Company Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Company Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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 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 performed according to its powers, functions and duties; and
- Whether the resources 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

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 Standards	Comments of the Management	Recommendation
Sri Lanka Public Sector Accounting Standards 02		
Despite the balance of Rs.1,062,510,912 remained as at the end of the year under review out of the advance amounting to Rs.1,700,000,000 provided to the Deputy Secretary to the Treasury had been brought to accounts in the statement of financial position as a non-current asset, it had been shown under changes in working capital in the cash flow statement.	It has been incorrectly indicated under changes in working capital in cash flow statement. Actions will be taken to correct this whilst preparation of accounts in future.	Actions should be taken in accordance with Sri Lanka Public Sector of Accounting Standards 2 .

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	A sum of Rs.1,103,500 which had to be remitted to the Deputy Secretary to the Treasury had been accounted for as an income of the Fund.	Since the half of the society income which was credited to the Deputy Secretary to the Treasury had been set off inaccurately, the revenue of the month of June 2020 has been accounted for and remitted to the Deputy Secretary to the Treasury.	The income of the Deputy Secretary to the Treasury should be accurately calculated and remitted.
(b)	The Treasury Bond interest receivable as at the end of the year under review amounting to Rs.12,257,720 and the Treasury Bill interest receivable as at that date had been understated by Rs. 396,343 .	The interest income has been underestimated by a mistake and it has been taken notes to calculate accurately and to prepare accounts in future.	Actions should be taken to accurately calculate the interest income and account for.
(c)	An expenditure of Rs. 353,443 paid to the contractor for the repairing of the access road to the office premises had been accounted for under other expenses instead of being accounted for as capital expenditure.	This has been accounted for as other expenses by a mistake and instructions have been given not to occur such omissions in future.	This should be considered as capital expenditure and accounted for .

1.5.4 Unauthorized Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though it had been informed by the letter No. EST / 7 / OVERT / 04/0084 dated 15 January 2017 that the payment should be made as per the provisions of Public Administration Circular No.2/2013 dated 07 October 2013 and the Chapter (vii) of	The letter No. EST / 7 / Overt / 04/0084 dated 15 January 2017 of Director General , Establishments has not been received by our Department or the instructions of the Line Ministry to act accordingly. These	Payments should be made for the expenses with proper authority.

	the Establishments Code for providing public services on weekends, a sum of Rs. 11,069,530 had been paid as special allowances to the entire staff for a period of 5 hours of service during the year under review in contrary to that.	payments were made with the approval mentioned in the letter of the Secretary to the Ministry No. I&C/COM/2SR/2/28 dated 30 December 2016 .	
(b)	The approval had been given to establish an Official Receiver Division by the Decision of Cabinet of Ministers No. අමප 18/0699/723/016 dated 13June 2015 and to create a post of Official Receiver and to assign an Assistant Registrar of Companies on an acting basis. Accordingly, the Official Receiver Division was established on 23 October 2018 on an acting basis with a staff of 04 officers and a sum of Rs. 2,436,767 had been paid from the Company Fund as acting salaries and other allowances for that Division by July 2020. This Official Receiver post and the staff attached to it had not yet been included in the approved number of employees. It has been stated that the information on the number of employees recruited under various service categories in excess of the approved number of employees in government institutions should be brought to the notice of the Department of Management Services as per Paragraph (i) (a) of the Management Services Circular No. 03/2018 dated 18 July 2018 regarding the recruitment of staff and payment of salaries and allowances to public sector institutions and that the	It has been informed to pay an acting salary as a monthly allowance to the Official Receiver and the staff as per the monthly salary receive in accordance with the provisions of the present Circulars in terms of Paragraph 3.5 of the Cabinet Memorandum.	The approval should be obtained from the relevant authority as per the relevant circulars for payment of acting salaries and allowances.

recruitment of Staff to their Institutions without obtaining the prior approval of the Department of Management Services of the General Treasury and also avoid determining salaries and allowances paid to the staff of their institutions as per the Paragraph (ii) . Nevertheless, actions had not been taken by the Institute to comply with this Circular in recruiting the staff of the Official Receiver Division and at the instance of paying.		

