

Arts Council of Sri Lanka - 2019

1.1 Opinion

The audit of the financial statements of the Arts Council of Sri Lanka 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 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Council 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 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 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Council 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 Council.

1.4 Auditor's responsibility on the audit of 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 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 Council'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 Council'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 Council 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

Council and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with laws, rules, regulations, and management decisions

The following non-compliances were observed.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Arts Council of Sri Lanka Act No.18 of 1952			
(i) Sub-section 13 (1)	Although the Executive Council is the appointing authority to appoint the Secretary, a permanent post in the Board, the appointment to that post had been made by the Minister of Higher Education and Cultural Affairs.	Relevant corrections have been made at present.	Steps should be taken in accordance with the provisions of the Arts Council of Sri Lanka Act.
(ii) Sub-section 23	All the Rules made by the Board had not been published in a Gazette Notification by the Minister.	Necessary steps will be taken after obtaining the advice of the Accountant in this regard.	Steps should be taken in accordance with the provisions of the Arts Council of Sri Lanka Act.

(b) Section 11 of the Finance Act No. 38 of 1971

The approval of the Minister concerned had not been obtained for the investment of three fixed deposits of Rs. 1,199,940 as at 31 December 2019.

These Fixed Deposit Accounts have been opened with the approval of the Executive Council of the Arts Council of Sri Lanka and action will be taken to obtain the approval of the Minister when opening Fixed Deposit Accounts in future.

Steps should be taken in accordance with the provisions of the Finance Act.

(c)Public Enterprises Circular No. PED 12 dated 02 June 2003

(i) Section 4.2.6

In addition to the monthly reviews, the Governing Board should evaluate the quarterly, half-yearly and annual performance reports and submit the quarterly performance reports to the relevant line ministry and the Department of Public Enterprises 30 days prior to the end of the quarter, but the relevant reports for the year 2019 have not been submitted accordingly.

Action will be taken to submit the financial progress quarterly to the Line Ministry and steps will be taken to adhere to the PED 12 Circular dated 02 June 2003 in the future.

Quarterly and half-yearly performance reports should be submitted to the relevant institutions in accordance with the circular provisions.

(ii) Section 5.2.1

The prepared Annual Budget had not been

As the Arts Council of Sri Lanka is not a revenue generating institution, it is not

Steps should be taken in accordance with the Circular

included the possible to forecast recurrent provisions.
forecasts on and capital income in the
capital and preparation of the annual
recurrence, budget as stated in the audit
revenue and query.
expenditure as
per Section 5.2.1
of Circular.

(iii) Section 6.5.1 Although the The meeting scheduled to be Financial statements
annual financial held on 17.03.2020 had to be should be submitted
statements should cancelled due to the curfew to the Auditor
be submitted to imposed across the country General as per the
the Auditor due to the Covid 19 epidemic. circular instructions.
General within Steps have been taken to
60 days from the present financial statements
close of the with the required information
financial year, the by obtaining the relevant
Council had approval on 16.06.2020 after
submitted the the resumption of office
financial activities.
statements for the
year under
review to the
Auditor General
on 25 June 2020,
four months after
the end of the
financial year.

(d) Section 04 of No procurement As we did not plan to make Steps should be taken
State Finance plan had been purchases of goods and in accordance with
Circular No. prepared for the services for the Council for the Circular
01/2014 dated year under the year 2019, we have not provisions.
17 February review. prepared a procurement plan
2014 for the year 2019.
Procurement of services
required for conducting
programs has been done with
the approval of the
Procurement Board of the
Department of Cultural
Affairs under our Program
Expenditure Heads.

1.6 Financial Management

Audit Observation	Comment of the Management	Recommendation
Due to ineffective and inefficient financial management, funds ranging from Rs. 0.5 million to Rs. 5.3 million in the Council's current account remained idle throughout the year under review.	Although all the necessary allocations for the Sarasavi Prathibha program planned to be implemented in 2019 have been requested from the Line Ministry, only a part of those provisions have been received. Since that amount was not sufficient to complete the Sarasavi Prathibha program and due to the resignation of the then Executive Council including the Chairman of the Sri Lanka Arts Council, the programs that had been planned and implemented could not be completed and the amount of provision received could not be utilized as planned.	Funds received by the Council from the line ministry and other sources should be managed effectively and efficiently.

2. Financial Review

2.1 Financial Results

The operations of the Council for the year under review had resulted in a surplus of Rs.1,921,714 as compared with the corresponding surplus of Rs.3,282,782, thus observing a deterioration of Rs.1,361,068 in the financial results. This deterioration was mainly due to increase in the workshop and programme expenditure and financial sponsorship by Rs.1,273,581 in the year under review as compared with the preceding year.

2.2 Trend analysis of the major income and expenditure items

Increase in the salaries, wages and employee benefits by 15 per cent and increase in the workshop and programme expenditure and financial sponsorship expenditure by 22 per cent during the year under review compared to the preceding year had given rise to decrease in the surplus of the year under review as compared with the preceding year.

3. Operating Review

3.1 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
Although the Department of Management Services had granted approval for the recruitment of staff in 2011, the permanent appointment to the post of Chief Executive Officer had not been made even by the end of the year under review. Similarly, an officer had been recruited on a contract basis for the post of Account Clerk which is not a post approved by the Department of Management Services and an allowance of Rs. 360,000 had been paid from January to December 2019. No action had been taken to appoint an officer on a permanent basis to monitor the activities such as certification of financial statements, maintenance of accounting and making payments, advances, signing cheques and preparation of bank reconciliations even by July 2020.	The arrangements required for making permanent appointment to the post of Chief Executive Officer will be made in the future Steps have been taken to further obtain the services of the officer recruited for the post of Accounts Clerk on contract basis with the approval of the Executive Council.	Action should be taken to recruit for the posts as per the approved scheme of recruitment of the Council.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Management	Recommendation
In accordance with paragraph (4) of the State Finance Circular No. 01/2014 dated 17 February 2014, an Annual Action Plan should be prepared, whereas an activities plan only for the 3 activities which the Council intends to implement during the 4 months from January to April 2019 had been prepared.	Action will be taken to submit a copy of the Annual Performance Report to the audit from the current year.	An action plan should be prepared in accordance with the circular provisions.

4.2 Internal Audit

Audit Observation	Comment of the Management	Recommendation
Despite the existence of assets of Rs 7.9 million, income of Rs 14.4 million and expenditure of Rs 12.4 million during the year under review, the transactions of the Council had not been subjected to an internal audit.	As the staff required for establishing an Internal Audit Division is not in our institution, letters have been referred to the Secretary to the Ministry on previous occasions requesting that an internal audit be carried out through the Line Ministry.	The transactions of the Council should be subject to internal audit.