

Head 297 - Department of Registrar of Companies

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Registrar of Companies for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 containing my comments and observations on the financial statements of the Department of Registrar of Companies was issued to the Accounting Officer on 26 October 2021 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 03 November 2021 in terms of Section 11 (2) of the Audit Act No.19 of 2018. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka

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 Registrar of Companies as at 31 December 2020 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 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.

In terms of Sub-section 38 (1) (c) of the National Audit, the Accounting Officer shall ensure that an effective internal control for the financial control exists in the Department and carry out periodic review to monitor the effectiveness of such systems and accordingly make any 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 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 furthermore;

- 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 .

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

1.6 Comments on Financial Statements

1.6.1. Statement of Financial Performance

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Revenue amounting to Rs. 488,583,085 of three revenue heads should have been stated as non-tax revenue and other income receipts	As per paragraph 3.6 of the guidelines for preparation of financial statements under paragraph 10.1 of Public	The amount offset against the advance remitted to the Deputy Secretary to

in the Statement of Financial Performance of the Department. Nevertheless, out of Rs. 196,084,748 which is 1/3 of the revenue from Registrar's fess included therein, a sum of Rs. 96,795,880 offsets against the advance remitted to the Deputy Secretary to the Treasury had been stated as a repayment from the revenue. As such, revenue had been understated by that amount and shown as Rs. 391,787,205.

Finance Circular No. 02/2020, the revenue to be offset against the amount remitted to the Deputy Secretary to the Treasury from the 1/3 of the revenue from Registrar of Companies fess has been adjusted and shown as the revenue in ACA-1. The revenue stated in ACA-1 has been shown as income receipts in the statement of financial performance of the Department.

the Treasury should not be stated as a repayment from the revenue.

- (b) Although the number of companies filed annual returns during the year under review was 36,196 according to the Revenue Classification Report, it was considered as 20,973 in the computation of arrears of revenue. Accordingly, the revenue computed at the end of the year under review was Rs. 91,338,000. As 1/3 of it belongs to the Consolidated Fund, the arrears of revenue under the Registrar of Companies fee was overstated by Rs. 30,446,000.

In preparing the arrears revenue report as at 31.12.2020, the number of companies that filed annual returns through the document system only has been included by mistake. As the number of companies that filed annual returns via online was not included in the arrears report prepared as at 31.12.2020, arrears of revenue has been overstated. Action will be taken to correct that mistake.

Arrears of revenue should be calculated accurately.

1.6.2 Cash Flow Statement

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) Although the revenue collected in respect of other heads was Rs.4,330,335, it was stated as Rs. 60,814 in the Cash Flow Statement.	Accounts were prepared by including only the transactions made in cash in the Cash Flow Statement.	Cash Flow Statement should be prepared based on the gross value included in the consolidated trial balance.
(b) According to the departmental book, the recovery and payment of advances was Rs.8,913,333 and Rs. 10,697,831 respectively. Nevertheless, it had been stated as Rs.408,416 and Rs. 6,515,590 in the Cash Flow Statement.	-Do-	-Do-
(c) Although the personal emoluments were Rs.71,096,190 it had been adjusted as Rs. 63,579,376 and subsidies and transfers of Rs. 1,058,399 had not been adjusted.	-Do-	-Do-
(d) Deposit receipts of Rs. 88,579 had not been shown in the Cash Flow Statement and deposit payment of Rs. 88,579 had been stated as Rs. 83,429.	-Do-	-Do-
(e) Expenditure of Rs. 1,049,565 incurred on other Heads had been shown as Rs. 949,152 in the Cash Flow Statement.	-Do-	-Do-

2. Financial Review

2.1 Revenue Management

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendations
(a) In terms of Section 170 of the Companies Act, every company other than private companies should register their financial statements with the Registrar of Companies. Accordingly, out of 7,175 companies relating to the year under review, 1001 companies had complied with the Sections of the Act, 6,174 or 86 per cent of companies not complied with those terms. As such, financial statement registration fees had not been received.	As the computerization project is currently in its final stages, all active public companies have started filing financial reports online. Furthermore, as the reminders are sent online, in the future the active public companies will file their financial reports as scheduled.	Action should be taken to identify the active companies that are required to register financial statements with the Registrar of Companies and to recover the registration fee accordingly.
(b) In terms of Section 8 (1) (d) of the Societies Ordinance No. 16 of 1891 (Cap. 123) all registered societies are required to file Annual Returns on payment of a fee of Rs. 1,000 each. Accordingly, no action had been taken to identify the active societies out of 15,851 registered societies as at the end of the year under review and to recover the revenue due to the Consolidated Fund and revenue of Rs. 16,000 had been received only from 16 societies.	Filing of Annual Return is done only by the active societies which have conducted Annual General Meetings and most of the societies which are currently registered are not active societies. Since a programme has been put in place to identify the active societies, it is necessary to file the Annual Returns of those societies thereafter.	Action should be taken to identify the number of societies that need to file Annual Returns from the registered societies and to collect the revenue from filing Annual Returns accordingly.