2 Financial Review

2.1 Financial Results

Operating results for the year under review was a surplus of Rs. 700,789,930 and the corresponding surplus for the preceding year was Rs. 657,019,777. Accordingly, an improvement in financial result amounted to Rs. 43,770,153 was observed . The growth in interest on investment in Treasury Bonds and Bills and the total of Capital Excess earned at the Maturity of Treasury Bills and Bonds by Rs. 57,030,820 had mainly attributed for this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A number of 22,687 companies had been identified as inactive companies as per the project report on preparing the database containing the basic data on the registered companies completed at a cost of Rs. 4,617,505 in December 2018 and the base for that was the companies which had not filed even a single Annual	These files have been classified as inactive in the developed database due to a mistake made by the relevant officer in entering the data. Instructions have been given to separate these erroneous information from the company database and to include them as active companies.	Arrangements should be made to get more accurate outputs through high cost projects implemented.

	Audit Observation	Comments of the Management	Recommendation
	Return from 2007 to 2018 . It was revealed that the companies that had filed the Annual Returns were also identified as inactive companies, in checking a sample of 65 companies selected from those inactive companies. Accordingly, it was observed that the information in this database which was developed at such a high cost, was inaccurate.		
(b)	Although the arrangements should be made to collect the arrears of revenue receivable to the Government by the Revenue Accounting Officers in accordance with F.R. 128 (2) (e) without delay, it has not been so done. There was not even a single reminder letter sent regarding the filing of Annual Returns within 33 files out of 65 company files undergone in test checks during the audit.	There is a wide scope to subject clerks and the Reminder Letters are sent to those who neglect to file Annual Returns while those clerks are engaging with file duties.	Actions should be taken to recover the arrears of income through regular reminders.

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	A sum of Rs.1,528,004,000 from the Annual Return income which should be submitted by the registered companies in terms of Sections 131 (1) and (2) of the Companies Act No. 07 of 2007 was in arrears at the end of the year under review. Out of that, a sum of Rs. 666,332,000 had exceeded 3 years and a sum of Rs. 559,012,000 in between one to three years and the	The Registrar General of Companies is taking actions to make maximum use of the provisions of the Companies Act No. 07 of 2007 and it is also informed that the steps will be taken to take legal actions against the companies which do not do so. The Registrar General has already	Actions should be taken to implement the provisions of the Act without delay and to collect the revenue.

	arrears of Rs. 302,660,000 was less than one year. In checking of a sample of 20 files in this regard, only 5 companies had filed Annual Returns for the year under review and any reminder had also not been sent for 07 out of 15 remaining. Reminder letters were sent to the remaining 08 companies before the time period ranging from three to eight years . Accordingly, there was no formal programme in the Department to collect the arrears of income and the general procedure is to recover all arrears only at the instance of clients need to obtain certified copies.	ordered to call the Annual Returns of those companies which were in in arrears and accordingly, if the Annual Returns are not filed, a time limit will be set and cases will be filed. If actions would not be taken so to file those in arrears continuously, the Registrar General of Companies will take steps to write off the name in terms of the provisions of the Companies Act.	
(b)	According to the Performance Report, the total number of companies registered from 2007 to 2019 was 95,841 and a number of 74,818 companies had to file Annual Returns by the end of the year under review. Nevertheless, only 17,532 companies had filed Annual Returns, as per the revenue records. Accordingly, 57,286 registered companies, or more than 77 per cent, had defaulted on Annual Returns. Further, the names of 4466 companies had been written off during the year under review and out of these, the names of 3457 companies had been written off due to non-filing of Annual Returns. Accordingly, it was observed that the unavailability of a properly functioning company regulatory process for this was the main reason.	It is informed that a systematic programme has been introduced to recover this arrears of income.	Actions should be taken to collect revenue by activating in accordance with the Act.

