

Company Fund - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Company Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in net assets 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(3) 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 Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Public Sector 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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

1.4 Audit Scope (Auditor's Responsibility in Auditing Financial Statements)

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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 Internal Control over the Preparation of Financial Statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The audit observations with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under these headings.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to relevant Standard	Comments of the Management	Recommendation
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(a) Standard No. 1		
(i) Although the values expected to be recovered or settled after more than 12 months for each asset item should be shown in the accounts as non-current assets in terms of Paragraph 71 of the Standard, out of the advance provided to the Deputy Secretary to the Treasury from the Fund amounted to Rs. 1,700,000,000, a sum of Rs. 527,065,902 had been set off by the end of the year under review and the balance amounted to Rs. 1,172,934,098 had been stated as Advance under current assets.	In the event of final accounts preparation in the future, it was noted to take to accounts as a non-current asset.	It should be act in accordance with Sri Lanka Public Sector Accounting Standards.

(ii) Although the current assets are not expected to be realized within 12 months from the reporting date, assets retained for realization in the normal operating cycle belonging to the current liabilities of non-current financial assets as per the Paragraph 79 of the Standard. Accordingly, within the Investment balance amounted to Rs. 2,167,485,482 which was shown in the balance of the non-current asset of the Fund, the investments to be matured in less than a year amounted to Rs. 423,460,691 had been included.

Since these investments were made for more than two years, stated as non-current assets.

The value of Treasury Bonds that are to be matured during the year under review should be shown as current assets.

(b) Standard No. 7

As the effective lifetime of non-current assets was not reviewed annually as per Paragraph 65 of the Standard, the non-current assets amounted to Rs. 891,993 was depreciated by a sum of Rs. 805,269 or 90 per cent re further being used. Accordingly, action had not been taken to rectify the estimated error.

It is informed that the actions will be taken to appoint a Committee to review non-current assets and identify the goods to be assessed and rectify the shortcomings act as per the recommendations of the Committee.

Arrangements should be made in accordance with Sri Lanka Public Sector Accounting Standards.

1.5.3 Accounting

Deficiencies.

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The interest receivable on Treasury Bonds as at 31 December 2018 amounted to Rs. 15,577,583 had been understated.	It was noted to correct the understated amount.	The interest relating to the year should be accounted for.
(b) The interest received on the investments made in the Treasury Bills from the liquidation account of the Company and the receivable interest amounted to Rs.1,450,707 and Rs.428,491 respectively, had been accounted for as an income and current assets of the Fund.	Actions will be taken not to show the liquidation notes in the Fund accounts. when preparing next year's accounts .	It should be taken in to accounts only relating to the activities of the Company Fund.
(c) The surplus from the issuance of Treasury Bonds amounted to Rs.12,662,441 and the surplus	It was noted to accounted for as capital gains.	Actions should be taken in accordance with the Accounting Standards.

received from the issuance of Treasury Bills amounted to Rs. 71,915,479 had been taken in to accounts as interest income in the statement of financial performance instead of being stated in the statement of financial position as capital gains.

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| <p>(d) From the Company's liquidation account, Rs. 32,051,614 invested in Treasury Bills and the Fund's Current Assets Balance and 2,948,289 invested in Treasury Bonds was also shown in the Non-Current Assets Balance. As a result, the Fund's current and non-current asset balances have been overestimated of that amount.</p> | <p>Actions will be taken not to show the transactions related to liquidation accounts of the Company Fund and will maintain a separate account for that in the next year.</p> | <p>It should be taken in to accounts only relating to the activities of the Company Fund.</p> |
| <p>(e) The payments made in advance from the Fund as at the end of the year under review amounted to Rs. 695,276 and accrued expenses amounted to Rs. 144,110 had been understated in the Financial Statements.</p> | <p>Due to a mistake the payments made in advance were understated by a sum of Rs. 695,276 and since failure to identify specifically at the time of preparation of accounts the accrued expenses had been understated by a sum of Rs. 144,110.</p> | <p>Expenditure relating to the year should be accurately identified and accounted for.</p> |
| <p>(f) Any allocation for audit fees had not been made for the years 2017 and 2018.</p> | <p>It is noted to make allocations for audit fees for the current year as well .</p> | <p>Arrangements should be made to make allocations in accounts adequately.</p> |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The outstanding Annual Report Income from the year 2007 to the year under review was Rs. 1,316,400,000. Out of this, there were balance of Rs. 535,432,000 for more than three years, Rs. 520,284,000 between one to three years and the balance of Rs. 260,684,000 less than a year.	Actions are being taken to recover the arrears.	Arrangements should be made to collect arrears immediately and take action to prevent the increasing of the number of companies have not filing annual reports.
(b) According to Section 170 (i) of the Companies Act, the number of companies that had to be registered financial reports of the year under review was 6893 and out of them, 2,110 companies had registered the financial reports during the year. Accordingly, the total income earned from this was Rs. 4,220,000 and the income received to the Company Fund was Rs. 2,813,333 . The Fund had lost the income receivable for 4783 Companies registered during the year under review.	The Registered Public Companies should file financial reports and when applying for certified copies of companies that have not filed, it is noted that until the financial records are filed in the years in which the financial records were not filed, that they will not be issued. It is also informed that the companies and its Directors that they are constantly sent letters by requesting them to file financial reports.	The companies should be made aware of the financial statements to comply with the provisions of the Act and actions should be taken to obtain financial reports.

