

Company Fund – 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Company Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information 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 2023, 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 of the Fund.

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 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 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 Statement

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The actions had not been taken to identify the software system development cost (e-ROc); Rs. 54,962,000, as assets and to depreciate within the effective life period as per the Section 17 and 96 of the Sri Lanka Public Sector Accounting Standard No. 20, and the maintenance and support service expense of Rs. 10,067,354 in the year under review and Rs. 16,883,062 incurred in the previous years had been stated as work in progress without being accounted as expenditure.	The e-Roc computer system was capitalized from the accounts of the year 2024 and it was noted to adjust the e-Roc computer system in the works in progress account to the accumulated fund of the maintenance and support service costs from the final accounts of the year 2023 and to depreciate from the date of capitalization.	The actions should be taken to account the cost correctly and to depreciate within the effective life period.
(b) As Rs. 74,998,966 which was the value of the cost at the maturity of investments worth Rs. 71,018,000 accounted to the net realized value was removed from the investment account, the balance of the investments and interest accounts had been understated by Rs.3,980,966.	When an investment accounted to the net realization value is matured, it was removed from the investment account at cost value. Consequently, balance of the investment and interest accounts has decreased.	The account notes should be recorded accurately at the maturity of investments.

(c) As Rs. 9,978,750; which was the value of the cost at the maturity of investment of liquidated money worth Rs. 9,455,000 accounted to the net realized value, was removed from the investment account, the balance of the investments and interest - liquidation accounts had been understated by Rs. 523,750.	It was noted to correct from the accounts of the year 2024.	-Do-
(d) The computer system monthly maintenance and the support service expense of Rs. 1,200,000 had not been accounted.	-Do-	The total expenditure for the accounting year should be accounted correctly.
(e) In rectifying the mistake of accounting the interest of Rs. 1,168,849; payable for the investments purchased from the deposits of the liquidators in the previous years, to the investment account, the said amount of interest payable had been adjusted to the accumulated fund without being accounted to the liquidation account.	The actions will be taken to rectify when the final accounts of the year 2024 are prepared.	The interest earned should be accounted correctly.
(f) As there is a possibility of earning future economic benefits from Rs.81,291,355 incurred on scanning data to include into the computer software system, it had been written off as an expense in the previous year instead of being accounted as an intangible asset.	Since there was no sufficient evidence to recognize it as an asset, it was written off from the accumulated fund as an expense in the previous year.	Since there is a possibility to generate future economic benefits, it should be identified and accounted as an asset.
(g) The refunds of the deposits of Rs.908,212 and Rs.193,953 received to an Internet Income Collection (Gateway) Bank Account in previous years had not been identified and accounted in the year under review.	A meeting will be called with the bank in the future regarding this matter and the discussions will be held with all relevant parties and rectifications will be done.	The deposits and refunds made through the internet income collection temporary current account should be reconciled monthly and the correct income should be accounted.

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

Reference to Laws, Rules, Regulations etc.	Non Compliance	Comments of the Management	Recommendation
(a) Companies Act No 7 of 2007			
(i) Section 473	Even if a register of registered companies should be maintained, the number of registered companies was unable to be accurately identified from the computer system instead of the register.	It has been identified that these are errors happened during the manual data computerization. Since the system is already fully operational (Real Time), the correction of errors should be done very acutely. Therefore, the data is being corrected systematically.	A register of companies registered as per the Act should be maintained.
(ii) Sections 492 and 498	Although it was revealed during the sample inspection that a period of 01 to 11 years had passed without filing the financial statements of 7 foreign companies, the proceedings had not been made according to the Act.	Every registered foreign company is not required to submit its financial statements to the Registrar General of Companies, and it is difficult to determine whether a certain foreign company can be considered as a public limited company according to the description of this country due to the nature of the laws existing in each country.	The proceedings should be made according to the provisions of the Act.
(b) The orders included in the Extra-ordinary Gazette No. 2045/56 dated 17	Although an amount of USD 200,000 should be deposited in an Inward Investment Account, and recorded as an investment	This requirement has imposed only regarding the foreign companies stated as Branch Offices under	The proceedings should be made according to the orders published in the Gazettes

