examine the purchase of Computer Software by disbursed a sum of Rs.57 Million during the year under review.
  - (i) All members appointed to Consultants Procurement Committee and Technical Evaluation Committee as well as all officers assisting to the procurement committee had not been furnished a declaration by express the consent about that appointment according to prescribe format in Paragraph 2.8 of the Consulting Services Manual and 64 weeks had been spent beyond the time frame refer in Paragraph 5.1 of the Consultant Procurement Guideline and Consulting Services Manual.
  - (ii) The technical and financial proposals had been called from 07 persons were selected among who express the consent for this procurement. Even though there was a bidder who had fulfilled the cutoff marks of 70 after the evaluation, the Procurement Committee had decided to call technical and financial proposals again from the above seven bidders despite to open the financial proposal of that bidder.
  - (iii) The Procurement Committee members had been requested instructions from the Secretary to the National Procurement Commission as at 01 July 2016 after decided to call new proposals again including reduce the cut-off marks, change the marking structure and giving marks for “presentation”. The Secretary of the National Procurement Commission had informed from the reply letter No.NPC/Function/2016/01 dated 04 July 2016 that the committee could not be functioned as expected and could not be re-invited bids without consider the marks decided in initial stage or giving additional marks. However, the Consultant Procurement Committee had been decided to invite proposals again by removed this instructions.
  - (iv) Accordingly, the cut-off marks had been reduced from 70 to 60 when calling proposals in second time. The marks given for Key Professional Indicator had reduced from 50 to 25 and 15 marks had been given for presentations.



- (v) The financial proposal to be opened publicly allowing at least after 05 days or sufficient time after select as successful bidder according to the paragraph 7.4.3 of the guideline after evaluating technical proposal obtained secondly by the Technical Evaluation Committee. However, the bidder who presented a bid for Rs.57 Million had been selected as successful bidder by opening of financial proposal even at the same date without allowing minimum time contrary to it. Although the contract agreement to be signed as early as possible according to the paragraph 9.2.1(6) of the Consultancy Services Guideline, 07 months had been consumed to enter in to a contract agreement.
- (vi) Although actions to be taken to sign the contract agreement according to the Public Contract Act No.03 of 1987, the successful bidder had taken action to register the contract agreement for this software procurement after lapsed of 06 months from offer of the contract.

**(b) Supply of Security and Cleaning Services**  
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The following observations are made.

- (i) An actions had not been taken to enter the estimate cost of security and cleaning services amounting to Rs.6 Million and Rs.2 Million respectively in to the relevant Procurement Plan.
- (ii) Whereas the quotations had called by published a newspaper advertisement as at 14 December 2016 and 31 July 2016 for procure of security and cleaning services, only 14 days had been given for offer bids.
- (iii) The bidders had not been acknowledged to obtain a Bid Bond according to the paragraph 5.3.11 of the Procurement Guideline.
- (iv) An actions had not been taken to obtain a Performance Bond according to the paragraph 5.4.10 of the Procurement Guideline.

**6.3 Budgetary Control**  
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It was observed that the budget had not been utilized as an effective instrument of management control, due to observed variances ranging from 10 per cent to 100 per cent in 12 actual and budgeted expenditure items and 200 per cent to 245 per cent in 03 actual and budgeted income items for the year under review.

**07. System and Controls**  
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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.

**Areas of Systems & Controls**

**Observations**

<b>Areas of Systems &amp; Controls</b>	<b>Observations</b>
(a) Accounting	Failure to furnished detailed schedules on accounts entries relevant to final accounts furnished for audit.
(b) Recovery of arrears income	Failure to establish a system to recover the fees on Annual Reports.
(c) Procurement activities	Failure to prepare the Evaluation Committee Procurement committee, Procurement Plan, correctly according to Government Procurement Guideline.
(d) Operational Controls	<ul style="list-style-type: none"><li>- Failure to establish a formal computer system to acquire information regarding registered companies.</li><li>- Failure to act for achievement of expected objectives through filing of Annual Reports accordingly during the period mentioned in the Act.</li></ul>