

Head 297 - Department of the Registrar of Companies

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Head 297 - Department of the Registrar of Companies for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance and cash flow statement for the year then ended, 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. The Summary Report including my comments and observations on the financial statements of the Department of the Registrar of Companies was issued to the Accounting Officer on 31 May 2023 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report of the Department was issued to the Accounting Officer on 14 July 2023 in terms of Section 11 (2) of the Audit Act. This report is presented in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of the Registrar of Companies as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer on the Financial Statements

The Accounting Officer is responsible for preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control, exists in the Department and carry out periodic review to monitor the effectiveness of such systems and accordingly make necessary alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibility on Audit of Financial Statement

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 taken by the users, 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;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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 evasion, misrepresentation, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the 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.

- 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.

I communicate with the Accounting Officer regarding among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- The financial statements are consistent with the preceding year.
- The recommendations made by me on the financial statements of the preceding year, had been implemented.

1.6 Comments on the Financial Statements

1.6.1 Accounting Deficiencies

(a) Receipt of Revenue

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>The loan granted to the Deputy Secretary to the Treasury from the companies fund had been permitted to be settled by half of 1/3 share of the revenue which should be credited the Consolidated Fund by the Department. The sum of Rs.127,849,052 deducted for the loan had been indicated as repayment from revenue through monthly account summaries in the year under review as well. As such, the revenue relating to Revenue Head (20.03.02.01) of Company Registrar's Fees had been understated in the same amount.</p>	<p>It is agreed with the audit query and action will be taken to make adjustments in the financial statements for the year 2023 as per written instructions of the Department of State Accounts.</p>	<p>Repayment of domestic loans should be made by approving an expenditure vote and settling the loan granted therefrom and it should not be indicated a repayment from the revenue.</p>

(b) **Reconciliation Statement on Advances to Public Officers Account**

Audit Observation	Comments of the Accounting Officer	Recommendation
According to Treasury print outs, payment of advances had been Rs.8,362,506. However, the payment of advances had been indicated as Rs.8,358,506 in the statement of financial performance, thus understating the balance of the Advance Account in the statement of financial position by Rs.4,000.	Even though the special advance loan balance of Rs.4,000 of an officer who transferred in, was accurately recorded in the Advance B Account, the record of payment of advances has been understated as adjustments could not be made in the statement of financial performance. Action will be taken to rectify same.	Debits made to the Advance Account by other departments should be identified and adjusted accordingly.

2. Financial Revenue

2.1 Management of Revenue

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) In terms of Sections 131(1) and (2) of the Companies Act, No.7 of 2007, the registered companies had not delivered the annual returns and as such, the revenue in arrears for the year under review was Rs.3,389,232,000 and it had improved by 13 per cent as compared with the preceding year. The share of 1/3 of that amounting to Rs.1,129,744,000 was payable to the Consolidated Fund.	Action will be taken to look into matters relating thereto and to report speedily.	Steps should be taken to encourage delivery of annual returns and to make speedy arrangements to take legal action against companies which have not delivered annual returns and to decrease arrears of revenue.

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| (b) | <p>In terms of Section 8(1) (d) of Societies Ordinance No.16 of 1891 (Chapter 123), 60 of 15,884 active societies that should deliver annual returns as at the end of the year under review, had collected a revenue of Rs.60,000 from delivery of annual returns. However, action had not been taken to inspect the operation of societies which had not done so and to collect revenue receivable.</p> | <p>That societies have been registered for creating the background required for Government projects and projects in the private sector within that particular community and that these societies become inactive due to discontinuation of the said projects or being inoperative in any manner whatsoever since the commencement itself. As such, the names of 242 societies had been struck off following the methodology cited in the Societies Ordinance while action is being taken to strike off the names of other societies.</p> | <p>Action should be taken to identify active societies accurately and to collect receivable revenue.</p> |
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2.2 Issuance and Settlement of Advances

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>In terms of Section 1.1.7 of the Budget Circular No.118 of 11 October 2004, it is advised not to show loan balances which have not been settled relating to officers who transfer out, after 03 months from the “transfer out” as unsettled loan balances. However, action had not been taken to settle a sum of Rs.120,741 relating to three officers who transferred out to other departments despite a lapse of a period between 22 and 33 years of transferring out.</p>	<p>Details have been requested in May 2023 from each ministry and department to which all three officers who transferred out, and action will be taken as per instructions of the Department of State Accounts once details are received.</p>	<p>Action should be taken as indicated in F.R.113(6)(b) of paragraph 3.1 of Part I of Public Finance Circular No.01/2020.</p>

3. Human Resource Management

The following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Of 7 officers approved in the post of Assistant Registrar of Companies, there were three vacancies as at 31 December 2022 and one of those posts had been vacant from a period of 3 years.	As the designation has been revised, the committee had given consent to recruit one officer each from the limited basis and open basis once the approval of the Public Service Commission is obtained.	In a setting where there is an improvement of registration of companies, action should be taken to fill vacancies of the Executive Officers in charge of supervision.
(b) Out of the 11 officers approved for the Information Technology Division, 8 posts including the Director had been vacant as at 31 December 2022. As per the agreement of the e-ROC Computer System, the knowledge of maintaining the system should have been completely transferred by the second year of maintenance. However, as vacancies relevant to this Division existed, it was observed that the future operations and development of the system as well as maintenance of departmental activities at optimum level without collapse, could be adversely effected.	Requests have been made from time to time to the ministries and departments which take action relating to these vacancies, as well as to the Committee of Officers appointed for Reviewing the Recruitment Process in the Public Service.	As the functions of the Department are performed online through e-ROC Computer System, action to fill vacancies in the Information Technology Division, should be expedited.
(c) Five of the 10 approved posts of Company Inspector which is a secondary level post, had remained vacant as at 31 December 2022. Two of those posts were posts that should be	As the post of Company Inspector is an essential recruitment, a request has been made to the Committee of officers appointed for Reviewing the Recruitment Process in the Public Service to fill	Recruitments for the posts of Company Inspector should be expedited.

recruited on limited basis. It was observed that the process of collection of revenue could be adversely effected due to weakness in instituting lawsuits against companies violating the Companies Act, No.7 of 2007 due to these vacancies.

the vacancies.

- (d) The post of Assistant/Deputy Registrar (Admin.) of Companies had been vacant while the post of Administrative Officer had been vacant over a period of one year.

Requests have been made to the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government for attachment for the post of Assistant Registrar (Admin.) of Companies

Action should be taken to fill essential posts relating to administrative affairs of the Department.