

## **National Library and Documentation Services Board – 2013**

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The audit of financial statements of the National Library and Documentation Services Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 22 of the National Library and Documentation Services Board, Act No.51 of 1998. Due to delay in presenting the financial statements for the year ended 31 December 2013, the report of the Auditor General on the transaction of the Board, had been issued to the Chairman of the Board on 09 February 2016. In addition to that, My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the National Library and Documentation Services Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **2.2 Comments on Financial Statements.**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The instances of non-compliance with the Sri Lanka Public Sector Accounting Standards, are given below.

- (a.) In case the users are not provided therewith within a fair period since the date of reporting in terms of Sri Lanka Public Sector Accounting Standard 01, the usefulness of the financial statements would be impaired, and the institution should be capable of issuing the financial statements within a period of 06 months from the date of reporting. The accounts for the financial year 2013, should have been presented on 30 December 2016, but the financial statements in respect of the years 2014, 2015, and 2016 had not been presented even up to 28 February 2017.
- (b.) In terms of Sri Lanka Public Sector Accounting Standard 07, the depreciation of an asset should be commenced once it is made available for use. However, the Board had followed the policy of not depreciating the fixed assets in the year of purchase, and depreciating on the assets in the year of disposal in respect of the entire year.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a.) An accounting policy had not been formulated in respect of accounting the capital grants received from the Government, and the capital grants utilized, had been credited to the Accumulated Fund. The fixed assets purchased under the grants, had been depreciated annually, and stated at the written-off value, but the amortization thereon had not been accounted.

- (b.) The fixed assets had not been physically verified in the year under review, but the physical assets existed as at 31 December of the year under review, had been identified based on the information from the verification conducted in the year 2014. As that balance had not tallied with the ledger balance, the difference of Rs. 1,210,119 had been shown as unidentified assets. It was further revealed in the examination carried out that the inventory items valued at Rs. 943,536 that had been accounted under recurrent expenditure, had also been shown as fixed assets. Hence, the assets valued at Rs. 2,153,655 shown in the financial statements, had not existed physically.

### 2.2.3 Lack of Evidence for Audit

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A schedule for the employee loans and advances totalling Rs. 178,220, had not been furnished to audit by the end of the year under review.

### 2.3 Accounts Payable

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The following observations are made.

- (a.) Action had not been taken to settle the audit fees amounting to Rs. 701,110 payable from the year 1991 up to the year under review.
- (b.) Withholding tax amounting to Rs. 161,651 existed for a period of 3-10 years that should have been remitted to the Department of Inland Revenue after being recovered from the contractors, had not been remitted to the said Department even up to 31 December 2016.

### 2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following non-compliances with Laws, Rules, Regulations and Management Decisions, were observed.

#### Reference to Laws, Rules, and Regulations

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#### Non-compliances

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| (a) Appendix 11 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, and Management Audit Circular, No. DMA/2009 (2), dated 01 September 2009. | The Register of Fixed Assets, had not been maintained in an updated manner.           |
| (b) Treasury Circular, No. I/A/I/2002/02, dated 28 November 2002.   | A Register on computers, computer accessories, and software, had not been maintained. |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Board for the year ended 31 December 2013 had been a deficit of Rs. 13,747,104 as compared with the corresponding deficit of Rs. 11,579,955, thus observing an increase of Rs. 2,167,149 in the deficit of the year under review as compared with the preceding year. Although the Government grants had increased by 3.9 per cent in the year under review as compared with the preceding year, the increase of establishments and administrative expenditure by 9 per cent, had mainly attributed to the said increase in the deficit.

### **4. Operating Review**

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#### **4.1 Operating Activities**

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The following observations are made.

- a) The funds given under Government capital grants for the capital expenditure of the Board, had been retained by the Board without being utilized for the relevant purposes. The sum that had not been utilized in that manner in the preceding years, amounted to Rs. 8,240,964, and of the funds received in the year under review, a sum of Rs. 473,679, had not been utilized for the relevant purposes.
- b) Books of higher and lower values had been donated to the Board in various instances by many foreign and local donor institutions and persons so as to be redistributed. A project had not been identified in the Action Plan of the Board for acquiring those donations of books. The books received as donations, had been directed to the Extention Services Division, without being recorded properly.
- c) Although the Extention Services Division distributes the books received by that division as donations, to the libraries in accordance with the project for donating books to the libraries, no precautionary action had been taken with respect to those assets.

### **5. Accountability and Good Governance**

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#### **5.1 Budgetary Control**

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Significant variances ranging from 30 per cent to 69 per cent were observed between the estimated and the actual income and expenditure, thus observing that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

<b>Area of Systems and Controls</b> -----	<b>Observation</b> -----
(a) Accounting	(i) Failure to present accounts as at the specified date.  (ii) Observation of differences between the accounts and books.
(b) Control of Advances	Failure to maintain registers relating to the advances properly.
(c) Stocks Control	(i) Non inclusion of books received by the Extention Service Division_as donations, in the stocks.  (ii) Identification of a shortage of 5144 books in the Board of Survey.
(d) Assets Management	(i) Differences between the Register of Assets and accounts.  (ii) Failure to conduct the Board of Survey on time in terms of Public Finance Circular, No. 5/2016, dated 31 March 2016.