

## **Companies Fund of Department of Registrar of Companies - 2013.**

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The audit of financial statements of the Companies Fund of Department of Registrar of Companies for the year ended 31 December 2013, comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, the statement of changes in equity and cash flow statement and a summary of significant accounting policies and other explanatory notes 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 Section 479 (6) of the Companies Act No 07 of 2007. My comments and observations in respect of the aforesaid financial statements appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

### 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Companies Fund of the Department of the Registrar of Companies as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard.

### 2.2 Comments on the Financial Statements

#### 2.2.1 Accounting Deficiencies

An amount of Rs. 90,275,000 had been indicated as investments in the Financial Statement as at 31 December of the year under review though, a provision had not been made quantitatively in the Financial Statements on the impairment as the investment company had ended up in bankruptcy.

### 2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with Laws, Rules, Regulations and Circular instructions were observed.

#### Reference to Laws, Rules and Regulations

#### Non-compliances

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|-----|--|--|
| I)  | Financial Regulations 395(c) of the Democratic Socialist Republic of Sri Lanka | Although the bank reconciliations statements should be prepared and presented to the Auditor General before 15 <sup>th</sup> of the ensuing month, action had not been taken with respect to 05 bank accounts. |
| II) | Financial Regulations 94(1) of the Democratic Socialist Republic of Sri Lanka  | Expenses of Rs.485,006 had been incurred for the improvement of buildings and fittings without provisions and prior approval.  |

## 3. Financial Review

### 3.1 Financial Results

The financial results for the year under review amounted to a surplus of Rs.351,550,815 as compared with the corresponding surplus of Rs.287,126,146 for the preceding year. As compared with the preceding year, an improvement of Rs.64,424,669 in the surplus, equivalent to 22 per cent had been indicated for the year under review. The improvement had been specifically contributed by the increase of the fees charged by the Department during the year under review.

### 3.2 Analytical Financial Review

Improvement of the surplus in Financial Result had been contributed by the following matters.

<u>Description</u>		<u>Income</u> <u>Year Under</u> <u>Review</u>	<u>Previous</u> <u>Year</u>	<u>Financial</u> <u>Surplus</u>	<u>Percentage of the</u> <u>Difference as Compared</u> <u>with the Previous Year.</u>
		<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	
Income					
Inspection of Files	of	5,423,500	2,546,620	2,876,800	112.97
Approval of Names	of	12,075,000	7,097,000	4,978,000	70.14
Registration of Forms	of	111,545,649	41,273,300	70,272,349	170.26
Registration of Annual Reports	of	149,265,000	101,206,500	48,058,500	47.48
Registration of Financial Reports	of	2,867,000	1,480,000	1,387,000	93.72
Registration of Secretaries	of	1,140,000	1,005,500	134,500	13.38

All of the income had increased during the year under review, as compared with the previous year due to revision of fees charged for the aforesaid activities with effect from 01 January 2013. Nevertheless, a physical improvement in the actual performance could not be observed.

### 4. Operating Review

#### 4.1 Performance

- a) A deterioration in the physical performance of the fund during the year under review was observed as listed below.

<u>Activity</u>	<u>Number</u>		<u>Decrease in the Difference</u>	<u>Percentage</u>
	<u>2013</u>	<u>2012</u>		
Registration of Companies	6,047	7,089	(1,042)	(17)
Inspection of Files	10,847	12,729	(1,882)	(15)
Approval of Names	12,075	14,194	(2,119)	(15)
Certified Copies	36,531	38,459	(1,928)	(5)
Registration of Forms	70,659	74,304	(3,992)	(12)
Registration of Annual Reports	29,853	33,845	(3,992)	(12)
Registration of Financial Reports	2,867	2,959	(92)	(3)
Sale of Forms	4,207	4,368	(161)	(4)
Registration of Secretaries	437	622	(185)	(30)

The following observations are made.

- I) Registration of Annual Reports of the Limited Companies had decreased by 3,992 or 12 per cent during the year under review as compared with the year 2012. However, the income had increased from Rs. 101 million to Rs. 149 million. Furthermore, the progress of all other activities had physically decreased though, income had increased.
- II) The number of Limited Companies registered as at the end of the year under review had been 62,508 whereas, the Number of Limited Companies scheduled to present Annual Reports as at that date was 52,990. Nevertheless, the number of Limited Companies that had not presented the Annual Reports had been 38,906 and 14,084 Limited Companies had presented Annual Reports as at the end of the year under review. The unrecovered income from the registration of annual reports as at that date amounted to Rs. 64,843,333.

b) Companies Act No 07 of 2007

The following observations are made.

I) Monetoring of Limited Companies

Monetoring the activities of the registered Limited Liability Companies, which are a statutory function entrusted with the Registrar General of Companies by the Companies Act, was at a weaker level and the Department of Registrar of Companies did not have an effective methodology for monetoring. Instances of registered financial companies deviating from the provisions of the Companies Act were observed at a sample audit test.

