

**1.1 Qualified Opinion**

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The audit of the financial statements of the CFC Founding (Guarantee) Company Limited (“Company”) for the year ended 31 March 2020 comprising the statement of financial position as at 31 March 2020 and the 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 of this report, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2020, 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**

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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**

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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 Scope of Audit (Auditor's Responsibility on the Audit of the Financial Statements)**

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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 Financial Statements

### 1.5.1 Related Party Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Professional allowance amounting to Rs.4,382,578 paid to a founding member / founding director of the Company during the year under review had not been disclosed in the financial statements for the accounting year ended 31 March 2020.	Replies had not been provided.	In accordance with paragraph 18 of Sri Lanka Accounting Standards No. 24, the Company should disclose the status of the direct or indirect agreements with the related parties in the financial statements.

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

<b>References to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Paragraph 7.4.5 of the Public Enterprises Circular No. PED / 12 of 02 June 2003	Although it is required to conduct an annual physical verification of fixed assets and inventories, a survey had not been conducted as at 31 March 2020 on the physical verification of the property, plant and equipment costed at Rs. 9,353,423 stated in the financial statements as at that date.	Replies had not been provided.	Should be complied with the provisions of the Circular.

## 2. Financial Review

### 2.1 Financial Result

As per the financial statements submitted, the operating expenditure of the Company for the year under review amounted to Rs. 25,097,649 and the operating expenditure for the previous year was Rs. 22,271,306 and as a result, a growth of Rs. 2,826,343 was observed in the operating expenditure compared with the previous year. Further, the operating income of the Company for the year under review was equal to the operating expenditure and the entire operating income amounted to Rs.25,097,649 consisted of Treasury grants.

## 3. Operational Review

### 3.1 Operational Inefficiencies

#### Audit Observation

Although it had been decided to voluntarily dissolve the CFC Founding (Guarantee) Company Limited according to the decision of the Cabinet of Ministers bearing No.CP/20/0595/204/052 dated 26 March 2020, action had not been taken to dissolve the Company even by 19 March 2021, the date of audit.

#### Comments of the Management

Replies had not been provided.

#### Recommendation

The decision of the Cabinet of Ministers should have been executed.

### 3.2 Underutilization of Funds

#### Audit Observation

The General Treasury had credited Rs. 71 million and Rs. 100 million respectively in the years 2017 and 2018 for the expenditure of the Company, where the annual average expenditure was about Rs. 21 million and a sum of Rs. 95 million had remained idle in that account by 31 March 2019.

#### Comments of the Management

Replies had not been provided.

#### Recommendation

Action should be taken to utilize treasury grants efficiently.

### 3.3 Resources released to other Organizations

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#### Audit Observation

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According to Article 1.4 of the Lease Agreement related to the building in which the Company was established, the rent deposit should be three times as the monthly rental value and the service deposit. According to Schedule 9 of the Agreement, the deposit of the Lease Agreement for the year under review was Rs.2,124,636 and the value paid according to the accounts was Rs. 257,690. The deposit of Rs. 1,866,945, which was the difference, had been paid by the Ministry of Finance. Moreover, an amount of Rs. 109,975 had also been paid as the electricity deposit by the Ministry.

#### Comments of the Management

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Replies had not been provided.

#### Recommendation

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Should be disclosed by the relevant note to the financial statements.