- (c) Although arrears of Rs. 54,000,000 and Rs. 63,450,000 was due from 54 listed public companies and 423 other companies respectively for the year 2016 alone for the annual company registration tax levied on all companies (excluding offshore and limited by guarantee companies) incorporated under the Companies Act No. 07 of 2007, that revenue had not been recovered.
- Having informed the Listed Public Companies (PQ) and Public Companies (PB) to pay revised Annual Companies Registration Tax by publishing newspaper advertisements in three languages on 11.01.2019, 27.01.2020 and 15.07.2020 and on the Department website as well as by the letters, action has been taken to recover the tax.
- The annual company registration tax levied for the year 2016 should be recovered from the companies which have not paid the registration tax.
- (d) According to department information, this annual company registration tax was payable from 71,802 companies registered before 2016, whereas only 18,631 companies had paid all or part of the amount due at the end of the year under review. Accordingly, the full amount of the tax was payable from 53,171 companies, but no action had been taken to recover the amount.
- Many active companies registered before 2016 have paid this tax and many companies have found it difficult to pay these taxes due to the adverse situation prevailing in the country due to the Covid 19 pandemic in 2020.
- Action should be taken to recover the arrears.

3. Good Governance

3.1 Internal Audit

Audit Observation

Although 18 audit activities that needed to be audited had been identified in the internal audit

Comment of the Accounting Officer

A permanent Accountant Grade 1 Officer has been appointed to the post of Chief

Recommendation

It should be ensured to implement the Annual Internal

plan for the year under review, it had not been possible to carry out 17 of those activities.

Internal Auditor with effect from 10.05.2021 and an Internal Audit Division has been established accordingly.

Audit Plan.

4. Human Resource Management

Audit Observation

Comment of the Accounting Officer

Recommendation

(a) The posts of Legal Officer, Assistant Director (Administration), Librarian, Building Overseer have fallen vacant for more than 04 years and appointments have been made on the basis of performing duties for the two posts of Registrar of Companies Grade I for more than 04 years.

Correspondences are in progress with the Public Service Commission to promote the two officers appointed on the basis of perform of duties to approved posts of Registrar of Companies Grade I.

Action should be taken to fill vacancies in the existing posts considering the necessity of the service.

Legal Officer - Interviews have been conducted and the approval of the Public Service Commission is being sought.
Assistant Director (Administration) - An officer has been appointed on 04.10.2021 on an acting basis.
Librarian / Building Overseer - Further action could not be taken as applicants could not be practically found.

(b) According to the Cabinet Decisions No. අමප 18/0699/723/016 dated 13 June 2018, the Official Receiver and 04 other officers had been appointed on an acting basis from 2018 for a period of one year. Although it has been nearly 2 ½ years

Letters have been sent to the Department of Management Services through the Secretary to the Ministry of Finance in the year 2021 to approve the post of Official Receiver. Four members of the staff are working on an acting basis until October 2021 for that unit and

Action should be taken to include staff members to the approved cadre.

since the creation of those posts, action had not been taken to include them in the approved cadre of the department.

approval has been sought from the Department of Management Services in writing to recruit permanent officers.

- (c) In the year 2020, the management had drawn its attention on expanding the Information Technology staff required for the ROC project which had been implemented from 2017 as a digitization of the activities of the Department. As a result, 06 posts of the Sri Lanka Information and Communication Technology Service including, 01 posts of Director (Information Technology), 02 posts of Information and Communication Technology Officer and 03 posts of Information and Communication Technology Assistant, which are essential for the implementation of the ROC project, remained in vacant up to the date of audit.

A request has been made to the Director General of Combined Services to assign suitable officers to this Department to fill 06 posts in the Information Technology Service. Expeditious steps should be taken to fill the vacancies of the essential posts.