Company Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Company Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, 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(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 and Section 479(6) of the Companies Act, No.07 of 2007. 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 financial statements of the Fund give a true and fair view of the financial position as at 31 December 2020, and its financial performance and 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 determines 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 Auditor's Responsibility for the Audit of the 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 skepticism 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 Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Fund is 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 Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
According to paragraph 49 of Standard 7, when assets are revalued, the entire class to which those assets belong, shall be revalued. However, only 03 items out of 39 items of office equipment and 17 items of computers and accessories included in property, plant and equipment, had been revalued.	That a committee will be appointed to revalue all assets.	When assets are revalued, the entire class to which those assets belong, should be revalued.

1.5.3 Accounting Deficiencies

The following matters were observed.

	Audit Observation	Comments of the Management	Recommendation
(a)	The value of certified works of the contract of restructuring the ground floor as at 31 December 2020 had been Rs.35,795,549 and the retention money of 10 per cent relating thereto should be Rs. 3,579,554. However, in making payments for bills, the value of retention money relating to the value of accumulated work done had been accounted in the General Deposit Account and in the Work-in-Progress Account, without considering the retention money brought to account through previous bills. As such, a sum of Rs.8,247,740 had been entered in the General Deposit Account as retention moneys payable as at 31 December 2020. As a result, the balance of the Work-In-Progress Account and the balance of the General Deposit Account indicated in the financial statements as at that date, had been overstated by Rs.4,668,186.	In making payments to the contractor, accurate amounts had been paid. However, a difference was observed between the Work-in-Progress Account and the balance of the retention money payable due to an error in accounting. However, action will be taken to rectify it through journal entries.	Action should be taken to approve the relevant journal vouchers at the time of making payments itself.
(b)	Advances paid to the contractor in the year 2019 had been brought to account as Work-In-Progress and as there were advances of Rs.3,647,736 recoverable further as at the end of the year under review, the said value had been indicated in the financial statements as Work-In-Progress and as such, the value of Work-In-Progress and the value of advances had been overstated and understated respectively by the same amount.	Action will be taken to enter them accurately in the ensuing year.	The account to be entered should be mentioned in the voucher at the time of certification of payments itself.

2 Financial Review

2.1 Financial Results

The operating result for the year under review had been a surplus of Rs. 524,664,760 as compared with the corresponding surplus of Rs.700,789,929 for the preceding year, thus observing a deterioration of Rs.176,125,169 in the financial result. The decrease in interest on Treasury Bills and Bonds by Rs.173,098,483 had mainly attributed to the said deterioration.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

	Audit Observation	Comments of the Management	Recommendation
(a)	A sum of Rs.90,275,000 transferred to the Account of the Secretary to the Ministry of Trade, Marketing Development, Cooperative and Consumer Affairs for the purchase of ordinary shares and preference shares of the E-services Lanka (Pvt) Ltd. for the Government contribution of 35 per cent relating to the establishment of the said Company in the year 2007, had been indicated under investments. However, no benefits whatsoever had been received from the date of investment up to the year under review. A share entitlement had not been shown as at 31 December 2016 in favour of the Secretary to the Ministry as per the Form 15 submitted according to Section 131(1) of the Companies Act.	It has been informed that a sum of Rs.90,275,000 had been invested for the purchase of shares of the E-services Lanka (Pvt) Ltd. as per the request made by the Secretary to the relevant Ministry subject to the Cabinet approval granted on 01 March 2007 for the implementation of the Government Policy of that year. It has been entered as an investment in the Account of the year 2007 and as no benefits whatsoever have been received from that date up to now and the said Company runs at a loss, the relevant Ministry will take action to liquidate the said Company. However, the progress of liquidation has not been informed and it has been further informed that a request has been made on 16.08.2019	Reasons for failure to indicate the share entitlement as per the Form 15 submitted as at 31 December 2016, should be examined.

		to the Commission to Investigate Allegations of Bribery or Corruption to conduct an investigation on the investment of shares.	
(b)	It is cited in Section 397(1) of Companies Act, No.7 of 2007 that money representing unclaimed assets of a company standing to the credit of a liquidator shall after completion of the winding up, be paid to the Registrar to be credited to the Companies Liquidation Account, in liquidating companies in the Companies Liquidation Account disclosed under Note No.16 to financial statements. Accordingly, money received as at 31 December 2020 totalled Rs.27,396,124 and a portion of the said amount had been invested on Treasury Bills and Treasury Bonds. The total of debit and credit balances remained as at 31 December of the year under review had changed by Rs.1,905,288 due to errors occurred in accounting interest received on those investments.	Even though it had been cited in terms of Section 396(1) of the Companies Act that a separate account should be operated for the Companies Liquidation Account, it had not been indicated that separate specific accounts should be operated. As such, it is informed that only receipt and payment accounts are prepared in the year under review.	Reasons for variations should be looked into by making reconciliations and relevant rectification be made accordingly.

