

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Academy of Financial Studies (Guarantee) Ltd for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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, the financial statements give a true and fair view of the financial position of the company as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS FOR SMEs).

1.2 Basis for Opinion

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 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 Standard for Small and Medium-sized Entities (SLFRS FOR SMEs), 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 (Auditor's Responsibilities 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 auditor's summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed 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 omissions, misrepresentations, 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 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. 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 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 regarding the preparation of financial statements

1.5.1 Lack of written evidence for the audit

Subject	Unfurnished Audit Evidences	Comment of the Management	Recommendation
Transfer of the Miloda institute, which was under the Ministry of Finance and Planning, to the Ministry of Defence.	Cabinet Memorandums and Cabinet Decisions	Cabinet papers have not been sent to us.	Cabinet Memorandums and Decisions should be submitted to the Audit.

1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation	Comment of the Management	Recommendation
The advance of Rs. 442,650 ,which includes in other receivable balance and given in 04 occasions, had not been settled even by the end of the year under review and the period that settlement had not been made was from 08 days to 03 months.	Approval of expenditure and banking for balance advances in hand was delayed due to the ongoing Corona epidemic.	The advances received should be settled by the end of the year.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 40 (1) of the National Audit Act No. 19 of 2018	An internal auditor had not been appointed for the company during the year under review.	Necessary action will be taken in due course.	Appointment of an internal auditor should be expedited.
(b) Section 2(8) of the Organizational constitution	No action had been taken by the company to undertake the printing of books, journals and reports related to the research work during the year under review and details on that actions have been taken for preceding year had not been submitted. Attention of the Management had not paid to implement a formal system for this.	-do-	Action should be taken in accordance with the laws, rules and regulations.
(c) Circular on Public Enterprises Guidelines for Good Governance No. PED / 12 dated 02 June 2003			
(i) Paragraph 6.5.3	The annual reports for year 2018 and 2019 had not been tabled in Parliament.	-do-	Annual Reports should be tabled in Parliament.
(ii) Paragraph 9.2	Information on human resource requirements was not included in the company's corporate plan, nor the company's organizational chart correspond to the approved staff, and the organizational chart and approved staff had not been approved by the Department of Public Enterprises.	-do-	Action should be taken in accordance with the provisions in the circular.

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| (iii) Paragraph 9.3 | The company did not have an approved recruitment and promotion procedure. | Measures will be taken to prepare recruitment and promotion schemes in detail. | -do- |
| (iv) Paragraph 9.3.1 (vii) | Even though the maximum period for which an officer can be appointed to an acting post is 03 months, an acting officer had been appointed to the post of CEO of the Company for nearly one year and no action had been taken to fill the relevant post on permanent basis. | Appointments had been made with extension of time until the management structure changes based on the Ministry reshuffle. | -do- |
| (v) Paragraph 7.4.1 | The audit and management committee of the company had not been held during the year under review. | Necessary action will be taken in due course. | -do- |
| (d) Sections 4.2.1 (b), (c) and 4.2.2 (a) of the Government Procurement Guidelines | A procurement schedule for the year under review and a document that chronologically describes the steps of each procurement process from the time of commencement of the procurement to the time of completion had not been prepared and the total provision of Rs.55,765,000 allocated for procurement of the year under review had not been utilized. | Procurement activities could not be carried out systematically due to the Covid epidemic prevailed. | -do- |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,464,804 and the corresponding profit in the preceding year amounted to Rs. 29,261,883. Therefore a deterioration amounting to Rs. 27,797,079 of the financial result was observed. The reason for the deterioration was 70% reduction in sales revenue.

2.2 Trend Analysis of major Income and Expenditure items

Expenditure on building repairs during the preceding year and the year under review was Rs. 21,517,072 and Rs. 4,644,554 respectively, and the said expenditure was reduced by 78.41 percent in the year under review compared to the preceding year. Similarly, the cost of repairing equipment during the preceding year and the year under review was Rs. 1,634,962 and Rs. 3,204,055 respectively, and the said expenditure increased by 95.97 percent in the year under review compared to the preceding year.

2.3 Ratio Analysis

The Gross profit ratio and the net profit ratio of the year under review had reduced by 3.4 percent and to 26.37 percent respectively compared to the preceding year, whilst the current ratio had reduced by 0.47 percent. The company needs to streamline its operations focusing on that,.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	No action had been taken to determine the subject areas relevant to implementation of the training programmes and to plan and implement the relevant procedures.	Training programmes are implemented with the approval of the Senior Assistant Registrar.	Training programmes should be planned and implemented.
(b)	When organizing the courses, Lecturers for those courses had been selected without any formal basis.	Measures will be taken to carry out it in a transparent manner.	The selection of lecturers should be on a formal basis.
(c)	The institute had not taken measures to introduce a system to implement the decisions on determining the course fees for each course as well as to modification of course structures in a timely manner on a formal basis.	Academic propensity for courses and market price for training courses etc. will be taken into consideration.	Course fees should be determined on a formal basis.

3.2 Human Resource Management

	Audit Observation	Management Comment	Recommendation
	The company had not done a proper manpower assessment before recruitment of officers, and a cadre approved as per the each designation requirement was not available with the company.	Necessary action will be taken in due course.	An approved staff should be established.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Observation -----	Management Comment -----	Recommendation -----
Vision, Mission Statements, Company Assets and Organization Chart, Analysis of Strengths, Weaknesses and Challenges, operational results of 03 years and the performance of the activities to be accomplished within the periods quantitatively as well as Key Performance Indicators, which are measurable had not been mentioned in the corporate plan prepared by the company.	Necessary action will be taken in due course.	Corporate plan, which includes the indicators should be prepared.