

## **Academy of Financial Studies (Guarantee) Limited – 2015**

---

The audit of financial statements of the Academy of Financial Studies (Guarantee) Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial activities, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 4 (b) of Paragraph 24 of the Article of Association of the Company. My comments and observations on the above financial statements appear in this report. A detailed report was sent to the Chief Executive Officer of the Company on 31 January 2017.

### **1.2 Responsibility of the Board of Directors for the Financial Statements**

---

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (“SLFRS for SMEs”) and for such internal control as the Board 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. 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.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor consider internal control relevant to the Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the 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 describe 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 Academy of Financial Studies (Guarantee) Limited as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities.

### **2.2 Comments on Financial Statements**

-----

#### **2.2.1 Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)**

-----

The following observations are made,

- a) Even though only the income and expenditure relating to the period for which financial statements are presented, should be brought to account, administration expenditure for the year 2014 amounting to Rs. 38,638 had been treated as expenditure for the year under review.
- b) Depreciation policy for motor vehicles had not been disclosed as a note to the financial statements in terms of paragraph 8.5 (b) of the SLFRS for SMEs.

#### **2.2.2. Accounting Deficiencies**

-----

The following deficiencies are observed.

- a) Furniture and fittings valued at Rs.1,082,127 received from Ministry of Finance had been entered twice in the accounts of the Company. Therefore, the fixed assets account shown in the financial statements for the year under review had been overstated by Rs.1,082,127.
- b) Fixed deposit interest receivable overstated by Rs.1,004,333 in previous year had not been adjusted in the financial statements even in the year under review.
- c) Amortization income had been understated by Rs.33,929 due to erroneous calculations.

#### **2.2.3 Unexplained Differences**

-----

According to the confirmation received from the bank, the value of fixed deposits was Rs.96,626,662. However, according to the fixed deposits shown in the financial statements it was Rs. 96,576,146 thus, indicating a difference of Rs. 50,516.

#### **2.2.4 Accounts Receivable and Payable**

-----

Action had not been taken to recover a loan of Rs.210,414 receivable from the “Miloda” Institute since the year 2013.

### **3. Financial Review**

-----

#### **3.1 Financial Results**

-----

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax net profit of Rs. 982,016 as compared with the corresponding pre-tax net profit of Rs.4,748,242 in the preceding year thus, indicating a significant deterioration of Rs.3,766,226 in the financial result of the year under review. Decrease of income from training program and other program by Rs.9,844,298 or 41 per cents as compare with the previous year was the main reason attributed for this deterioration.

### **4. Operating Review**

-----

#### **4.1 Performance**

-----

According to the Article of Association, the Company was established as a training arm of then Ministry of Finance. However, as per the notification published in the Gazette Extraordinary No. 2022/34 of 09 June 2017, the Company had removed from then Ministry of Finance and attached to another Ministry. According to Section (B) 2(d) and (f) of the Article of Association of the Company, hire lecturers from local and foreign, conduct related trainings and engage in related research, print books, journals, reports and such other publications are the main objectives of the Company. However, the Company had unable to perform these objectives during the year under review.

#### **4.2 Identified Losses**

-----

A sum of Rs.136,474 had to be paid as interest for the year under review due to delaying the settlement of electricity bills.

#### **4.3 Transactions of Contentious Nature**

-----

The Ministry of National Policies and Economic Affairs was located in the first floor of the Company building since February 2015. The Ministry had agreed to pay excess amount of water bills and electricity bills based on expenditure of January 2015. However, the Ministry had not paid electricity charges of Rs. 147,360 on that basis as at 31 December 2015. It was further observed that this is not a logical base to recover the electricity and water expenses incurred by the Company.

#### **4.4 Idle or Underutilized Assets**

-----

The following observations are made,

- a) The Company has a capacity for trained 1,009 officers at a time by utilizing its meeting room, computer labs, lecture hall, digital lab, auditoriums and VIP meeting hall which constructed for the Company. However, The Company had trained only 6,642 officers during the year under review by conducting 45 training program. Therefore, the Company had failed to obtain maximum benefits by utilizing its training capacities.
- b) A meeting hall with 30 seating capacity and 38 laptop computers in the digital laboratory of the Company had not been utilized during the year under review for the intended purposes.

### **5. Accountability and Good Governance**

-----

#### **5.1 Presentation of Financial Statements**

-----

According to Section 166(1) of the Companies Act, No.07 of 2007, the Company should have prepared the annual report within six months after the balance sheet date on the affairs of the Company and the draft annual financial statements have been presented to the Auditor General within 60 days after the closure of the financial year, in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. However, the financial statements for the year 2015 had been presented for audit only on 23 June 2016.

#### **5.2 Corporate Plan**

-----

Even though a Corporate Plan should have been approved by the Company and a copy of such plan should be furnished to the Auditor General at least 15 days before commencement of the next financial year in terms of paragraph 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Company had not furnished such plan to the Auditor General even up to 31 December 2015.

#### **5.3 Budgetary Control**

-----

Even though the copies of approved annual budget should be prepared and forwarded to the Auditor General at least 15 days before the commencement of the next financial year in terms of paragraph 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, it had not been done so.

### **6. Systems and Controls**

-----

Deficiencies observed during the course of audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of control over financial reporting such as non-disclosures, erroneous accounting treatment, overstatements and understatements in the accounts, etc.