

Head 297 - Department of the Registrar of Companies

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 297 - Department of the Registrar of Companies for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance 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(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 including my comments and observations on the financial statements of the Department of the Registrar of Companies was issued to the Accounting Officer on 12 June 2024 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 05 July 2024 in terms of Section 11 (2) of the Audit Act. This report is presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

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 the Registrar of Companies as at 31 December 2023 and its financial performance and cash flow for the year then ended 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 the Chief Accounting Officer and the Accounting Officer on the 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 of the Department.

In terms of Sub-section **38 (1) (c)** of the National Audit Act, 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;

- 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) 1.6.1 recommendation made by me on the financial statements of the preceding year, had not been implemented.

1.6 Comments on the Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) The Department had allowed reducing half of the income that was to be credited to the Treasury in respect of settling the loan given to the Deputy Secretary of the Treasury. Since the sum amounting to Rs. 182,911,676, thus reduced in the year under review, had been mentioned in monthly account summaries as a repayment from the income, the income in the revenue head 20.03.02.10, had been understated by that amount. Further, as per 3.1 of public account guideline No 05/2023 dated 30 November 2023, although the financial statements should be prepared using Consolidated Trail Balance created by the phrase CIGAS, without subject to being changed financial performance statement and cash flow statement had been prepared by adding the reduced amount of money to the income.	Action will be taken for rectification and accounting from the year 2024.	Debt repayment should be correctly mentioned.
(b) Since the fee charged while implementing the Companies Registration Levy imposed only in respect of the year 2016, was revised, it had been decided to return the overpaid levies recovered from the Companies that paid such levies earlier. Accordingly, a sum of Rs. 88,230,000 had been paid back in the year under review although it has been shown through monthly accounts summaries as a paid back amount from the income in the revenue head 10.03.07.08, it had not been shown as a paid back amount from the income in the financial performance statement and cash flow	That the Treasury issued the money to be paid back in the form of Imprest and that as it is required to report the net income collected by the Department in the ACA 1 specimen, and if this amount is shown as a payback amount from income, and since such action not leading to accurate representation of net income, it was shown as other recurrent expenditure. This would	Revenue and expenditure should be correctly shown in financial statements.

statement while it being shown as a some other recurrent expenditure.

be corrected through the accounts of the year 2024.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although a sum of Rs. 28,814,400 or 2.2 per cent of the outstanding revenue owing from Companies for which annual reports had not been filed in the year under review, no mention thereon had been made in 1 (i) of the ACA of the financial statement. Further, by 31 December of the year under review, the outstanding revenue had stood at Rs. 1,529,339,000, no action had been taken in this regard as per E (2) 128 of financial regulation.	That the outstanding revenue report was prepared in conformity with preceding years and that it was corrected in the accounts of the year 2024.	Action should be taken to correctly report and swiftly recover the outstanding revenue.
(b) As per section 8 (1) D (CAP. 123) of Societies Ordinance No 16 of 1891, action had not been taken to collect a sum of Rs. 13,731,000 in revenue from 11,940 registered societies for which annual reports should be filed.	That action would be taken to recover this income in the future.	Action should be taken to collect the revenue as per the Act.

2.2 Issuing and Settling of Advance

Audit Observation	Comments of the Accounting Officer	Recommendation
As per section 1.1.7 of the Budget Circular No 118 dated 11 October 2004, although it was required to see to it that the loan balances of transferred officers are not shown as unsettled loan balances after 03 months from their transfer, action had not been taken to settle loan balances of 03 officers totalling Rs. 120,741 although from 23 to 34 years had elapsed after their transfer that 2004.	That it has been referred for instructions of the Public Accounts Department.	Action should be taken to settle the unsettled loan balances.

3. Management of Human Resources

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>Although the approved cadre of the Department as at 31 December in the year under review stood at 184, there were 48 vacancies since the actual cadre stood at 136.</p>	<p>Letters regarding filling of vacancies have been forwarded from time to time to the Director General of Combined Services and that the PACIS system of the Ministry of Home Affairs, Provincial Council and Local Government has been updated.</p>	<p>Action should be taken to fill the vacancies.</p>
<p>(i) The post of Company Inspector which is a secondary level post, whose duties includes caring out legal activities against persons flouting the Companies Act, appear as a representative for the lawsuits under direct supervision of the Registrar of companies, has 05 posts vacant out of the 10 approved posts and two posts have been vacant since 2016. Due to this situation, activities such as instituting lawsuits against Companies violating the Companies Act and recovering income have been adversely affected.</p>	<p>That a request has been made to the Committee of officers of the Cabinet of Ministers reviewing the recruitments of the Public Service to obtain approval for recruiting officers for the post of Company Inspector.</p>	<p>See to it that the posts essential to give effect to the Act do not fall vacant.</p>

- (ii) Against the backdrop of Departmental activities being carried out online through the e – ROC computer system, 02 out of 03 posts of Information and Communication Technological Officer and 03 out of 06 posts of Assistant Information and Communication Technological Officer had fallen vacant from the date of approving the post.
- The approval of the Public Service Commission has been given for the recruitment on contract basis of suitable officers out of the retired Information and Communication Technological Officers for the vacant posts of Information and Communication Technological Officer and Assistant Information and Communication Technological Office and that the approval of the Management Services Department has been requested as per National Budget Circular No 01/2024.
- Immediate steps should be taken to fill up the vacant posts of the information technology sector.