

## **Head 297 - Department of Registrar of Companies**

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### **1. Financial Statements**

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#### **1.1 Unqualified Opinion**

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The audit of the financial statements of the Department of Registrar of Companies for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, 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. The Summary Report containing my comments and observations on the financial statements of the Department of Registrar of Companies was issued to the Accounting Officer on 21 June 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 . The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 14 June 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Department of Registrar of Companies and the financial performance and cash flow for the year ended 31 December 2018 in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Unqualified Opinion**

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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 opinion.

#### **1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on Financial Statements**

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The Accounting Officer is responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 .

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department 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.

The Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Department in terms of sub-section 38 (1) (c) of the

National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Summary Report of the Auditor General 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 skepticism 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.
- It is not intended to express an opinion on the effectiveness of internal control of the Department to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- The transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.5 Report on Other Legal Requirements

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I declare the following matters in terms of Section 6 (d) and Section 38 of the National Audit Act No. 19 of 2018 .

- (a) As there was no need to prepare financial statements for the previous year, it was impossible declare the financial statements for the year under review were consistent with those of the previous year.
- (b) As the Department of Registrar of Companies had not prepared the financial statements relevant for the previous year, the recommendations for the financial statements had not been presented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Statement of Reconciliation of the Advances for Public Officers Account

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The following observations are made.

| <b>Audit Issue</b>                                                                                                                                                                                            | <b>Recommendation</b>                                                                                           | <b>Comments given by the Accounting Officer</b>                                                                                                                                                                |
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| -----                                                                                                                                                                                                         | -----                                                                                                           | -----                                                                                                                                                                                                          |
| (a) It had been impossible to recover a loan balance of Rs.120,741 which was in due from two officers who were transferred out over 25 years and an officer for more than 18 years even up to now.            | Actions should be taken to recover debt balances which are being brought forward in accounts for a long period. | Necessary instructions had been requested from the Attorney General's Department and the Department of State Accounts and two letters were sent to the Department of State Accounts in the year 2018 .         |
| (b) Even though more than 13 years had elapsed for a loan balance which was unsettled by an interdicted officer amounted to Rs. 17,000 , it had been impossible to recover this loan balances even up to now. | Actions should be taken to recover unsettled loan balances.                                                     | A request has been made to the Director of Combined Services on 31 October 2018 requesting to provide the details of this officer. Actions will be taken to recover the loans as soon as the details received. |

## 1.6.2 Certification that should be made by the Accounting Officer

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Although the Accounting Officer should certify the following matter in terms of the provisions of Section 38 of the National Audit Act, No. 19 of 2018 , actions had not been taken accordingly.

| <b>Audit Issue</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Recommendation</b>                                                                                        | <b>Comments given by the Accounting Officer</b>                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| -----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | -----                                                                                                        | -----                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| (a) The Accounting Officer shall ensure that an effective internal control system is developed and maintained for the financial control of the Department in terms of Section 38 of National Audit Act of No. 19 of 2018 and the effectiveness of the system should be periodically reviewed and the necessary modifications should be made to make the system effective and although these reviews should be made in writing and a copy of that should be furnished to the Auditor General, the statements as of such a review was carried out had not been furnished to audit. | The actions should be taken as per the provisions of Section 38 of the National Audit Act, No. 19 of 2018.   | An Accountant was appointed for the vacancy of Internal Auditor post on the basis of acting and the actions are currently being taken to make necessary changes for the points shown in those internal audit queries. A copy of the measures taken could not be sent to the Auditor General due to a mistake and it is noted that there would be no such failures in the future.                                                                                                          |
| (b) Although the Accounting Officer should ensure that there is an effective system for the proper implementation of internal audit function, that requirement was not achieved as per the observations made in Paragraph 3.2 of the report.                                                                                                                                                                                                                                                                                                                                     | Actions should be taken as per the provisions made in Section 38 of the National Audit Act, No. 19 of 2018 . | An officer of Grade III of the Accountants' Service was appointed to the post of Internal Auditor of the Department and since she was released to the Ministry of Industry and Commerce from 02 August 2018 , this vacancy had occurred. This post has also been revised as an Accountant Grade I post and sent to the Department of Management Services to get the approval. The Accountant of the National Intellectual Property Office has been appointed on acting basis until then . |

### 1.6.3 Non-compliance with Laws, Rules and Regulations

Instances of non - compliances with provisions in Laws, Rules and Regulations observed during the course of audit test checks are analyzed below.

