Academy of Financial Studies (Guarantee) Limited - 2017

The audit of financial statements of the Academy of Financial Studies (Guarantee) Limited ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial activities, statement of changes in equity and statement of cash flows 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 Section with 4 (b) of Paragraph 24 of Article of Association of the Company.

1.2 Responsibility of the Board of Directors' for the Financial Statements

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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 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 considers 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 Company. 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 qualified audit opinion.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters describe in paragraph 2.3 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 2017 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 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No.07 of 2007, I state the followings:

(a) The basis of qualified opinion and scope and limitations of the audit are as stated above.

(b) In my opinion:

- Expected for the effect of the matters describe in paragraph 2.3 of this report. I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
- The financial statements of the Company, comply with the requirements of Section 151 of the Companies Act No.07 of 2007.

2.3 Comments on Financial Statements

2.3.1 Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

The following observations are made.

(a) The Company had failed to disclose the comparative information in the statement of changes in equity and note to the property, plant and equipment.

(b) Nature of the errors had not been disclosed in the financial statements with regard to prior period adjustments amounting to Rs.4,430,707 made in the statement of changes in equity.

(c) Carrying value of biological assets and computer software amounting to Rs. 897,360 and Rs.1,626,390 respectively had been categorized under property, plant and equipment without being shown as separate line items.

2.3.2 Accounting Deficiencies

The following observations are made.

(a) The interest income on fixed deposits amounting to Rs.154,000,000 for the year under review had been understated by Rs.488,131 due to computation error.

(b) Computer Accessories (mouse) purchased at a cost of Rs.220,000 during the year under review had been treated as maintenance expenditure instead of being capitalized under IT and Training Equipment.

2.3.3 Un-reconciled Differences

As per the fixed assets register of the Company, the cost of furniture and fittings as at 31 December 2017 was Rs.62,349,946. However, it was shown as Rs.63,452,074 in the financial statements for the year under review. Nevertheless, action had not been taken to reconcile the difference of Rs.1,102,128 observed between these two figures.

2.3.4 Lack of Evidence for Audit

The following observations are made

(a) Journal vouchers relating to prior year adjustments amounting to Rs.564,224, were not made available for audit.

(b) Transactions with regard to assets, liabilities, equity, income and expenditure aggregating Rs.54,082,156 carried out during the month of January 2017 could not be verified/vouched due to non-submission of details of such transactions.

2.4 Accounts Receivable and Payable

Staff loan balance amounting to Rs.210,414 receivable from employees of than Institute of "Miloda" had remained in the accounts without been recovered for over four years.

2.5 Non –compliance with Tax Requirements

The following instances of non - compliance were observed during the course of audit.

(a) Quarterly self-assessment income tax had not been paid for the year 2017/18 in terms of Section 113 of Inland Revenue Act, No. 10 of 2006.

(b) Although in terms of Section 4 of Nation Building Tax (NBT) Act, No.09 of 2009 the returns on NBT should be remitted to the Department of Inland Revenue on or before 20th of the following month of the end of that relevant quarter, the Company had failed to comply with this requirement.

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.45,477,028 as compared with the corresponding pre-tax net profit of Rs.15,147,291 in the preceding year, thus indicating an improvement of Rs.30,329,737 in the financial results of the year under review. Increase of training income by Rs.63,734,903 during the year 2017 was the main reason attributed for this improvement.

3.2 Value addition of the Company

The value addition of the Company for the year under review after taking into account the personal emoluments, taxes paid to the government and depreciation had been Rs.75,031,886 and it was Rs.38,470,908 in the preceding year. Hence, the value addition of the year under review had been increased by Rs.36,560,978.

4. Operating Review

4.1 Performance

According to Section (B) 2(f) of the Article of Association of the Company, engage in related research and print books, journals, reports and such other publications are the main objectives of the Company.

However, A Corporate Plan or Strategies had not been prepared or set out since its inception of the Company in order to achieve these objectives. Further, an Action Plan also had not been prepared for the year under review. Hence, the performance of the Company for the year under review could not be ascertained in audit.

4.2 Transactions of Contentious Nature

The Company had earned a rental income of Rs.4,200,000 during the year under review by rent out the part of office building which provided by the Ministry of Finance to the Company for the use of its activities on free of charge in 2013. However, this income had been retained with the Company without being remitted to the Ministry of Finance and Mass Media.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observations are made.

(a) The draft annual financial statements should 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 Company had presented the financial statements for the year 2017 only on 26 March 2018 after delaying 26 days.

(b) In the absence of the Board of Directors since July 2017, the financial statements for the year 2017 had been authorized by the Chief Executive Officer of the Company and the Secretary to the Line Ministry. Further, since July 2017 the functions of the Company had been brought to the purview of the Secretary to the Line Ministry.

5.2 Corporate Plan

Even though a Corporate Plan should have been approved by the Board and a copy of the Plan should be furnished to the Auditor General at least 15 days before commencement of the 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 prepared such Plan since its inception.

5.3 Budgetary Control

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

6. Systems and Controls

Deficiencies in systems and controls 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 proper maintenance of general ledger.