

Title Insurance Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Title Insurance Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes in relation with the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Order No. 41 of Registration of Title (Insurance Funds) No. 1 of 2009 published in the Gazette Extraordinary No. 1616/23 of 24 August 2009 in terms of Section 62 of the Title Registration Act No. 31 of 1998 and Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the 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 the 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 2020 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

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 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 intends 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, it 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 Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 furthermore,

- Identifying and assessing 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.
- Though an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances was obtained, it was not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Concluded 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. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluated 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 the it has 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 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard

Instead of Rs.29,658,414 invested in Treasury Bonds in cash the year 2020 the investment for the year had been recorded as Rs.97,189,304 in the cash flow statement non-compliance with Standard No. 02. Further, although the amount received at maturity was Rs.4,611,700, instead, a sum of Rs.78,706,067 had been entered as receipts in that statement.

Comments of the Management

The value of Treasury Bonds as at 31 December 2020 was Rs.97,189,304. The value of Bonds purchased in 2018 and 2019 was Rs.3,082,528 and Rs.65,112,518 respectively.

Recommendation

The cash flow statement should be prepared in accordance with the referred Standard.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Total Title Registration Revenue of the month of June 2020 was Rs.2,392,560 and of that, although a 40 per cent, that is Rs.957,024 should be credited to the Insurance Fund, since only a sum of Rs.938,016 was credited to it, the revenue for the year under review had been understated by Rs. 19,008 .	Understating of the revenue of the month of June to correct the overstating of revenue in January 2020 .	The income should be accounted for accurately.
(b) Although the revenue of the Fund had been overstated by Rs. 8,016,600 in the year 2019, necessary actions had not been taken to rectify the error during the year under review.	It has been corrected in the year 2021 .	The income should be accounted for accurately.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

Reference to Non-compliance with Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Orders of Title Registration No. 01 of 2009 (Insurance Funds)			
(I) Order 42 (h), 4	Although there should not be any balance in the cash book or bank account at the end of each month, remaining of a balance of 4 months with a minimum of Rs.204,142 and a maximum of Rs.331,343 at the end of each month in the account of the Title Registrar General .	The money which should be credited to the Registrar General's account has been credited to the Title Registrar's account by a mistake.	It should comply with the Orders.

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| (II) Order 15 (1) | Although the Annual General Meeting of the Board of Management should be held in January each year, failure to conduct the Annual General Meeting for the year 2020 . | These meetings could not be held due to unavoidable reasons. | It should comply with the Orders. |
| (III) Order 42 (h) | Although twenty five per cent out of forty per cent transferred to the Fund from title registration fees should be credited to the account of the Title Registrar General for the administrative activities of the Insurance Fund at the end of the month, the total of Rs.772,046 to be transferred in January, February, March, April and May 2020 respectively had not been credited to the account of the Title Registrar General. | Since the payments has not been made in the Fund during these months, the relevant administrative expenses have not been credited to the Title Registrar . | It should comply with the Orders. |
| (b) Paragraph 02 of the Management Audit Circular No. DMA / 2019/(I) (i) dated 28 January 2016 | Although at least one Audit and Management Committee Meeting should be held quarterly, conducting of only one meeting in the year 2020. | There was no opportunity to held Audit and Management Committee Meetings as specified. | It should comply with the Circular. |

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 18,201,794 and the corresponding surplus of the preceding year was Rs. 24,684,699. Accordingly, a deterioration of Rs. 6,482,905 in the financial results in the year under review was observed. The decrease in the revenue from Title Registration by Rs. 8,646,373 had mainly attributed to this deterioration.

2.2 Trend Analysis of Major Revenue and Expenditure Items

The following observations are made.

- (a) Although the Treasury Bill interest income for the year 2019 was Rs.421,183 , since 6 Treasury Bills with a face value of Rs.6,414,576 had matured during the year under review, the interest on Treasury bills for the year 2020 was Rs.137,630 . Accordingly, interest received on Treasury Bills as compared to previous year had decreased by Rs.283,553, that is 67 per cent.
- (b) The interest income on Treasury Bonds for the preceding year was Rs.2,610,701 and since it was Rs.6,969,486 in the year under review, the interest on Bonds had improved by Rs.4,358,785 or 167 per cent.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though this Fund had been established under the Title Registration Act No. 21 of 1998 to cover the amount of compensation to be paid by the Government to the parties for the loss incurred due to a wrong decision in the matter of land ownership registration, any targeted function to accomplish that task had not been included in the Action Plan 2020 of the Fund. Similarly, although more than 10 years had elapsed after the establishment of the Title Insurance Fund at the end of the year under review, no compensation whatsoever had been paid during this period and only investing of the total revenue after the operating expenses up to the end of 2020 had been carried out.	The Land Settlement Department also make aware the public about the Insurance Fund.	The functions of the Fund should be carried out efficiently and effectively.
(b) Although the Title Registrars are required to send reports on title income to the Head Office once in every 2 weeks, the revenue received totalled to Rs.5,994,495 had been included in the cash book and the statement financial performance as revenue	Due to non-submission of revenue reports by the offices once in every 2 weeks, this situation has reported.	The revenue should be identified and accounted for accurately.

of the Fund as per the statements which had not been provided the relevant revenue reports by the banks. Further, 69 revenue reports had not been submitted to the Head Office in respect of the services provided and the fees charged by the 17 Title Registrar Offices in the year 2020.

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| (c) | Actions had not been taken by the end of the year under review to settle the audit fees payable for the years 2018 and 2019 valued at Rs.386,400 as per the financial statements. | Actions will be taken to obtain the approval of the Board of Management to pay the audit fees. | Actions should be taken to settle the payables. |
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4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
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An Internal Audit on the activities of the Fund had not been conducted in accordance with the Financial Regulation 133 (1) (a) of the Democratic Socialist Republic of Sri Lanka.	Internal Audits of the Insurance Fund are being carried out since 2021.	It should comply with referred Financial Regulation.