| Audit Issue                                        | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Comments given by the Accounting Officer                                                                                                                                                                                                                                                                                                    |
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| Reference to Laws, Rules and Regulations           | Non-compliance                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                             |
| (a) Public Contract Act No. 03 of 1987             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                             |
| (i) Sections 5 (1) and 5 (2) and Sub section 2 (1) | Every Public Contract Agreement that exceeds the value consist in the contract agreement amounted to Rs. 5,000,000 should be registered in terms of this Act by activating the power in expression or specified to the Registrar of Companies. Even though the 24,345 contractors who had intended to be included in the procurement had been registered during the year under review, only 398 contract agreements were registered after awarding the contracts. | Proper actions should be taken regarding every contract exceeding the value of Rs. 5 million to get registered in both cases when the Procurement application is being made and after awarding the contract in terms of the Sections of this Act.                                                                                           |
| (ii) Section 11 (3)                                | A certificate issued under Section 11 (3) of the Act may be renewed from time to time for a further period subject to the provisions of Section 14. However, after the elapses of one year, any income obtained from renewal of the registrations had not been reported.                                                                                                                                                                                          | All Secretaries of Ministries, Heads of Departments and the Institutions have been informed of this. Accordingly, the number of public contract registrations has increased annually. The Department of Registrar of Companies is to launch a programme in a few days to register all public contract agreements through the online system. |
|                                                    | Actions should be taken to renew the registration of contracts which had exceeded one year from the date of registration.                                                                                                                                                                                                                                                                                                                                         | It is the duty of each of the institutions to renew the re-registration of Public Contract Agreements which expires agreement period. Through the online method which is expected to be introduced to renew the registration after the                                                                                                      |

expiry of one year, it can be notified to the contract awarded institution by the system.

**2. Financial Review**

**2.1 Revenue Management**

The following observations are made.

| Audit Issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Recommendation                                                                                                                                                                                                                                                               | Comments given by the Accounting Officer                                                                                                                                                                |
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| <b>(a) Revenue Code - 20.03.02.10</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                         |
| <p>(i) The arrears income receivable for Annual Reports of Limited Companies at the end of the year under review was Rs. 658.20 million in terms of Section 131 (1) and (2) of the Companies Act. It had been recorded that only a sum of Rs. 36.10 million was recovered out of this arrears income during the year under review and as a percentage that was a very low value such as 5 per cent. Accordingly, it was not observed that the Department had taken sufficient steps to recover the arrears income.</p> | <p>An active plan should be introduced for recovery of arrears income.</p>                                                                                                                                                                                                   | <p>Since the increase of approval of Company Names, registration of Annual Reports of Companies and issuing of certified copies, the actual income has increased as compared to the preceding year.</p> |
| <p>(ii) Although the number of companies those required the financial reports to be registered as per the Income Classification Report and the Arrears Income Report as at 31 December 2018 were 6,893 , the number of companies registered of financial reports for the year under review were 2,110 . The total income generated thereof was Rs. 4.22 million and the portion credited to the Consolidated Fund was Rs. 1.4 million.</p>                                                                             | <p>Actions should be taken to collect financial reports from every registered public company and to collect arrears income without delay. Similarly, actions should be taken to identify the companies those required the financial reports to be registered in terms of</p> | <p>The financial reports of registered public companies are required to be filed and have made notices in writing to Companies and their Directors to file financial reports.</p>                       |

Section 170 (1) of the Companies Act and to register their financial reports.

(iii) The registered Societies should file Annual Reports in accordance with the Societies Ordinance No.11 of 2005 and the names of 178 Societies had been cut off in the years 2016, 2017 and 2018 under Section 6 (3) of the Societies Ordinance. Accordingly, the income to be collected from 12,307 Societies which should file Annual Reports for the year under review was Rs. 12.3 million. Nevertheless, the number of Societies those had filed Annual Reports during the year under review were only 180. A number of 204 Societies had filed their Annual Reports during the year 2017. Accordingly, the filing of reports has decreased by 24 Societies as compared to the preceding year. The arrears income of Societies regarding only for the year 2018 was Rs. 12.12 million and 1,086 new Societies had also been registered in the year 2018 .

Actions should be taken to make the Annual Reports filed from all registered Societies and actions should be taken to recover without delay if there is arrears of income.

