

Head 297 - Department of Registrar of Companies

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of The Registrar of Companies for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 31st May 2022 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 12th July 2022 in terms of Section 11 (2) of the Audit Act No.19 of 2018. 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, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Registrar of Companies as at 31 December 2021 and its financial performance and cash flow for the year then ended, and have been prepared in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the financial statements are further described in the Auditor's Responsibilities Section. 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

The Accounting Officer is responsible for Preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

In terms of Sub-section 38 (1) (c) of the National Audit, the Accounting Officer shall ensure that an effective internal control system for the financial control, exists in the Department and carry out periodic review to monitor the effectiveness of such systems and accordingly make necessary alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility on Audit of Financial Statement

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 taken by the users, 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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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 evasion, misrepresentation, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the 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.
- 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.

I communicate with the Accounting Officer regarding among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit,

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made by me on the financial statements of the preceding Year, had been implemented.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

(a) Receipts of Revenue

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(i) The share of 1/3 applicable to The State Revenue, on the e-remittances received on 30th December 2021, had been Rs.425,050, whereas, the said amount was shown in the financial statements as Rs.361,550, thereby understating a sum of Rs.63,500.	This difference has occurred due to, considering the revenue received as at 30th November 2021 mistakenly, as the revenue as at 30th December. Actions will be taken to correct it.	Revenue from e-remittances should be identified accurately
(ii) Under the Revenue Head 20.03.02.10 in ACA 1 Format, the Aggregate Revenue of the Registrar of Companies has been Rs. 239,440,768. A sum of Rs. 119,599,829 therein, has been recorded as Repayment from Revenue. As per Financial Regulations No.118, this was not a repayment from Revenue, but an amount set off during the year, against the advances made to the Consolidated Fund. As a result, Receipt Value in the Statement of Financial Performance had been understated by the amount set off against the advances.	The amount shown as the Revenue received by the Registrar of Companies under the Revenue Head 20.03.02.10, was the net amount arrived at by setting off the advances remitted to the Deputy Secretary to the Treasury from the actually collected Revenue. These were reconciled monthly with Printed Reports of the Treasury as well as with the year-end Printed Reports of the Treasury and hence, was recorded as Net Revenue in the ACA 1 Format.	Revenue collected during the year, should be shown in the Statement of Financial Performance

(b) Recurrent Expenditure

Audit Observation

Subsidies, Grants & Transfers amounting to Rs.890,499 had been erroneously shown under Interest Payment, in the Statement of Financial Performance.

Comments of the Accounting Officer

Interest Payment on the property loans of government officers had been categorized in this way, by a mistake and noted to take necessary actions to correct it.

Recommendation

Expenses codes should be correctly identified in the Statement of Financial Performance.

2. Financial Review

2.1 Revenue Management

The following observations were made.

Audit Observation

- (a) In the Statement of Arrears Revenue (ACA - 1(i)) for the year ended 31 December 2021, separate disclosures had not been made for the recoveries made during the year under review, from the Arrears Revenue of Rs.894,462,000 for the previous year, and from the Arrears Revenue of Rs.226,853,316 before the previous year.

Comments of the Accounting Officer

Noted to make separate disclosures for recoveries during the year, as pointed out.

Recommendation

Recoveries made from the Arrears in respect of the reporting year, arrears in respect of the previous year and arrears before the previous year, have to be disclosed separately.

- (b) Though, in terms of the Section 131 of the Companies Act No. 07 of 2007, every company should deliver Annual Returns, from 2007 to 31st December 2021, 498,633 companies have not delivered Annual Returns and the receivable income thereon, has amounted to Rs. 2,991,798,000. Number of companies, which have delivered Annual Returns for the

No comments made.

Performance should be increased to identify companies, which have not delivered Annual Returns, and direct them to deliver Returns and to collect arrears revenue.

period from 2007 to 2018, in the years 2019,2020 and 2021 have been 22269, 5744 & 4277 respectively. Delivering of arrears Annual Returns have been gradually declining.

2.2 Non-Compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Audit Observation Non-Compliance	Comments of the Accounting Officer	Recommendation
Regulation 880 of Financial Regulations of The Democratic Socialist Republic of Sri Lanka	Officers who are administratively responsible for, or who, under delegation are entrusted with, the receipt or custody of public money, revenue stamps or stores, or the disbursement of public money or the issue of stamps or stores and those who sign vouchers, are required to give security in accordance with this Regulation for the faithful discharge of their duties.	Actions will be taken to identify the officers who are liable to provide securities and to obtain securities.	Actions should be taken to obtain Securities, in terms of the Financial regulations.

3. Operational Review

3.1 Managerial Weaknesses

Audit Observation	Comments of the Accounting Officer	Recommendation
As per the section 1.1.7 of the Budget Circular No. 118 dated 11th October 2004, loan balances of transferring officers, should not be disclosed as unpaid loan balances after three (03) months from the	A request has been made to Government Finance Department for writing off these amounts from the books and actions are being taken to make adjustments required to write off these loan balances.	Actions should be taken to recover unpaid loan balances.

transfer but, actions have not been taken to recover a sum of Rs. 120,741, relating to three (03) officers who had transferred to other departments, even after 20 to 32 years from the transfers.

4. Sustainable Development Goals

Audit Observation

(a) The Department of Registrar of Companies has identified; Elimination of Poverty and Hunger, Safeguarding the Sustainable Comprehensive Economic Development, Safeguarding Effective and Efficient Employment Opportunities, and Safeguarding the Opportunity of All to engage in a Respectable Employment, as core sustainable development goals. Increasing the number of companies and number of associations being registered at the Department, have been set as two primary targets. However, as the Department does not need to make special efforts to achieve these primary targets, it was observed that the attention should be made again towards the above identified goals and targets.

(b) When achieving targets of acquiring a higher position in the index for Ease of Entrepreneurship in Sri Lanka and increasing the number of Public Contracts being registered, the base information, milestones that these targets should reach, and indexes for evaluating the progress, had not been clearly identified..

Comments of the Accounting Officer

The attention will be made again on this.

Noted to take actions regarding these matters.

Recommendation

The attention should be made again towards the identified Sustainable Development Goals and their targets.

Base information, milestones that the targets should reach, and indexes for evaluating the progress should be clearly identified for target achievements.

5. Human Resources Management

Audit Observation

In a scenario where all activities of the Department are executed through e-Roc Project, both positions of Director and Assistant Director – Information Technology have been vacant and it was observed that, this will have a direct impact on effectiveness and the future activities of the Project.

Comments of the Accounting Officer

The Ministry of Public Administration has been informed of these vacancies several times.

Recommendation

Actions should be taken to recruit officers for vacant positions.