Distance Learning Centre Limited – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Distance Learning Centre Limited ("Company") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

The following observations are made.

	Audit Observations	Comments of the Management	Recommendation
(i)	Provision for impairment had not been made as required by the Section 11.21 of the Sri Lanka Accounting Standards for Small and Medium sized entities (SLFRS for SME) for the Withholding Tax receivable which had been outstanding over five years as at December 2018 amounting to Rs.3,477,438.	There is no evidence that the DLC will not be able to recover the above amount in part or full, at present. This can only be ascertained based on the outcome of Inland Revenue Department's audit on tax refund.	Immediately actions should be taken to recover the outstanding balance.
(ii)	According to section 29 of the Sri Lanka Accounting Standards for SME's (SLFRS for SME's), when deferred tax rates apply to different levels of taxable profit, deferred tax liabilities/(assets) to be assess using the average income tax rates that it expects to be applicable to the taxable profit/(tax loss) of the periods in which it expects the deferred tax liability to be settled. However, contrary to that 28 per cent tax rate applicable to interest income had been used to assess the deferred tax liabilities/(assets) arising from both trade income, taxable at 14 per cent and tax losses. As a result, the current year income tax expense and deferred tax asset had been overstated by Rs.3,374,000.	As DLC financial statementas for 2018 will be based for the tax year of 2018/2019, the new IRD Act No. 24 of 2017 will be applicable for deferred tax rates. Therefore as DLC has less than 80 per cent from Educational Services in statutory income, 28 per cent rate was applied.	Actions should be taken to compute the deferred tax accurately.

1.6 Non -compliance with Tax Regulations

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
PAYE Tax on fuel allowances and vehicle allowances paid to Chief Executive Officer of the Company for the period April to December 2018 and April to October 2018 respectively amounting to Rs. 82,447 had not been deducted and remitted to the Inland Revenue Department as required by the Inland Revenue Act No. 24 of 2017.	DLC has taken actions to deduct PAYE on the same.	Terms of the Act should be applied from the date the Act enacted.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 15,365,819 and the corresponding profit in the preceding year amounted to Rs. 13,017,604. Therefore an improvement amounting to Rs. 2,348,215 of the financial result was observed. The reduction in the Cost of Sales and Income Tax Expenses had mainly affected the above improvement.

2.2 Trend Analysis of major Income and Expenditure items

	2018 Rs.	2017 Rs.	Increase/ (Decrease) Percentage
Revenue			
Video Conference	3,643,012	2,662,939	37
Non Facility based Income	4,052,124	6,023,605	(33)
Cost of Sales	21,572,552	29,154,623	(26)
Expenses			
Sales Incentive	1,305,000	910,000	43

3. Operational Review

3.1 Uneconomic Transactions

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
The Distance Learning Centre had arranged a study tour for the Western Provincial Ministry of the Education from 19 to 25 December 2018 and incurred a sum of Rs. 243,228 to reserved air tickets. However, the DLC had canceled the tour since approval of the Chairperson had not been received. As a result, the expenditure incurred on air tickets reservation are identified as an uneconomic transaction.	When the budget approval was submitted, the Chairperson was not in a position to sign the document as the Public Enterprises Department approval was pending for the continuation as the Chairperson of DLC.	Payments should be made only after obtaining required approval.

3.2 Procurement Management

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(i)	The Company had allocated Rs. 11.5 million and included in the Procurement Plan prepared at the beginning of the year to procure 17 items. However, the Company had not procured such items.	The actual purchased was based on the point of requirement. Therefore, DLC did not purchased total budgeted fixed assets for the year of 2018.	Actions should be taken to make budgetary allocation and to prepare the procurement plan in a realistic manner.
(ii)	The Company had paid a sum of Rs.9,620,390 to a private institution for obtaining catering service and it was observed that the procurement procedure in this regard had not been followed in selecting Catering Service.	The current catering service provider has been in service with DLC for the past 4 years and have provided exceptional service with some additional services as and when required.	Procurement Guideline should be followed when selecting a supplier for catering services.

3.3 Corporate Plan

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
According to section 5.1.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, a Corporate Plan should be a rolling plan effective for a period of not less than three years. However, it was observed that the Company had not prepared a Corporate Plan to fulfill this requirement.	We plan to prepare the next Corporate Plan for the period of 2020-2022 in order to comply with the above requirement.	A Corporate Plan should be prepared by following the terms in the Circular.

3.4 Human Resources Management

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(i)	According to section 9.2 (a) of Public Enterprises Circular No. PED 12 of 02 June 2003 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.	Do not agree. Both the Ministry of Public Administration and DLC are awaiting the confirmation from PED on the documents submitted in June 2018 and resubmitted in August 2018.	Terms in PED Circulars should be applied.
(ii)	According to section 9.3.1 of Public Enterprises Circular No. PED 12 of 02 June 2003, every public enterprise should have a Scheme of Requirements and Promotions, the Company did not have such an approved Scheme of Recruitments and Promotions.	Do not agree. DLC developed its SOR with the formats provided by the Ministry of Public Administration in 2017. The Ministry scrutinized the submitted SOR and forwarded the same to both Management Services Department and Department of Public Enterprises .	An approved Scheme of Recruitment should be available.

4. Accountability and Good Governance

4.1 Budgetary Control

The following Observation is made

Audit Observations	Comments of the Management	Recommendation
A sum of Rs.12 million had been allocated to procure fixed assets in the Capital budget However, only a sum of Rs. 731, 122 which equivalent to 6 per cent had been incurred this regard.	The actual purchased was based on the point of requirement. Therefore, DLC did not purchased total budgeted fixed assets for the year of 2018.	Budget estimates should be prepared in a realistic manner.