

Academy of Financial Studies - 2019

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Academy of Financial Studies for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 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 Company as at 31 December 2019, 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Contrary to section 28.17 of the SLFRS for SME, defined benefit obligation had not been measured using discounted present value basis.	Audit observation is noted and accepted.	Defined benefit obligation should be measured as per provisions of the Standard.
(b)	Contrary to section 21 of the SLFRS for SME, penalties imposed on late payments of Corporate Income Tax amounting to Rs. 600,213 had not been disclosed.	-do-	Penalties imposed on late payments should be disclosed as per provisions of the Standard.
(c)	Contrary to section 4.2(O) of the SLFRS for SME, deferred tax liability amounting to Rs. 7,934,105 had been shown under current liabilities, instead of being shown under the non-current liabilities.	Audit observation is noted and accepted.	Financial Statements should be prepared as per the provisions of the Standard.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Due to incorrect calculation, income tax, for the year of assessment 2019/2020 had been overpaid by Rs. 2,241,192.	Audit observation is noted and accepted.	Action should be taken to claim the over payment.

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| (b) | Due to incorrect calculation, Nations Building Tax (NBT) for the year of assessment 2019/2020 amounting to Rs.547,768 had not been paid. Further, there was a difference of Rs. 104,442,022 between the turnover shown in the NBT returns and the turnover shown in the financial statements. | The under payment amount will be accrued in 2020 as a payable and will make the payment respectively. | Action should be taken to pay the under payment and appropriate reconciliations should be made in the Financial Statements. |
| (c) | Brought forward input tax balance and exempt VAT turnover of Rs. 104,725,415 had not been included in the VAT returns properly. | Corrections for VAT Returns will be made accordingly. | Action should be taken to make the corrections in the VAT returns. |
| (d) | The Company had offset previous year's over provision of fixed deposits interest receivable amounting to Rs.1,303,536 against fixed deposit interest income for the year under review. As a result, fixed deposit interest income has been understated by similar amount for the year under review. | The difference is brought forwarding from prior periods and cannot recognize the exact period which caused the difference. | Prior period items should be adjusted to the retained earnings. |
| (e) | Bank overdraft amounting to Rs. 1,022,153 had been shown under current assets as minus balance, instead of being shown under the current liabilities. | Audit observation is noted and accepted. | Bank overdraft should be shown under the current liabilities. |

1.6 Non -compliance with Tax Regulations

Audit Issue -----	Management Comment -----	Recommendation -----
(a) Contrary to section 6 of the Economic Service Charge Act, No. 13 of 2006, the payment of Economic Service Charge for the year of assessment 2019/2020 had been made with 02 days to 06 months delay.	Audit observation is noted and accepted.	Tax remittances should be made as required by the Act.
(b) Contrary to section 4 of the Nations Building Tax Act, No. 09 of 2009, the payment of Nations Building Tax for the year of assessment 2019/2020 had been made with one month delay.	Audit observation is noted and accepted.	Tax remittances should be made as required by the Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 29,261,883 and the corresponding profit in the preceding year amounted to Rs. 50,090,684. Therefore, a deterioration amounting to Rs. 20,828,801 of the financial result was observed. The reasons for the deterioration are decrease of income and increase of expenditure.

3. Accountability and Good Governance

3.1 Audit Committee

Audit Issue

Only one Audit and Management Committee Meeting had been held during the year under review.

Management Comment

No comments

Recommendation

Action should be taken to hold at least one Audit and Management Committee Meeting per quarter as required by the circular No. PED/12 dated 02 June 2003.