II) Registration of Auditors of the Limited Liability Companies and Renewal of Registration

Seventy four Auditors had been registered newly during the year under review by generating an income of Rs. 9,990. As the income earned from 84 persons registered newly in the year 2012 amounted to Rs. 11,340, the income had decreased by 12 per cent as compared with the previous year. There were 556 renewals of the Auditors registered during the year under review with an income of Rs. 12,232. The income had increased by 25 per cent as compared with the previous year as the number renewals in the previous year had been 444 with an income of Rs. 9,768. Furthermore, no action had been taken as to awareness and monetoring of Auditors.

c) Societies Ordinance No 16 of 1891

There were 169 Societies registered under the Societies Ordinance during the year under review and the income on stamp duty from the registration of societies amounted to Rs.4,225. A continuous decrease in the number of Societies registered during the period 2010-2013 was observed and it was reduced to 75 per cent for the year under review as compared with the previous year.

d) Public Contract Act No 03 of 1987

All of the contracts exceeding Rs. 5 million should be registered with the Registrar of Companies in terms of the Provisions of Public Contracts Act and, the number of Public Contracts registered during the year under review was 4,251 as compared to 4,414 for the previous year. There was a decrease of 4 per cent in the number of Public Contracts registered during the year under review.

4.2 Management Inefficiencies

The following observations are made.

a) Restructuring Program

Even though a sum of Rs.140 million had been allocated for the year 2013 on the computerization of registration of Limited Companies. Project, entire provision had not been utilized. Having obtained an additional amount of Rs. 2,800,000 as administrative expenses for the project, a sum of Rs. 1,086,000 out of that amount had been spent only on the purchase of computers and related software. The underutilized amount out of that provision was 61 per cent.

b) Approval of the Cabinet of Ministers had been granted through the Cabinet Paper No 07/1616/342/020 dated 12 September 2007 for the land of the Department building to be vested to over by the Registrar General of Companies with the concurrence of the Ministry of Transport. Sum of Rs. 35,510,750 had been paid to the Department of Railways in that regard on 26 June 2012; but, the Department had not taken over the land even as at 31 December of the year under review.

c) Even though according to the budget estimate of the Fund ,a sum of Rs. 8 million had been allocated for the renovation of buildings in the year 2013 only a sum of Rs.1.11 million had been spent up to the end of year under review. Accordingly a sum of Rs. 6.89 million or 86 per cent had been saved. Further it was observed that the renovation process of the Department had not been carried out as per the Action Plan during the year under review.

d) A provision of Rs 0.4 million had been made in the budget for the year 2013 for training and capacity building whereas, only an amount of Rs. 0.12 million or 30 per cent of that provision had been spent. Accordingly , it was observed that training and capacity building activities had not been carried out in line with the Action Plan and a proper methodology had not been prepared for training officers and capacity building.

4.3 Transactions of Contentious Nature

Even though the expenses incurred by on the Registrar of Companies in the execution of the duties and functions of the Companies Act No 07 of 2007 can be charged to the Fund a sum of Rs. 90,275,000 had been spent for purchasing shares owned by a Private Limited Company not under the purview of approved expenses in terms of Sub Section 4 of the Companies Act. The ownership of those shares was held by the Ministry of Cooperatives and Internal Trade. As the

relevant Company had become bankrupt, it had been decided to wind up the Company. The Company Fund had not received any return from that investment.

#### 4.4 Idle and Under-utilized Assets

An average cash balance of Rs. 13 million had constantly been maintained in the bank account of the Company Fund during the year 2013. Nevertheless the Company Fund had been deprived of an interest income as those cash had not been invested effectively.

#### 4.5 Personnel Management

Thirty posts including 03 posts in the top level management with the Registrar General of Companies who operates the activities of the Company Fund, had remained vacant as at 31 December 2013. It can not be ruled out the fact in audit that operating of activities in the Company Fund and implementation of provisions in the Companies Act No 07 of 2007 had been adversely affected by that situation.

### 5. Accountability and Good Governance

#### 5.1 Action Plan

The Action Plan prepared for the year 2013 had not separately mentioned the nature of each activity to be executed in order to accomplish the objectives of the Fund and the officers responsible for those objectives and divisions. Hence, it was not possible to evaluate the performance of the Fund in audit.

#### 5.2 Internal Audit

A sufficient internal audit had not been conducted in terms of Department of Management Audit Circular No DMA/2009(1) dated 09 June 2009.

#### 5.3 Budgetary Control

Significant variances between the actual income and expenditure and the budgeted income and expenditure were observed. Accordingly, it was observed that the budget had not been made use of as an effective instrument of management control.

### 6. Systems and Control

Deficiencies in Systems and Control observed during the course of audit were brought to the notice of the Registrar General of Companies from time to time. Special attention is drawn in respect of the following areas of systems and control.

- a) Accounting
- b) Registration / Monitoring of Annual Reports of Companies
- c) Procurement
- d) Control of Fixed Assets
- e) Human Resource Management