

## **Company Fund -2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Company Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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 Sub-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 of the Fund.

## 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 Accounting Deficiencies**

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the receivable interest income for 02 treasury bonds invested in the year under review was Rs.327,019, it was recognized as Rs.1,626,768 in the financial statements, therefore the interest income and receivable interest income for the year under review were over-calculated by Rs.1,299,749.	That the interest income receivable has been over-calculated by omission and will be rectified in the coming year.	Interest income should be accurately calculated and should be reflected in the financial statements.
(b) Due to accounting for the accrued interest paid on the purchase of investments during the year under review as part of the cost, therefore As	That will be investigated and corrected.	From the cost of buying bonds as investment cost (Settlement Cost), After removing the accrued interest, the value (Clean Cost) should be considered and accounted for.

on December 31, 2022, the investment value and interest income were over calculated by Rs.26,088,735.

- (c) Expenditure of Rs.81,291,355 incurred in previous years for scanning documents included in company files for e-ROC system, Accounted as work in progress, it has been written off from the accumulated fund in the year under review. That will be corrected through future accounts Since it is an expense incurred for the e-ROC system, the expense should be capitalized.
- (d) Deposited Rs.908,212 in the year under review and in previous years to an Online Income Collection (Gateway) bank account and refunds of Rs.193,953 were not identified and accounted for in the year under review. It will adjust very quickly. Deposits and refunds through the online income accrual temporary current account should be reconciled monthly and the correct income accounted for.
- (e) Due to the fact that bills of Rs.1,468,076 for electricity charges in December of the reviewed year and Rs.121,275 for railway season fees in the months of October and November were not recognized as expenses of the reviewed year, the expenditure and accrued expenses of the year were accounted less by Rs.1,589,351. 2023 that adjustments and corrections will be made to the accounts during the preparation of the final accounts. Accounts should be prepared on accrual basis.
- (f) During the correction of non-accounting of the interest income and That was recorded to be corrected in the accounts of the year 2023. Action should be taken to correct the Mistakes.

interest income receivable of Rs.16,231,946 from Treasury Bond investments in the previous year, it had been overstated adjusted by Rs.5,139,661 indicated as Rs.21,371,607.

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

Reference to Laws, Rules, Regulations etc.	Non Compliance	Management Comment	Recommendation
(a) Section 296 (1) of the Companies Act	Every liquidator should send an account of receipts and payments (as per Form 27) to the Registrar of Companies, but the account of receipts and payments had not been submitted even though a period of 8 to 16 years had passed since the liquidators of 09 companies were appointed.	That some liquidators had not arranged to submit the statements of accounts even though they had previously sent letters informing them to submit the statements of accounts.	As per the section 297 of the act, the company registrar should have to control this liquidators
(b) Section 390 (1) of the Companies Act	A statement (Form 32) relating to the proceedings and status of the liquidation should be sent to the Registrar where the liquidation of a company is not completed within one year from the date of commencement of the liquidation, in the interim until the liquidation is completed, However	For each file, warning letters have been sent informing about the liability of the liquidators and some liquidators have arranged to file statements of accounts for certain files.	Efforts should be made to terminate the activities of the companies that are about to be closed down and Action should be taken against the liquidators who do not act according to the provisions of the Act.

8 to 15 years after receiving the court order, 12 companies had not followed this instructions.

(c) Financial regulations of the Government of the Democratic socialist Republic of Sri Lanka No.1645	During the period from January 2021 to October 2022, three vehicles were driven for a total of 2954 kilometers, but the running charts were not written to confirm that the drives were business trips.	Due to the COVID 19 pandemic, fuel crisis, insufficient drivers and all the drivers being residents outside the Western Province, they could not be employed systematically. Therefore it was not possible to maintain the running charts properly and that it has now been informed to maintain the running charts properly.	Action should be made to properly maintain running charts for reserve vehicles.
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus) of Rs. 581,481,421 and the corresponding surplus in the preceding year amounted to Rs. 418,498,586. Therefore an improvement amounting to Rs.162,982,835 of the financial result was observed. The reasons for the improvement are the fact that the Registrar General of Companies received Rs.33,984,654 and the increase in treasury bond interest income by Rs.135,532,927.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) In relation to the establishment of E Services Lanka Company in 2007, for the 35 percent government contribution for the purchase of ordinary shares and preferred shares of that company, An amount of Rs.90,275,000 which transferred to the account of the Secretary of the	That has been reported to the Presidential Investigation Unit and commission of bribery or corruption, And a reminder letter from the above mentioned commission on 31.05.2022 to inform the progress. Also a letter has also been sent to the Secretary, Ministry of Trade, Commerce and Food Safety asking about the progress of liquidation these companies.	As per Section 131(1) of the Companies Act, the accuracy of the 15th Forms should be verified, the government funds should be secured and adequate returns should be made for the same.

