

C.F.C Founding (Guarantee) Company Limited -2018/2019

1.1 Qualified Opinion

The audit of the financial statements of the C.F.C Founding Company Limited by Guarantee (“Company”) for the year ended 31 March 2019 comprising the statement of financial position as at 31 March 2019 and the statement of comprehensive income 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 1.5.1 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5.1 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 Responsibility 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 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 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 intends 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 Sub-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 Scope of Audit (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 audit 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, 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 audit 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 audit 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 Going Concern of the Company

Audit Observation -----	Comments of the Management -----	Recommendation -----
It had been decided at the meeting of the Cabinet of Ministers, held on 18 March 2020 to dissolve the C.F.C. Founding Company Limited by Guarantee. As such, it was revealed in audit the Company's inability to continue further as a going concern. However, financial statements had not been prepared on a non-going concern basis.	--	Financial statements should be prepared on a non-going concern basis.

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

Reference to Laws, Rules Regulations etc.	Non compliance	Comments of the Management	Recommendation
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Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003	The Annual Budget should be prepared and copies thereof be forwarded to the Auditor General at least 15 days before the commencement of the following financial year. Nevertheless, it had not been so done by the Company.	Even though the information requested by the Ministry was provided, being unaware of it.	Should be in compliance with provisions in circulars.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure on operations of the Company for the year under review had been Rs.22,271,306 as compared with the operations of Rs.21,487,208 of the preceding year, thus indicating an improvement of Rs.784,098 as compared with the preceding year. Moreover, the income from operations and the expenditure on operations of the Company for the year under review were of equal values and the total income from operations of Rs.22,271,306 comprised of Treasury grants.

3. Operating Review

3.1 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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This Company has been established for drafting the legal document necessary for implementation of the Financial City Project and the drafted	That the Financial City Act has been drafted and submitted to the Attorney General's Department and thereafter forwarded to a	Necessary action should be taken to finalize the formulation of the Financial City Act.

Colombo Financial City Act had been submitted to the Attorney General's Department in April 2019. Cabinet committee appointed

3.2 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
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Sums of Rs.71 million and Rs.100 million had been granted by the Treasury in the years 2017 and 2018 respectively and out of those sums, Rs.119 million had remained idle in the current account all through the year as at 31 March 2019.	That the cash balance had to be retained in a current account due to practical issues and legal restrictions	Action should be taken to utilize Treasury grants effectively.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Draft Annual Financial Statement should be rendered to the Auditor General by the Company within 60 days after the close of the financial year. However, the Company had rendered the financial statements for the year ended 31 March 2019 only on 06 November 2019 with a lapse of 05 months.	Lack of a permanent staff for carrying out the accounting of the Company	Should be in compliance with provisions in circulars

4.2 Corporate Plan

Audit Observation

In terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, a copy of the Corporate Plan approved by the Board of Directors should be forwarded to the Auditor General at least 15 days before the commencement of the following financial year. However, the Company had not forwarded it.

Comments of the Management

Even though the information requested by the Ministry was provided, being unaware of it.

Recommendation

Should be in compliance with provisions in circulars