

## **Title Insurance Fund – 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Title Insurance Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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(3) 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 and in terms of Section 62 of the Title Registration Act No. 31 of 1998 and Order No. 41 of Title Registration (Insurance Fund) No. 1 of 2009 published in the Gazette Extraordinary No. 1616/23 of 24 August 2009 . 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 Fund as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based 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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

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

#### **1.4 Auditor's Responsibility in Auditing Financial Statements**

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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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the Preparation of Financial Statements.

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The audit observations with regard to maintenance of accounting records, finance control, operational control, are as follows.

Audit Observation	Comments of the Management	Recommendation
(a) Improper maintenance of books of accounts and making payments excluding the Regulations.	The proper actions will be taken in future.	Actions should be taken in terms of Accounting Standards and Financial Regulations.
(b) Instances where the orders of the Fund had not been complied with and failure to act on the objectives of the Fund.	The exact answer has not been given.	Actions should be taken in accordance with the orders of the Fund and in order to achieve the objectives.

**1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

<b>Non-compliance with Reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The policy regarding the valuation of Treasury Bonds was not disclosed in the accounts in terms of the Standard No.1 and 16 Bonds amounted to Rs.74,569,193 as at the end of the year under review had been valued to a sum of Rs.72,850,302 without a recognized assessment and entered into the financial statement.	Answers have not been given regarding the non-disclosure of accounting policy. The adjustments were made to the Bonds and included in the account.	The bond valuation policy should be disclosed in the accounts and the accounts should be adjusted accordingly in terms of the Standard.
(b) Although the cash outflow during the year should be disclosed through the cash flow statement in terms of the Standard No.02, the valued amount of Rs. 78,706,067 had been shown as cash outflow instead of investments made in cash in Treasury Bills and Treasury Bonds.	Nominal interest payable and surcharges were adjusted.	The investments made in cash should be disclosed through the cash flow statement

**1.5.3 Accounting Deficiencies**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Due to the fact that the registration income collected from a Land Registrar's Office and a Zonal Office amounting to Rs.20,041,500 was considered as a title registration income without considering as a registration income, a sum of Rs.8,016,600 or 40 per cent out of that had been overstated as an income of the Fund.	Actions will be taken to correct the error that has occurred.	The accuracy should be ascertained comparing the revenue collected with income records.

**1.5.4 Lack of Evidence for Audit**

Audit Observation	Comments of the Management	Recommendation
As a result of being accounted for the opening balances for ledger accounts, debit balances totalled to Rs. 1,739,012 at 27 instances, credit balances totalled to Rs.2,370,145 at 22 instances for 04 ledger accounts without using the journal entries of the year under review, the accuracy of the transactions entered into the accounts could not be ascertained.	The steps will be taken to make journal entries in future.	The journal entries should be taken into the ledger by journal entries.

**1.5.5 Non-compliance with Laws, Rules, Regulations, and Management Decisions**

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Orders 11 and 12 of the Title Registration (Insurance Funds) No.01 of 2009 published by the Gazette Extraordinary No.1616/23 of 24 August 2009 of the Democratic Socialist Republic of Sri Lanka	Even though the Audit Report should be published along with the Annual Administration Report, the Administration Report had not been prepared from the beginning .	Comments have not been given regarding non-publication of the Administrative Report.	The Audit Report, along with the Annual Administration Report should be published in terms of the Orders of the Funds.

**2. Financial Review**

**2.1 Financial Result**

The operating results of the year under review as per the financial statements submitted was a surplus of Rs.24,684,699 and the corresponding surplus in the preceding year was Rs.13,778,403. Accordingly, a growth of Rs. 10,906,296 in financial result was observed. The increase in the income of the Fund by Rs. 10,747,427 and the decrease of expenditure by Rs. 158,869 had attributed to this growth.

### 3. Operating Review

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#### 3.1 Management Activities

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The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although the objective of this Fund is the payment of compensation for reparations being made by fraudulent or erroneous title registration in connection with a land title as per the orders published in the Gazette of the Democratic Socialist Republic of Sri Lanka No. 1616/23 of 24 August 2009, it was not observed that the general public was aware of this. As a result, any compensation had not been paid from the beginning until the end of the year under review.	Satisfied with the duties of the officers regarding the non-payment of compensation so far.	The general public should be made aware of the objective for which the Fund was established.
(b) The unidentified income included in the bank statements had increased from Rs.3,355,634 to Rs.22,748,177 as compared to the previous year and the number of Title Registrar's Offices which did not obtained the income records had increased from 09 to 19 . As a result, the accuracy of the title income of Rs.19,168,081 transferred as 40 per cent to the Title Insurance Fund was not ascertained.	As a result of the inconvenience of obtaining revenue reports and existing inconsistencies in the reports obtained accounting for is being done on the basis of bank records.	Income records should be obtained and the income deposited in the bank should be verified correctly.

#### 4. Accountability and Good Governance

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##### 4.1 Internal Audit

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An internal audit in respect of the activities of the Fund had not been conducted.	That will be implemented in the year 2020 .	An internal audit should be conducted regarding the activities of the Fund in terms of the Financial Regulations 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

##### 4.2 Audit Committees

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although the Audit and Management Committee should be held at least once in 03 months, only one meeting had been held during the year under review.	The steps will be taken to conduct meetings properly in future.	The Audit and Management Committees should be held in terms of Management Audit Circular No. DMA/ 2009 (i) of 06 June 2009 .

##### 4.3 Budgetary Control

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As a result of the variances appear in overstatement of 82.5 per cent and 20.8 per cent respectively in two income items and understatement of expenditure ranging in between 12 per cent to 81 per cent in 05 expenditure items when comparing estimated and actual incomes and expenditures, it was not observed that the Budget Estimate had not been made use of as an effective instrument of management control .	The Budget Estimate could not be revised under the prevailing circumstances.	The Budget Estimate should be prepared in a planned and realistic manner within the stipulated time frame and actions should be taken accordingly.