

## **The Registrar General of Companies - 2012**

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### **Companies Fund - 154(6) Report**

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#### **1. Financial Statements**

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##### **1.1 Qualified Opinion**

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In my of opinion, except for the effects of the matters described in paragraph 1.2 of the this report, the financial statements give a true and fair view of the financial position of the Companies Fund of the Department of Registrar of Companies as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.2 Comments on financial Statements**

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###### **1.2.1 Accounting Policies**

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The following observations are made.

- (a) A journal had not been made use of for accounting for the opening balances, accrued expenses, prepayments, rectification of errors, etc. in the preparation of the financial statements for the year 2012, though this matter was pointed out in the audit report for the year 2011 as well.
- (b) A sum of Rs.110,500 spent in the current year and the preceding year for the local training programmes had been capitalized under the library books and shown in the financial statements. Further, contrary to the accounting policies, the entire amount had been depreciated at annual depreciation rate of 100 per cent and shown in the accounts as the accumulated depreciation.

### 1.2.2 Accounting Deficiencies

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Even though the Treasury Bonds amounting to Rs.215, 677,391 due to mature in the year 2013 should have been shown under the current assets in the financial statements, that had been shown under the non-current assets.

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

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Following non-compliances with the provisions of laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules,

Non-compliance

Regulations, etc.

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- | Reference to Laws, Rules, Regulations, etc.                | Non-compliance   |
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| (a) Public Finance Circular No.438 of 13 November 2009     | Even though the unusable goods, revealed at the Boards of Survey conducted as at 31 December 2012 had been recommended for sale or destruction and a register of those had been prepared, action had not been taken to ascertain the period of purchase, compute the value, sale or destruction and eliminating them from the books. |
| (b) Section 8.9.1 of the Government Procurement Guidelines | An agreements had not been signed in connection with a service contracts on which a sum of Rs.2,981,093 had been paid in the year under review.  |

2. **Financial Review**

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**Financial Results**

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The financial results of the operations of the Fund for the year under review had been surplus of Rs.287,126,146 and the corresponding surplus for the preceding year had been a surplus of Rs.269,443,580. The improvement of the surplus for the year under review as compared with the preceding year by a sum of Rs.17,682,566 had been mainly due to the increase of Rs.28,993,500 in the income from the registration of Annual Reports in the year under review.

3. **Operating Review**

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3.1 **Performance**

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(a) **Companies and Other Registrations**

The information relating to the companies and other registrations as compared with the preceding year is given below.

	Number		Increase/(Decrease) in the year 2012 as compared with the preceding year	Percentage %
	<u>2012</u>	<u>2011</u>		
Companies Registered	7,312	7,946	(634)	8.0
Examination of Files	12,729	14,053	(1,324)	9.4
Approval of Names	14,194	15,924	(1,730)	10.9
Certified Copies	38,459	36,980	1,479	4.0
Registration of Forms	74,304	70,173	4,131	5.9
Registration of Annual				

Reports	33,845	26,397	7,448	28.2
Registration of Financial Reports	2,959	2,180	779	35.7
Sale of Forms	4,368	6,346	(1,978)	31.2
Registration of Secretaries	622	603	19	3.1

The following observations are made in this connection.

- (i) Even though the number of Annual Reports registered and the income therefrom in the year under review as compared with the preceding year had increased by 7,448 and Rs.29 million or 40 per cent, out of 41,434 companies that should have submitted the Annual Reports as at 31 December 2012, the number of companies that had submitted Annual Reports had been only 13,404. As such 28,030 companies had not submitted the Annual Reports and that represented 68 per cent. The Fund did not have a proper procedure to call for the Annual Reports from the companies that should submit Annual Reports.
- (ii) Even though the number of Forms registered in the year under review and the income therefrom as compared with the preceding year had increased by 4,131 Units and Rs.9 million or 31 per cent respectively, the number of companies registered as compared with the preceding year had decreased by 857 or 10.8 per cent. Accordingly, the income had also decreased by Rs.2,304,000.