(c)	All non-private companies are required to register their annual financial statements with the Registrar of Companies as per the Section 170 (1) of the Act. Accordingly, even though a number of 6893 companies were required to register financial statements at the end of the year under review only 1922 companies were registered. Accordingly, out of the revenue of Rs. 3,844,000 received, a sum of Rs. 2,562,667 had been credited to the Fund. Furthermore, a number of 4971 companies had not complied with the provisions of the Act. In carrying out the audit test check regarding 20 company files in connection with this, only 4 companies had registered financial statements relevant for the year under review. Arrangements had not been made even send reminders to the remaining companies which had not registered financial statements.	It is informed that the companies and their directors are regularly notified by letters to file financial statements.	Arrangements should be made to register financial statements in accordance with Section 170 (i) of the Act.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
A stock of goods valued at Rs.9,746,951 approximately had been purchased and kept in the store without being used in verification carried out on the physical stocks in the store as at the date of audit (21.08.2020) . The warranty period allowed for these items is also being expired.	All of these goods are the items purchased by the Department in connection with the computerization projects (eROC) . Since the Project was contracted to be completed on 31.12.2018, it has been included in the Procurement Plan 2018 and Procured.	It is ascertained as per the answer to some of the paragraphs that the Department had identified that the Project could not be completed in 2018 . Because of the technical equipment quickly becomes obsolete, procurement should be made only when necessary.

3.4 Delays in Projects or Capital Work

Audit Observation	Comments of the Management	Recommendation
(a) Computer Software Development Project		
(i) The contract related to the Software Development Project to computerize the company registration process had been handed over to a private company for a Rs. 57 million to be completed within a period of 09 months from 30 May 2017 . However, the contract had not been completed even by now (October 2020) .	It is impossible to pre-determine the completion of the contract and it has been entered into agreement imagining the winning bidder would complete the contract on the due date. Since this is a very complex Project it took a longer period. The Project is 90% completed by now.	Actions should have been taken to study the complexity of the system basically and prepare plans obtaining advices from the expertise.
(ii) Even though it was supposed to be completed in 09 months but over a period of 03 years had elapsed, the main factors that the Project Consulting Agency pointed out as the inability to complete this contract were the matters such as though the contractor started this project with a joint consultancy firm, the joint consultancy firm withdrew from the project when implementing, changes in functional requirements of the organization from time to time, lack of technical knowledge of the contractor regarding the Software Development	It is impossible to pre-determine the winning bidder will not complete the contract on due date or the rejected bidder will complete the contract on or before the due date and it has been entered into agreement imagining the winning bidder would complete the contract on the due date .This project is a very complex project and the functional requirement had to be changed from time to time. At present, the project has completed the 90% of the role of providing services under the online system at present.	Actions should have been taken to study the complexity of the system basically and prepare plans obtaining advices from the expertise.

Audit Observation	Comments of the Management	Recommendation
Project. As a result of this delay, the cost of meeting Project Steering Committees and Project Deliverable Review Committee Meetings will also be increased and it was Rs. 4,406,500 at the end of July 2020 .		
(b) Company Documents Scanning Project The contract for scanning company registration documents and indexing had been awarded to a private company on 08 February 2019 for a sum of Rs.68,089,643. Even though document scanning and indexing as per the agreement entered into with the company should be completed within a period of 09 months that was by 15 November 2019, it had failed to complete even by the date of audit (2020.08.14) .	The main reason for the delay in the scanning project was the limitation of the amount of scanning because they did not have enough space to continue working. In addition, the period was extended to 31/03/2020 considering the reasons such as the Easter attack and that period had to be further extended due to the corona epidemic situation which prevailed from 19/03/2020 .	Before commencing the Project, the files to be scanned had to be identified accurately.

3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) Computer Software Development Project		
(i) As a result of all the functional requirements had not been properly studied, identified and planned before the commencement of the	Requests were made from the entity and from the applicants to make the public contract registration process effective and to make	If the plans have been prepared considering the present situation in the development of the system as well as

	Software Development Project, an additional cost of Rs. 1,791,000 had to be incurred for the change of online system on the way in relation with public contract registration .	changes and additions as required by the institution. The contractor had informed that these improvements cannot be made within the contracted amount and will incur an additional cost.	the future situations, the additional costs could have been minimized.
(ii)	Although the high capacity Disaster Recovery Cloud facility had been obtained from Sri Lanka Telecom at a cost of Rs. 600,000 per month, and also the consulting firm stated that it would be sufficient to obtain a package with a lower capacity and cost at this stage of the Project, the firm had ignored the observations of the consulting firm.	It is informed that if the recommendations can be provided by ICTA on how to reduce the capacity of clouds considering all the matters, those recommendations can be implemented with the consent of all parties.	It is the responsibility of the entity to discuss the advices and recommendations of the consulting firm and come to an agreement and implement it.
(iii)	In making inquiries from the consulting firm, even though advices had been given by the consulting firm to conduct a System Audit to ensure that the software runs exactly as planned and to perform a Regression Test after each Iteration before its release , it had been emphasized that the actions were not taken accordingly. Further, the facts were revealed by the consulting firm regarding the security of the data of the system and the insecurity occur in making payment through of credit cards .	It has been referred to KPMG to response to the Detailed Incident Report sent by ICTA on 16 February 2020 in this regard and the report containing their comments have been forwarded to ICTA.	It should ascertain the staff of the contractor as indicated and agreed upon in the agreement will be present at each development stage.