November 2017 and No. 2213/35 dated 03 February 2021. in the company's books and proofs of investment should be sent to the Registrar of Companies, 28 registered foreign companies had not proceeded according to the said orders. a currently repealed Exchange Control Regulation. regarding the foreign companies listed as Branch Offices.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 849,379,158 and the corresponding surplus in the preceding year amounted to Rs. 581,481,421. Therefore, an improvement amounting to Rs. 267,897,737 of the financial result was observed. The main reason for this growth was the increase of the receipt of the Registrar General of Companies by Rs.220,765,165 and the increase in treasury bond interest income by Rs.74,488,537.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs. 90,275,000 which transferred to the account of the Secretary to the Ministry of Trade, Marketing Development Cooperatives and Consumer Services, to purchase the ordinary shares and preferred shares of that company for the 35 percent government contribution in relation to the establishment of E-Services Lanka Company in 2007 had been mentioned under Investments. However, no return was received from the date of investment till the year under review, and no shareholding in the name of the Secretary to the Ministry had been shown as at 31 December 2016 according to Form 15 submitted under Section 131(1) of the Companies Act.	As per the approval granted by the Cabinet Decision No. CP/ T.M.C.C/2007/04 dated 09.03.2007, this money should be paid to the respective Ministry by the Department. Accordingly, the Department has only given money to the Ministry and even if it is included as an investment in the accounts of the department, it is more appropriate to consider it as a loan given to the Ministry and as an investment made by the Ministry.	The existence of the company that invested shares and the ownership of the shares should be verified.

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| <p>(b) Although the annual returns should be filed as per the Sections 131 (1) and (2) of the Companies Act, only 16,643 out of 129,229 registered companies had filed the annual returns for the year 2023, and there were 564,872 companies that should compile the annual returns within the period from 2007 to 2022 and 552,344 companies had defaulted the said provision in the year under review also. Accordingly, the total overdue income of the fund as at 31 December 2023 was Rs.3,058,678,000.</p> | <p>The audit query is correct and the actions is taken to recover the said revenue deficit.</p> | <p>The necessary steps should be taken immediately to encourage the filing of annual returns, take legal actions against the companies that have not filed annual returns and collect the arrears of income.</p> |
| <p>(c) As per the Section 170 of the Companies Act No. 07 of 2007, the financial statements of every company that is not a private company should be registered with the Registrar of Companies. However, the records of the companies that had proceeded in accordance with that provision could not be obtained through the existing e-ROC system in the year under review.</p> | <p>The necessary measures are being taken at present by the Information and Communication Technology Division to study these issues and to improve the eRoc system.</p> | <p>The necessary measures should be taken to identify the number of unregistered companies through the system.</p> |

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Following factors are observed regarding the e-Roc system.</p> <p>(i) Although the management of the data system should be totally done by the Department itself by the second year of maintenance according to the agreement of developing the computer system of the Department, it was observed that the management of the system was being done by the same organization that developed the software system even by December 2023.</p>	<p>There were many vacancies in the Information Technology Service of the Department. Currently, there is a Director and an Assistant Director in the Information Technology Service of the institution and the requests have been made to fill the other vacancies also. Since, it is difficult to manage the system without a sufficient staff, the necessary actions are being taken to entrust the</p>	<p>The ability to operate the data system independently.</p>

department with the task of managing the system step by step.

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| (ii) It had been unable to obtain daily, monthly and annual income reports, the reports on income arrears and a classification of income through the Report Module that had been designed for obtaining reports. | A request has been made to prepare the system so that daily, monthly and annual income reports and income arrears reports can be obtained and it has currently been submitted to the Software Development Institute. | The computer system should be arranged so that all the records can be obtained. |
| (iii) Although a total of Rs. 4,719,120 has been paid for scanning and indexing the mortgage bond files in the year 2021, the actions had not been taken to rectify the error of not being able to check these data by the user under form 11 under the Mortgage Bond Division as those data had not been migrated to e-Roc system. | The requests have already been submitted to the software development institute in this regard, and the actions are taken to rectify the problems; identified during the period of providing support and maintenance services of the eRoc system, at each circumstance. | The system should be developed by obtaining the service related to the cost incurred. |
| (iv) DRS facility had not been obtained for the safety of data in e –Roc system and to maintain the operations without an interruption in case of system failures. | The procurement activities for DRS facility is in the final stage. | DRS facility should be obtained for e-Roc system. |
| (b) The recommendation given by the consultant; who was appointed for the Technical Evaluation Committee to increase the maintenance and support service fee related to the e-ROC computer project from Rs.540,971 to Rs.1,281,250 with effect from September 2022, to the effect that an opinion on the fairness of increasing these fees cannot be given without studying the entire system, the system errors should be identified by carrying out a System Audit, a monthly payment plan should be | The matters pointed out by the consultant; Senior Lecturer in the School of Computing, University of Colombo, have been entered into the agreement. | The relevant recommendations should be implemented. |

included in the agreement to make monthly payments in a transparent manner had not been implemented.

- (c) 04 units of 10KAV type Online UPS and 60 batteries purchased in the year 2018 for the e-ROC project at a value of Rs.2,088,220 remained idle in the stores for a period of 05 years without being used.

The use was delayed due to the Covid epidemic situation, and as it had been stated that the Department should be taken to another place, the installation of this equipment has not been done. Since a very long period has passed to date for this purpose, a special committee will be appointed to decide whether it is appropriate to use or whether it should be sold.

The assets should be utilized effectively.