

Company Fund - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Company Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, 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(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. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Fund as at 31 December 2021, 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

I expressed qualified opinion 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 determines, 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 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 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 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.
- 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 the Fund has performed according to its powers, functions and duties; and Whether the resources of the Fund 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

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is 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.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

| Non-compliance with Reference to the Relevant Standard | Comments of the Management | Recommendation |
|--|---|---|
| ----- | ----- | ----- |
| The value the land, 0.1408 hectares in extent, which was taken over from The Department of Railway , in 2015 had not been revalued and the fair value of it had not been shown in the financial statements, as per the paragraph 42 of the Sri Lanka Public Sector Accounting Standard No. 07. It is also required, according to the paragraph 49 of the same Standard, when revaluating assets, the entire class of assets to which those assets belong, shall be revalued. However, only 06 items amounting to Rs. 4,056,000 had been revalued out of 39 Office Equipment disclosed under Property, Plant & Equipment. | Necessary steps will be taken to revalue the land taken over from The Department of Railway in 2015, with an extent of 0.1408 hectares and when revaluating assets, the entire class to which those assets belong, will also be revalued. | Should be comply with the Sri Lanka Public Sector Accounting Standard No. 07. |

1.5.3 Accounting Deficiencies

The following observations were made.

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
|--|---|--|
| a) The Interest receivable as at 31 December 2021, on the Investments made in Treasury Bonds amounting to Rs.29,285,546 had been shown in the financial statements as Rs.13,053,600, understating both Interest Income and Interest Receivable for the year by Rs.16,231,946 in the financial statements. | The Interest Receivable on Treasury Bills had been understated by a mistake and corrections will be made when the final Accounts of 2022 are prepared. | Interest Income should be calculated accurately and be presented in financial statements. |
| b) Though, it has been the Fund's policy to recognize the lower of either the cost of an Investment or its face value, as the value of Investment, when showing the value of investment as at the end of the financial year under review, one bond had been valued at its face value of Rs.124,624,000 which is higher than its cost less accrued interest (clean cost) of Rs.123,406,424. | The actual purchase cost (Settlement Value) has been used as the basis for showing the cost of Treasury Bonds in the financial statements prepared up to year 2020 and actions will be taken to adjust the difference between cost less accrued interest (Clean Price) and the actual cost (Settlement Value), if cost less accrued interest basis is used as pointed in the Audit. | The adjustments have to be made to the Investment Cost, according to the identified Accounting Principle, in the financial statement |
| c) The Premium price of Rs.21,589,744, paid in acquiring seven (07) Treasury Bonds during the year under review, which should have been appropriated proportionately over its investment period, had been deducted in full from the Interest Income for the year under review and the correct Interest Income had not been disclosed in the financial statements. | The Nominal Value of Treasury bonds purchased in a year, had been written off in the same year, when preparing financial statements of The Company Fund, up to year 2020. This will be corrected after having a proper study. | The premium Price incurred during the year under year, have to be recognized as an proportionate expense over the investment period. |

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| d) | Due to mistakes occurred when posting opening balances and journal entries, accrued Audit Fees had been understated by Rs.960,000 and the expenses and Accumulated Fund balance had been overstated by Rs.120,000 and Rs.1,080,000 respectively. | This difference was caused due to inclusion of an excess zero (0) by mistake, in a journal entry with a value of Rs.120,000 and noted to do the corrections in the following financial year. | Opening Balances and Journal Entries should be accurately posted to accounts. |
| e) | Interior Refurbishment project of the ground floor of Samagam Medura had been completed and handed over at the end of the financial year under review and the total cost of Rs.79,215,417 incurred for it, which should have been capitalized, had been shown as work-in-progress in the financial statements. | The maintenance period of the Interior Refurbishment project of the ground floor of Samagam Medura had not been expired at the time of preparing Accounts and it will be expired as at 31.03.2022. Upon the reach of expiration, capitalization will be done after releasing the retention money. | Assets which have been handed over after the completion of construction should be capitalized |

1.6 Financial Management

The following observations were made in the sample check, carried out on the receipts reported during the year under review to one of the two banks, used by the Department of Registrar of Companies, for collection of receipts through online Gateways.

| Audit Observation | Comments of the Management | Recommendation |
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| ----- | ----- | ----- |
| (a) An average collection of Rs.12 Million to Rs.27 Million in a period of 26 - 28 days, was observed in the current account under inspection. The share of 1/3 of these funds were to be transferred to the Account of Deputy Secretary to the Treasury and the balance 2/3, to the Company Fund. Even though, cheques had been drawn for these fund transfers, in intervals of 26 days, there had been six instances where 12 to 42 days delays were observed in depositing those cheques in respective accounts. As a result, Public money had been idling for such delays. | Due to certain procedures like accounting for Revenue has to be done through ITIMS System and getting the approvals needed for such Vouchers, had caused Some delays. The imposition of lockdown curfew during the Covid-19 pandemic, had caused long delays up to 42 days. With the limited no. of staff entrusted to discharge this duty, these delays had occurred. Instructions has now been given to make allocations of these revenue collected online, on a weekly | Monies collected through temporary current accounts, have to be identified immediately and be transferred to main accounts without any delay and the cheques issued in this regard have to be presented to the bank on time to utilize Public money efficiently. |

basis and to prepare vouchers to enable the banking of funds within 2-3 days.