(b)		**Company Document Scanning Project** ------------------------------		
	(i)	Although it had been entered into agreements to scan 9,128,320 pages with regard to 70,931 companies identified by the Institute as active companies, the actual number of pages scanned with regard to the above files was only 6,082,608. Accordingly, Registered societies, auditors, company secretaries, documents related to mortgage bonds and old company files had also been scanned for the completion of the remaining 3,045,712 pages. It was observed during a random test that the many of the society files thus scanned are inactive and all files related to 22,687 companies identified as inactive had been removed from the scanning process. The Institute had planned to carry out all the activities online and implemented a project and although the task of entering the scanned data should be planned according to its need, the Institute had not so acted	Inactive companies become active companies by filing Annual Returns and most societies will complete all the deficiencies at once and become active. A society becomes inactive only by writing off the name. As a result, it is essential to scan everything and enter data if the name is written off under the online system.	The files to be scanned had to be identified accurately before commencing the Project.

(ii)	It had been agreed with the aforesaid private company to carry out the indexing of data of the Project had agreed with at a cost of Rs. 265 per file. However, due to the decision to scan documents related to other files in addition to the company files to achieve the originally agreed number of pages, again, an additional cost of Rs. 25,705,000 had been contracted with the original contractor. It is observed that there was a possibility to minimize this cost If the facts were gathered in detail and acted upon the advice of a party with knowledge of the subject in determining the scope and extent for tasks to be performed at very high cost.	Due to the introduction of registration of societies by online method, there was also a need to scan files exists there and enter data. Under this, the need arose to scan the files of mortgage bonds, company secretaries and auditors. Therefore, because it takes time and occurs expenditure to select a new contractor to scan these files it was decided to accomplish this from the current contractor.	It should have been implemented an agreed payment method with a fixed cost per margin per unit with a fixed cost per minimum number of pages which was the methodology used by many organizations in scanning activities.
(iii)	A sum of Rs. 7,155,000 was included at Rs. 265 per file for entering of 27,000 Mortgage Bond files for data entry in the above estimate. A Mortgage Bond file is a large record book and the average number of pages owned by one company was between 2-3 pages. A sum of Rs. 265 is charged by considering these of 2 to 3 pages owned by one company as a file when entering data. It was observed that such situations have to be faced due to not enter into agreement with the contractor after a thorough study of the project by the Department.	The Mortgage Bond spreads ranging from 2-3 pages to 100-200 pages. Mortgage bonds spread over 100-200 pages and also the Bonds ranging in between 2-3 enter the data at the same price. This has been discussed and agreed with the contractor.	The company had to study the files properly and enter into agreements in a manner that would be most beneficial to the organization prior to the commencement of the project.

4. Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Sri Lanka had signed as a member country to the United Nations to agree on the 2030 Sustainable Development Agenda with 244 indicators, 169 goals and 17 objectives. The following steps had not been taken by the Department as per the 2030 Agenda in order to achieve those objectives. **(i)** Identify the Sustainable Development Goals **(ii)** Identify targets, based data, milestones, and indicators to measure progress in relation to those identified objectives. **(iii)** Identify interested parties involved in the role of the organization in implementing the identified objectives. **(iv)** Nominating two senior officers to coordinate achievement at the institutional, provincial and national levels as per Sustainable Development Objectives according to a National Level Strategic Management Plan in terms of the circulars of the Ministry of Sustainable Development and Wildlife No. MSDW / 08/65 dated 27 April 2018 and refer to the Ministry of Sustainable Development and Wildlife.	It is informed that the actions are being taken to transfer to the Registrar of Companies to prepare as per the Sustainable Development Goals, relevant indicators and targets and other circulars.	The Department should follow necessary actions to achieve the Sustainable Development Goals.