1.7 Non-compliance with laws, rules, regulations and management decisions

The following observations are made.

References to Laws, Rules, Regulations, etc.	Comments of the Management	Recommendation
----- A sum of Rs. 12,574,280 had been paid in the year under review with the approval of the Secretary to the Line Ministry for working five hours a day	----- A proper approval was given by the Secretary to the Ministry, in accordance with Section 479 (4), with	----- Under Section 479 (4) of the Act, it has been stated that all necessary funds may be paid to cover the expenses incurred by the Registrar

for services to the public over the weekend. However, the approval of the Department of Management Services or the Director General of Establishments had not been obtained until May 2019 for payments made excluding the provisions of the Establishments Code.

the concurrence of the Registrar General to perform the functions of this Act.

General for the purposes of the Act and shall be payable under an Ordinance or Regulations made under this Act. Accordingly, approval for such orders should be obtained by the Treasury or the Department of Management Services.

2. Financial Review

2.1 Financial results

Operating results for the year under review was a surplus of Rs. 657,019,777 and the corresponding surplus for the preceding year was Rs. 563,334,730. Accordingly, an improvement in financial result amounted to Rs. 93,685,047 was observed . The growth in interest on investment in Treasury Bills and Bonds by Rs. 56,653,142 had mainly attributed for this improvement.

3. Operating Review

3.1 Uneconomic Transactions

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 13,619,571 incurred on a Project which was commenced in the year 2014 and abandoned due to failure had been accounted for under work-in-progress and actions had not been to recover the amount related to an uneconomic expense or remove them from the book.	Actions are being taken with regard to this.	Because the money spent on this project was useless and also once again a new project is being implemented, a suitable action should be taken to recover it.

3.2 Identified Losses

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
The company had invested a sum of Rs. 90,275,000 in a loss-making public company with the approval of the Cabinet in the year 2007. The Company Fund had not received any benefit in this investment from the investment	A letter dated 16.08.2017 has been submitted to the Bribery and Corruption Commission to inquire into the matter and submit a report.	Actions should be taken to get the benefits on the investment value of the Fund.

date to the year under review. Further, since purchasing values for these equities had no market value were shown under non-current assets, the statement of financial position had been over computed by that amount.

3.3 Management Inefficiencies

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>A part of the second and third floor of the “Samagam Medrura” building had leased since 2014, for a monthly rent of Rs. 800,000. It had informed that this valuation was for a period of three years only. Even so, leases had been levied without re-valuation even after three years had elapsed.</p>	<p>The monthly rent for these two floors has been requested to assess and to submit a report to Department of Valuation on 07 January 2019 .</p>	<p>Actions should be taken to in accordance with the conditions in the agreement.</p>

3.4 Operating inefficiencies

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>----- Out of the total number of 83,225 Registered Companies from the year 2007 to 2018, there were 18,054 companies that had filed their Annual Report relevant to the year 2018 and the number of Companies that had arrears Annual Reports were 65,171. The number of companies that had defaulted to file Annual Reports in the year 2007 was 15,450 which had grown continuously for the year under review.</p>	<p>----- Once the computer system has been introduced, actions will be taken to identify the annual outstanding income properly and to file the Annual Reports in the respective year itself , in a way that does not produce an arrears income.</p>	<p>----- Actions should be taken to collect the outstanding revenue for the Annual Reports and to file Annual Reports in accordance with the relevant year accurately.</p>

3.5 Idle or Underutilized Property, Plant and Equipment

The following observation is made.

Audit Observation	Comments by the Accounting Officer	Recommendation
A stock of technical and electronic equipment valued at Rs. 4,526,952 were purchased during the year under review and retained in the warehouse as idle assets up to the date of audit (20.06.2017) .	The Intellectual Property Office will be moving out of this building before the end of the year 2018 and although this information provided physical equipment to cover all 05 floors, immediately after the removal of the Intellectual Property Office it is stated that the equipment will be used with the two floors.	Planning and procurement activities should be done as per the requirement.

3.6 Delays in Projects or Capital Works

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 1,520,000 and Rs. 2,098,500 had been paid respectively for implementation of Phase one of Computerization Software Installation Project valued at Rs. 57 million in the year 2017 and the members of the Review and Monitoring Committee respectively. However, even though the 25 months had elapsed since the commencement of the contract, the Project had not been completed.	The eROC project is the only complete online project of a government agency in Sri Lanka. Unlike the online system of other government institutions, at the same time the client and the Department connect to online and no manual document is exchanged. Such a complex project is a new mechanism for both the Department and the contractor and provides services to the public effectively and efficiently according to the needs of the Department.. Due to the complexity of the project, the project had to be extended for about 1 1/2 years beyond the contract period.	The time period taken for the project should be accurately assessed whilst carryingout procurements.