Ministry of Trade, Marketing Development Cooperatives and Consumer Services, was mention under Investments.

Nevertheless, no return was received from the date of investment till the year under review, As per Form 15 submitted under Section 131(1) of the Companies Act as on 31 December 2016, no shareholding in the name of Ministry Secretary was shown in there.

- (b) Although according to Sections 131 (1) and (2) of the Companies Act, 114,096 registered companies should file their annual reports for the year 2022, and 97,526 companies which were 85 percent had not done so. Also, out of 85,249 companies that had not filed annual reports in previous years, 65,796 companies and that was 67 percent had neglected that order.
- The efforts have been made to encourage filing of annual reports by expediting prosecution of companies that have not filed annual reports.
- Encouraging the filing of annual reports and expediting legal action for companies that have not filed annual reports, and action should be taken to collect the arrears income.
- (c) In terms of section 170 of the Companies Act No. 07 of 2007, the financial statements of every non-private company must be registered to the Registrar of Companies. Even though 506 of 7,785 companies have taken actin accordingly in the year under review, identifying the
- During the Covid situation, some companies are not doing business, other some companies are inactive, financial reports can be submitted to a company only after the financial reports are certified, and the time extension can be obtained for filing reports are also under these companies.
- The Report Module of the e-ROC system should be developed so that the companies that have to file financial statements for the year 2022 and the companies that have not filed by the financial position date can be identified by nominal.

companies that failed to do so nominally and obtaining reports on revenue lost could not be carried out through the existing e-Roc system.

- (e) In case the name of a company is struck off from the register in terms of the instruction of 487(3) of the Companies Act No. 07 of 2007, Section 487(5) states that all the property and rights possessed by the company on the date its name was struck off should belong to the government and the government can make a preference. However, regulation were not made in terms of Section 527 of the Act to enable the companies whose names had been cut off to be dealt with as per the provisions of the Act.
- In terms of Section 527 of the Act, the steps will be taken in future to prepare regulation and it is an issue whether the properties owned by these companies are available for the injunction and Also, even if there are properties, there is no possible method to identify them.
- Action should be made in terms of section 527 of the Act so that the provisions of the Act can be carried out.

### 3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to Section 9(2) of the Companies Act No. 07 of 2007, the company must publish a public notice within 20 working days after changing the name of a company. It was supposed to upload a copy of the notice to the e-ROC system and confirm that such notice was published, but it was not done.	That it is the responsibility of the company to publish a public notice within 20 working days after changing the name of a company and upload the particular notice to the system.	The Registered companies, Actions should be taken to ensure compliance with the Act



- (b) The five 35A type toners which were purchased for the laser jet type printers, For printers that were withdrawal from used because they cannot be used with computers currently in use and 5 PG 50/40 type toners which were bought for a fax machine which is inactive, these 10 toners have been lying idle in the store for more than 02 years and They had not been utilized effectively.
- The possibility of exchanging toner type 35A in consultation with the current suppliers and repairing the machine that uses type PG 50/40 and working to use toner
- Action should be taken to effective use of inactive toners and while ordering the toner, the need should be identified correctly.
- (c) On behalf of the e-ROC project, Purchased in year 2018, 10KAV type Online UPS 04 units, with a value of Rs.2, 088,220 and 60 batteries remained idle in stores for a period of 04 years without any utilization.
- One machine out of 5 UPS purchased in November 2018 is used for 5 floors of the building.
- Action should be taken to purchase equipment used effectively.
- (d) It was not possible to get daily/monthly/annual income reports, arrears income and income classification reports through the Report Module which was designed for receiving reports through the e-ROC system.
- That the system has been developed according to the requirements of each section of the department (Requirements Gathering) and that the system will be developed so as to be able to get reports on income and their classifications.
- There should be facility of retrieving records through the system.