(b) Refunds had been made of the Revenue recognized through Gateway System, on the client's request, by the Department and through the bank. The refunds which were made by the Bank, had not been properly identified and recorded in both 2019 and 2020 and as a result, there had been an unidentified Receipts of Rs. 704,128 as at 31 December 2021 and it had not been cleared even by the 30 April 2022.

The difference, between the Revenue of the Bank Account and the Revenue posted to Cash Book, has now been identified on a monthly basis through bank reconciliation statements and the refunds will separately be identified and settled relating to the difference.

The Refunds made through the Bank should be properly identified and recorded.

2. Financial Review

2.1 Financial Results

The operating result for the year under review had been a surplus of Rs. 418,498,586 as compared with the corresponding surplus of Rs.524,664,759 for the preceding year, thus observing a deterioration of Rs.106,166,173 in the financial results. The decrease in the Interest Income of Treasury Bills & Bonds by Rs.112,785,582 and the increase in the Supply & Consumable Expenses by Rs. 25,067,066 had mainly caused the said deterioration even though there had been an increase in the Receipts of the Registrar General of Companies by Rs.30,405,216.

3. Operating Review

3.1 Ineffective Transactions

Audit Observation

Scanning and indexing of data in files of 13,000 Associations had been identified out of 13,612 manually registered Associations as at 31 December 2019, as per the procurement of data input of registered Associations under e-Roc Project. More than 50 per cent of these 13,000 Associations had not filed their Annual Returns and had been identified practically as

Comments of the Management

Even though, those Associations had been identified as inactive due to non-filing of Annual Returns, they can become active Associations by filling all arrears Annual Returns together, at any time. Therefore, it was decided as economically effective to scan & index data of all Associations as it was not

Recommendation

Expenses should be carefully managed and should be dealt with sparingly.

inactive. But, these associations had not been removed as inactive, due to the reason that there is no stipulated maximum period for which, an association could not file its Annual Returns. As a result, it was observed that, a sum of Rs.1,722,500 had been ineffectively spent on entering data of inactive associations.

possible to forecast which Association would become active or inactive in the future periods and if not, at some point, if one association wishes to become active, a separate service provider for scanning & entering of data has to be found each time, at an extra cost and time.

3.2 Management inefficiencies

Audit Observation

A sum of Rs.90,275,000 which was transferred to the account of the Secretary of Ministry of Trade, Marketing Development, Cooperatives and Consumer Services, in 2007, with the intention of providing 35 per cent state contribution of E Services Lanka Limited by acquiring ordinary & preferential shares of it, had been shown under Investments. However, there had been no return on investment since the date of investment to the financial year under review. The form 15 as at 31 December 2016, submitted under the section 131(1) of Companies Act, had not indicated the ownership of shares in the name of Secretary to the Ministry

Comments of the Management

This has been reported to the Presidential Investigation Unit and to the Commission to Investigate Allegations of Bribery or Corruptions. A reminder was also sent to the Commission on 31.05.2022 to Investigate Allegations of Bribery or Corruptions, requesting to update the progress and also, a letter has been sent, to the Secretary Trade, Commerce and Food Safety, to inform the progress of winding up process of this company after settling all dues

Recommendation

The accuracy of the Form 15 Submitted under Section 131(1) of Companies Act must be confirmed. Also, proper actions must be taken to safeguard Public Money and to earn adequate return them.

3.3 Operational Inefficiencies

Audit Observation

According to the Section 131(1) and (2) of Companies Act No.07 of 2007, every registered company should submit its Annual reports to the Registrar of Companies. Though, filing of Annual Returns had been enabled through online platform, only 12,087 companies out of 97,336 registered companies had filed their

Comments of the Management

The Computer System is programmed to send three (03) reminders to the companies which should file Annual Returns and non-filing of Annual Returns is happening beyond the control of the Department. Suspension of issuing Certified Copies and

Recommendation

The performance of the filing of Annual Returns has to be improved. Also, obtaining a list of companies which have not filed Annual Returns correspondingly to

Annual Returns in 2021. 85,249 Nos. companies equal to 87 per cent of total companies had not files Annual returns. Also, as the actions specified in Section 131(4) of the Act, have not been taken, the No. of Annual Returns not filed, have been increasing. A list of Companies which have not filed Annual Reports, could not be generated from the computer system used in the Department.

making other changes required for companies, have been applied by the Department, as a regulatory measure. It is possible to obtain a list of companies, which have filed their Annual Returns through the existing system. The information obtained from the system is being used as a control factor when calculating the arrears income

the financial year and using it as a control factor.

3.4 Procurement Management

Audit Observation

The Contract of the Computerization of Company Incorporation Process, had been awarded to a private company in the year 2014 for an estimate of Rs.88,812,228. A sum of Rs.13,268,450 had been paid in two (02) installments as the first & second 10 per cent of the total estimated price. As the Company was not able to complete the job within the stipulated period, the contract had been cancelled. Nevertheless, the output documents (Deliverables) of this project had been used as the Input of the project being used at the moment. An approval from the Treasury has been sought 11 March 2022, to write off the amount paid to the company stating that, referring to the arbitration for the recovery of this money, is not effective.

Comments of the Management

The approval has been requested from The Treasury to write off the sum of Rs.13,268,450 which had been paid to the Private Company. An Investigation is being carried out by the Management Audit Branch of the Ministry of Finance to prepare a report on this, which will be the basis for future actions. This amount has been shown under Work-In-Progress, as the nature of the expenditure is Capital.

Recommendation

A performance Bond should be obtained for every procurement activity and the validity of the Performance Bond so obtained, should be maintained until the completion of such procurement activity.