3.2 Operating Inefficiencies

The following matters were observed.

	Audit Observation -------------------	Comments of the Management --------------	Recommendation --------------------
(a)	Registered companies should file their annual returns in terms of Sections 131 (1) and (2) of the Companies Act, No. 07 of 2007. However, according to the performance report, the number of companies which should file	A Cabinet Memorandum has been prepared and submitted for approval for permitting a grace period for filing annual returns and thereby expecting the	The number of filing annual returns should be increased.

	annual returns in the year under review stood at 111,377 and the said returns had been filed only by 17,173 companies out of them. As such, 94,204 companies representing 85 per cent had neglected filing annual returns.	increase in filing of annual returns by a significant number.	
(b)	All non-private companies are required to register their financial statements with the Registrar of Companies as per Section 170 of the Companies Act, No.07 of 2007. Accordingly, the number of companies which should take action so, relating to the year under review stood at 7,175. Even though only 1,001 companies out of those had taken action in terms of Sections of the Act, 6,174 companies representing 86 per cent had not taken action in terms of the said provisions.	Business activities of many companies have weakened due to the Covid 19 pandemic prevailing since the year 2020. The said situation has contributed to the failure in proper filing of financial reports.	Action should be taken by preparing proper methodologies for taking follow up action relating to companies which do not comply with provisions of the Act.
(c)	Even though the number of companies which had not filed annual returns from the year 2007 up to 31 December 2020 stood at 432,008, it had been considered as 447,231. Accordingly, the number of companies which had not filed the said returns had been over computed by 15,223. As such, the outstanding income estimate of the Fund had increased by Rs.60,892,000.	As the outstanding income report has been prepared, it has been informed that an over computation of outstanding income has occurred and that action will be taken to rectify it.	Attention should be paid on the accuracy of data used for computation.
(d)	Only the failure in filing annual returns in terms of Section 131 of the Companies Act has been considered in the computation of outstanding income, and the outstanding income generated by non- registration of financial statements in terms of Section 170 of the Act, had not been considered.	It has been informed that the income lost from failure in filing financial reports will be taken into consideration.	Outstanding income should be computed accurately.

3.3. Procurement Management

The following matters were observed.

	Audit Observation	Comments of the Management	Recommendation
(a)	A contract for an estimate of Rs.88,812,228 had been awarded to a private company in the year 2014 for computerizing the registration of companies. Accordingly, a sum of Rs.13,268,450 out of the estimated amount had been paid as first and second parts of 10 per cent in two instances. Nevertheless, the contract agreement had been cancelled due to failure in achieving the said purpose within the due period. The Deliverables provided by the said project had not been used as an input for the project currently being implemented and no proper measures had been taken as well regarding the recovery of the said sum. However, this expenditure had been accounted as Work-in-Progress by 31 December 2020.	According to instructions of the Audit and Management Committee held on 30 October 2019, it had been forwarded for mediation. However, as the cost incurred therefor is very high, no reference was made in that connection. Nevertheless, a request has been made to the then line Ministry for obtaining approval required for writing off this from books.	Proper measures should be taken relating to recovery of the said sum.
(b)	The new contract of designing software for computerizing the process of registration of companies had been awarded to a private audit company on 30 May 2017 for a value of Rs.57 million. The following matters were observed in this connection.		
(i)	Even though it has been planned to complete the project within a period of 09 months, only 90 per cent of supplying	It has been informed that the works of the project were delayed due to the curfew and travel restrictions	It should be ascertained whether the activities of the system are carried

	services on line had been completed even after a period of 4 years.	imposed as a result of Covid 19 pandemic and stage 1 of this project has been completed by now.	out as expected.
(ii)	In designing software for computerizing the process of registration of companies, the contractor had submitted two additional cost estimates as Rs.1,791,000 for registration of general contracts and as Rs.17,112,000 for development of software for other purposes and for Change Request further required. Improper identification of functional requirements of the Department at the first instance of procurement planning had resulted in this situation.	It has been informed that the cost estimate of Rs.20,496,000.00 submitted by the KPMG Institute for other purposes except the general contract, has been reduced up to Rs.17,112,000.00 and that the approval of ICTA Institute has been received therefor. Moreover, it has been informed that despite making these changes at present, the payment therefor has not been made.	Procurements should be planned by accurately identifying functional requirements of the Department.