

**1.1 Qualified Opinion**

The audit of the financial statements of the Academy of Financial Studies for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

#### **1.4 Audit Scope**

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 of users taken 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 scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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 omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standards

<b>Non Compliance with the reference to particular Standard</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) Provision for deferred tax had not been made as per the section 29 of the SLFRS for SME.	Audit observation is noted and accepted.	Financial Statements should be prepared according to the relevant standards.
(b) Provision for gratuity had not been made and disclosed in the financial statements as per the section 28 of SLFRS for SME.	-do-	-do-

### 1.5.2 Accounting Deficiencies

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) Due to incorrect income tax computation, the tax expense for the year of assessment 2018/ 2019 had been overstated by Rs. 10,063,437.	Audit observation is noted and accepted.	Action should be taken to claim the over payment.
(b) The company had not made provision in respect of economic	Audit observation is noted and accepted.	Appropriate provision should be made in the

service charge (ESC) amounting to Rs.867,566 payable for the year under review.

Financial Statements.

## 1.6 Non -compliance with Tax Regulations

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) Income tax self assessment in three instances for the year of assessment 2017/ 2018 had been paid with a delay of period ranging from 03 to 06 months contrary to the requirement of section 113(1) of the Inland Revenue Act, No 10 of 2006	Audit observation is noted and accepted.	Special attention should be given to comply with tax regulations mentioned in the relevant Act.
(b) Income tax instalments payments in two instances had been paid with a delay of 05 and 02 months respectively contrary to the requirement of section 90(2) of the Inland Revenue Act, No 24 of 2017	-do-	-do-
(c) With Holding Tax (WHT) return for the year of assessment 2018/2019 had been submitted with a delay of 16 days contrary to the requirement of Section 86(2) of the Inland Revenue Act No. 24 of 2017 and paper notice issued on 22 April 2019 by the Inland Revenue Department extending deadline.	-do-	-do-
(d) In nine (09) instances VAT had been paid with a delay ranging from 03 to 15 days contrary to the requirement of Section 26 of Value Added Tax Act, No 14 of 2002.	-do-	-do-

## 1.7 Non-compliance with Laws, Rules and Regulations.

	<b>Reference to Non-compliance Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a)	SLFRS for SME section 29.39	Major components of the tax expenses had not been disclosed separately.	Audit observation is noted and accepted.	Relevant discloses should be made in the Financial Statements.
(b)	SLFRS for SME section 4.2	Income tax payable amounting to Rs.12,149,018 had been shown under statutory payable instead of being shown as a line item in the statement of Financial Position.	-do-	-do-

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 50,090,684 and the corresponding profit in the preceding year amounted to Rs. 42,600,132. Therefore an improvement amounting to Rs. 7,490,552 of the financial result was observed. The reason for the improvement is increase of income.

## 3. Accountability and Good Governance

### 3.1 Audit Committee

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Audit and Management committee meetings had not been held during the year under review.	In the absence of the Board Directors Audit and Management Committee meetings could not be held.	Action should be taken to held Audit and Management Committees as per relevant circulars.