(b) **Regulatory of Companies**

The direction of the activities of the Companies registered in accordance with the provisions specified in the Companies Act, and to ensure that action is taken accordingly and instances where it is not so done, carrying out the activities of the companies registered legally, in accordance with the provisions as specified in the Act are the main statutory duties of the Register General of Companies. Nevertheless, as appearing in (a) above, the regulatory of the activities of the registered companies had been at a very weak level. As the Department of Registrar of Companies is not having an action plan for the regulatory of the activities of companies, the Department is deprived of a substantial amount of income annually.

(c) **Cheetu Ordinance No. 61 of 1935**

Even though the function of registration and regulation of Cheetu are devolved in the Department of Registrar of Companies, no activities whatsoever had been done in this connection in the year under review. The Fund did not have awareness programmes to create an awareness among the Cheetu organizers spread throughout the Island.

(d) **Societies Ordinance**

During the years under review 679 societies had been registered under the Societies Ordinance and the Fund had received an income of Rs.16,975 at the rate of Rs.25 per society. Even though this registration fee remained unchanged over a period exceeding 10 years, action had not been taken up to the end of the year under review to revise the fee in accordance with the present conditions.

#### 4.2 **Management Inefficiencies**

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The following observations are made.

- (a) The approval of the Cabinet of Ministers had been received on 12 September 2007 for the transfer of the land on which the Building of the Department is situated to the Registrar General of Companies with the concurrence of the Ministry of Transport. Nevertheless, the land had not been transferred even by 31 May 2013. In the meantime the Fund had to pay a sum of Rs.13 million to the Department of Sri Lanka Railways as the lease rent up to the end of the year under review.
  
- (b) A sum of Rs.3,977,154 received up to 31 December 2012 by the Fund from the companies under liquidation had been retained idling in the Liquidation of Companies Current Account over periods ranging from 53 days to 365 days without being invested in the Treasury Bonds/Bills.

#### 4.3 **Operating Inefficiencies**

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The following observations are made in connection with the Information Technology Project.

- (a) Even though a sum of Rs.9,335,637 from the funds received from the World Bank aid had been spent from the year 2002 to the year 2012 for carrying out improvements to the computer systems, the computerization of the activities relating to the registration of companies had not been completed even by 31 May 2013.

(b) Even though allocations exceeding Rs.630 million had been made under the provisions of the Companies Fund in the Annual Budget Estimates of the Fund from the year 2003 to the year 2011 for the computerization of the registration of companies, that had not been utilized even up to 31 May 2013. Even though a further sum of Rs.124 million had been allocated under this restructure in the year under review for the computerization programme, that work as well had not been commenced even by 31 May 2013.

(c) Even though a sum of Rs.135 as registration fee and a sum of Rs.22 as the annual renewal fee had been charged up to the year under review for the registration of an auditor in terms of Public Finance Circular No.351 of 06 February 1997, the attention of Fund had not been paid for revising the said fees existing over a period of 15 years.

#### 4.4 **Transaction of Contentious Nature**

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Even though the shares of private company had been purchased in the year 2007 by utilizing a sum of Rs.90,275,000 from Companies Fund, the Ministry of Co-operatives and Internal Trade owned these shares. The value of these shares of which the ownership had not been established, had been shown as an asset in the accounts. Nevertheless, the ownership as well the benefit therefrom had not been received by the Fund even by the end of the year under review.

#### 4.5 **Idle Assets**

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Action had not been taken for the disposal of a motor vehicle older than 20 years taken off from running.

5. **Accountability and Good Governance**  
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5.1 **Corporate Plan**  
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A Corporate Plan for a period not less than 03 years had not been prepared for the achievement of the Vision and Mission of the Fund.

5.2 **Procurement Plan**  
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A Procurement Plan for the Companies Fund for the year under review in terms of Section 4.2.1(b) of the Government Procurement Guidelines had not been prepared.

6. **Systems and Controls**  
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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Registrar General of Companies from time to time. Special attention is needed in respect of the following arrears of control.

- (a) Accounting.
- (b) Registration of Annual Reports of Companies and Regulatory of Companies.
- (c) Procurement
- (d) Fixed Assets Control
- (e) Stock Control
- (f) Investments
- (g) Revision of Registration Fees