

**1. Financial Statements**

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**1.1 Qualified Opinion**

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The audit of the financial statements of the Distance Learning Centre Limited (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, for Small and Medium -sized Entities (SLFRS for SMEs)

**1.2 Basis for Qualified Opinion**

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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**

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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 Accounting Standards for Small and Medium -sized Entities (SLFRS for SMEs) 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**

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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 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 Audit Observations on the preparation of Financial Statements

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### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard.

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Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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Fully depreciated fixed assets valued at Rs.51,664,931 were further being used, action had not been taken to revalue those assets in accordance with the Section 17 , Property Plant and Equipment of SLFRS for SMEs	DLC is currently doing the Board of Survey of 2022 and once we finalize the BOS. The valuation of assets will be done through a professional body within 2022.	SLFRS should be followed to revalue those assets.

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

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All issues related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Management Comment -----	Recommendation -----
Public Enterprise Circular no PED 12 dated 02 June 2003.  Section 7.4.5	Annual Board of Survey had not been carried out for the year under review	We were unable to do the Board of Survey in 2020 owing to the country being under shut down in 2020. However, DLC is currently carryon the Board of Survey for 2022.	Annual Board of Survey should be carried out according to the PED 12 Circular.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a loss of Rs. 4,366,340 and the corresponding profit in the preceding year amounted to Rs. 17,775,925. Therefore, a deterioration amounting to Rs.22,142,265 of the financial result was observed. The main reason for the deterioration is the decline of face to face Training Facility income by Rs.22,163,128 in the year in review compared to previous year due to the Covid pandemic.

**3. Operational Review**

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**3.1 Management Inefficiencies**

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**Audit Issue**

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Without following Procurement procedure, catering service had been obtained from a supplier for all the training programs and the company had paid a sum of Rs.615,540 for the catering service during the year under review. However no any agreement submitted to audit in this regard.

**Management Comment**

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During 2020 and 2021 DLC had not conducted face to face events except only a few which was provided only box lunch. Therefore DLC could not do a proper bid for selecting a catering service for last two years. However we have already started the procurement procedure for selecting a caterer for 2022. The procurement procedure will be overviewed by the internal auditor of DLC.

**Recommendation**

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Procurement procedures should be followed to select a catering service provider.