

Skills Development Fund Limited - 2020

1.1 Qualified Opinion

The audit of the financial statements of the Skills Development Fund Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial positions as at 31 March 2020 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 reported 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 March 2020, 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 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.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful life of the fully depreciated assets amounting to Rs.13,629,427 still in use had not been reviewed and accounted accordingly.	Residual value & useful life of those assets should be valued to professional valuer. Therefore, has to spend money to value those assets without any benefit to the entity.	Action should be taken as per Accounting Standards.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Management Comment -----	Recommendations -----
(a) Deferred tax shown in the financial statement had been understated by Rs. 1,255,789.	Action is being taken to rectify.	Action should be taken to rectify the deferred tax.
(b) The Company has recognized a sum of Rs.1,296,872 shown as income tax refund receivable in the financial statement. However, sufficient audit evidence was not available to ensure the recoverability of the balance.	Company has not sufficient information to recover this balance.	Action should be taken to recover the tax refund.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc. -----	Non compliance -----	Management Comment -----	Recommendation -----
Public Enterprise Circular No. 2/2015 dated 15 May 2015.	Contrary to the provisions in the circular, the Company had been over paid a sum of Rs. 251,347 as telephone allowances for 09 officers during the year under review.	These payments had been made on the approval of the Boards of Directors.	Should be adhered to the provisions in the Circular.

1.7 Non – compliance with Tax Regulations

Not complied with the following observations.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) As per the Section 2 (2) of Economic Service charge (Amendment) Act No. 13 of 2006, The companies which exceed the turnover of a quarter of Rs. 12.5 million should register for economic service charges. However, the Company had not been registered for economic service charges though the company turnover had exceeded the above limit.	The Company is in the process of Registering for economic service charges and it has been scheduled to pay economic service charges as arrears.	Should be adhered to the provisions in the Act.

- (b) As per the Section 85(1)(a) and item 10(1)(c)(i) to the First Schedule of the Inland Revenue Act, No.24 of 2017 the Company had not deducted and remitted withholding tax on services provided from 01 April 2018 to 31 March 2020. Company is in the process of registration for WHT and planned to pay WHT in future. Action should be taken in compliance with the Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 5,862,693 and the corresponding profit in the preceding year amounted to Rs. 14,750,721. Therefore, a deterioration amounting to Rs. 8,888,028 of the financial result was observed.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation

Contrary to the provisions in Management Service Letter No.DMS/E4/47/9/282/1/1 dated 18 November 2011, the Company had been paid a sum of Rs.2,266,500 as incentive allowances for 33 officers of the Company during the year under review.

Management Comment

These payments had been made on the approval of the Boards of Directors.

Recommendation

Should be adhered to the provision in the Management Service Letter