Although the Annual Reports are being filed only by active Societies, most of the registered Societies are not currently in operational level. It is informed that the notices are being made through letters to Societies and their Directors to file the Annual Reports.

**(b) Revenue Code - 10.03.07.08**

(i) Even though a preliminary tax revenue estimate of Rs. 1,500 million had been made during the year under review, the revenue had not been collected under this Revenue Code during the year. The tax collection had been suspended due to the problematic situation arising from the levying of taxes without issuing a Gazette Notification.

The ability of collection of revenue before the preparation of estimates should be considered in a systematic manner comparing with the previous years.

Since it was instructed to halt this temporarily until the Finance Act was passed, this Revenue Code had not collected any revenue in the year 2018 .

(ii) Among the companies registered under the Companies Act, only 15 companies had paid a tax amounted to Rs. 890,000 for the preceding year and all those tax money collected had been remitted to the Treasury.

Since it could be able to occur legal issues, it should have been act considering of that .

All companies registered before 2016 should pay these taxes and the companies that previously paid this tax are exempt from paying of the tax. Actions have been taken to credit the tax amount so charged to the Revenue Code 10.03.07.08 of the Deputy Secretary to the Treasury. It is allowed to pay taxes until 31 December 2019 for the companies that had not paid this tax. Further the actions to be taken against the defaulters of these taxes are shown in Sections 33 and 34 of the Act.

### 3. Operating Review

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#### 3.1 Other observations

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The following observation is made.

| Audit Issue                                                                                                                                                                                                                                   | Recommendation                                                                                                                                                                  | Comments given by the Accounting Officer                                                                                                                                                                                                            |
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| The Registrar General of Companies had filed 08 judicial actions against external parties and 29 judicial actions had been filed by the external parties by making the Registrar General of Companies as respondent in the year under review. | The Department shall comply with the provisions of the Companies Act and the Companies also should regulate the actions carrying out in accordance with regulations of the Act. | It is confirmed that the Registrar General of Companies had filed 08 cases in court against external parties and 29 cases have been filed by external parties making the Registrar General of Companies as respondent during the year under review, |



**4. Good Governance**  
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**4.1 Perform Services to the Public**  
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The following observation is made.

| <b>Audit Issue</b><br>-----                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Recommendation</b><br>-----                                                                                               | <b>Comments given by the Accounting Officer</b><br>-----                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Although the issuing of Certificates in respect of Registered Companies depending on the needs of the clients was a major function of this Department, it was observed that it takes considerable delay of time for the clients to obtain the service. As the Department had not introduced a systematic internal control system regarding the filing of Annual Reports, it was further observed that such delays occurred whilst providing services to the clients . | Expedite these functions by introducing internal control systems to be able to achieve the main objective of the Department. | Committing to serve the public needs as quickly as possible by informing them of the deficiencies appear in the files and coordinating them. |

**4.2 Internal**  
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**Audit**

The following observation is made.

| <b>Audit Issue</b><br>-----                                                                                                                                                                                                          | <b>Recommendation</b><br>-----                                                      | <b>Comments given by the Accounting Officer</b><br>-----                                                                                                                                                                                                                                                                                                                                     |
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| The post of Internal Auditor of this Department which is a 'A' Grade Department consisting of 10 coordinating Divisions, had been in vacant since August 2018 up to now and the number of officers employed in that Division was 03. | Conducting the internal audit properly and systematically by filling the vacancies. | An officer of Grade III of the Accountant Service had been appointed to the post of Internal Auditor and since she was released to the Line Ministry on 02 August 2018, this post has been in vacant. This post has been revised as an Accountant Grade I post and referred to the Department of Management Services for approval. Until then an officer has been appointed on acting basis. |

**5. Human Resource Management**  
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The following observation is made.

**Audit Issue**  
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The entire 10 posts of Inspector of Companies approved for the Department had been in vacant and those positions were directly in connection with the regulation of affairs of companies. It was observed that the regulation of companies was in poor condition due to these posts were completely vacant.

**Recommendation**  
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The recruitments for these posts which have a direct impact on the Departmental work should be expedited.

**Comments given by the Accounting Officer**  
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These recruitments could not be carried out within the relevant time period due to the necessity to revise the Scheme on Recruitment of the post of Inspector of Companies. The approval has been received from the Public Service Commission by now and actions are being carried out to conduct a recruitment examination by calling applications through the Commissioner General of Examinations.