

Sri Lanka Arts Council - 2014

The audit of financial statements of the Sri Lanka Arts Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of income and expenditure, statement of changes in equity and cash flow statement for the year then ended and a summary of 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 15(3) of the Arts Council of Ceylon Act (Cap.278) as amended by the Arts Council of Ceylon (Amendment) Act, No. 44 of 1987. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for Financial Statements

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

My responsibility is to express an opinion on these financial statements based on my audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of income and expenditure, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Non-disclosure of Adequate Information by the Accounts

No disclosure whatsoever had been made in the financial statements in respect of the building obtained on lease basis for 3 years from 31 October 2014 to operate the Office of the Arts Council. A sum of Rs. 1,740,000 paid as lease rent advances in the year 2014 by the Ministry of Cultural Affairs and the Arts and a sum of Rs. 870,000 paid as lease rent for buildings by

the Ministry in the year under review and this had not been disclosed in the financial statements, as notes.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the financial statements should be prepared based on the Ledger Accounts maintained properly in the accounting process, the financial statements had been prepared by classifying each voucher and receipts and by making adjustments without using a journal voucher for transactions that should be included in the journal entries. Under this circumstance, it was questionable in audit whether all transactions were included and relevant adjustments were made with a proper approval.
- (b) Even though unsettled advances had not existed in the current year, a sum of Rs. 20,000 had been shown as advances under current assets as at 31 December in the year under review.
- (c) The cost of stocks of 961 copies of three books and 766 arts magazines costing Rs.468,877 published by the Arts Council and remained as at 31 December in the year under review had not been included in the financial statements. Similarly, no disclosure whatsoever had been made in the financial statements in respect of 151 books and 73 arts magazines costing Rs. 57,648 provided in the year under review for the requirement of the Minister on the request of the Director of the Department of Cultural Affairs. Further, no money had been recovered for 150 copies of three books given to five outside institutions on the basis of payment after sale in the year 2012 as well. However, no disclosures had been made in respect of those books in the financial statements.
- (d) A sum of Rs. 148,589 payable to a Press for printing of arts magazines as at 31 December in the year under review had not been included as accrued expenses in the financial statements.
- (e) Festival advances amounting to Rs. 15,000 granted to 03 officers had been written off erroneously against the Income and Expenditure Account and as such, the expenditure in the year had increased by Rs, 15,000. Installments of festival advances recovered from three persons in the staff had not been included in the Salaries Account and the Duty Allowances Account. As a result, salaries and duty allowances expenditure in the year under review had been understated by Rs. 14,000 in the financial statements.
- (f) Expenses amounting to Rs. 328,004 incurred relating to 04 Objects in the current year had not been duly classified and shown in the financial statements.
- (g) Interest income of fixed deposits amounting to Rs. 30,336 received for the preceding year had been shown in the financial statements as interest income for the year under review and the interest income amounting to Rs. 20,733 receivable for the current year had not been included in the income for the year under review. As such, the

interest income of the current year had been overstated by Rs. 9,603 in the financial statements. Further, interest income receivable amounting to Rs. 20,733 had not been shown under current assets.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, and Regulations

Non-compliance

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| (a) Payment of Gratuity Act, No. 12 of 1983 | Provisions for gratuity had not been made from the year 2005 in terms of the provisions of this Act for two officers of the staff recruited for service on contract basis from 01 August 2005. |
| (b) Employees Provident Fund Amendment Act, No. 01 of 1985 | Even though the Employees Provident Funds should be computed based on the salaries and other allowances of the employees, the Council had computed the Employees Provident Funds based on the basic salary. As such, Provident Funds of 5 officers had been remitted less by Rs. 62,834. |
| (c) Section 5.1 of Chapter VI of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Even though the personal files of the staff should be in the custody of a Staff Grade Officer and securely maintained, it had not been so done in respect of the custody and safety of the personal files of the staff of the Arts Council. |
| (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 371 (2) (b) (c) | Even though an ad hoc Sub-impresst received should be settled immediately after the completion of the purpose for which it is granted, a period of time ranging from 32 to 75 days had been taken to settle a balance sum of Rs.95,860 out of the ad hoc Sub-impresst obtained by 10 officers in 18 instances.

The ad hoc Sub-impressts obtained exceeding Rs. 20,000 in 19 instances by 10 Non-Staff Grade Officers aggregated Rs. 869,390. |
| (ii) Financial Regulation 756 | Even though a Board of Survey should be carried out on or near date, the 15 December of every year, it had not been so done by the Council. |

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| (e) Treasury Circulars No.842 of 19 December 1978 and No. IAI/2002/02 of 28 November 2002 | A Register of Fixed Assets and Register of Computers had not been maintained in terms of the circular instructions. |
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2.4 **Transactions not supported by Adequate Authority**

The following observations are made.

- (a) A total sum of Rs. 197,800 had been paid as allowances to the Officers such as the Secretary, the Assistant Secretary and the Office Aide (K.K.S) of the Sub-committee of the Arts Council for the participation at the Sub-committee meetings in the year under review. Those officers belong to the permanent staff of the Department of Cultural Affairs and therefore the approval of the Director of Establishments and the Treasury had not been obtained for the payment of allowances in terms of Section 1.2 of Chapter IX of the Establishments Code and the instructions of Public Finance Circular No. 374 of 04 May 1999.
- (b) Provisions for financial assistance as donations and aid to outside persons are not made under the objectives of the establishment of Sri Lanka Arts Council by the Arts Council of Ceylon Act, No. 18 of 1952. Nevertheless, a sum of Rs.345,000 had been spent to grant donations and aid and any criteria, basis or a policy regarding this had not been formulated by the Council.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the financial result for the year under review had resulted in a deficit of Rs.265,829 as compared with the corresponding deficit of Rs.241,052 for the preceding year thus indicating a deterioration of Rs. 24,777 in the financial result as compared with the preceding year. Even though the total income for the year under review had increased by Rs.858,665, the increase of the total expenditure by Rs.883,442 had mainly attributed to this deterioration.

4. **Operating Review**

4.1 **Performance**

The Physical Performance Reports for the year under review had not been prepared by the Council and according to the Financial Performance Reports, the financial progress of 09 programmes planned to be fulfilled by spending Rs. 2,750,000 in the year under review had been zero.

4.2 **Management Inefficiencies**

The following observations are made.

- (a) Even though a sum of Rs. 83,598 had been spent for taking photographs and preparing an index of the Artists in the North Western Province at the Workshop on identifying and strengthening of Local Artists, held at Wariyapola in March in the year under review, the preparation of the index of the Artists had not been completed.
- (b) Payments for expenses on urgent requirements with minor values which arise day to day, should be made by the petty cash Sub- imprest but the Council had made payments for monthly water bills as well by the petty cash Sub-imprest.
- (c) The Management had not assigned duties in writing to the officers who serve in the Council.

4.3 Transactions of Contentious Nature

Even though a sum of Rs. 74,600 had been paid as incidental expenses to the two members of the Drama Sub-committee who participated in a Dancing Committee Meeting held in South Korea, the provisions thereon had not been made in the annual estimate or in the Action Plan for the year under review.

4.4 Idle and Underutilized Assets

The total area of the building obtained on lease basis in October in the year under review for the operations of the Office of the Arts Council was 3,200 square feet and an extent of approximately 830 square feet had remained idle without utilization.

4.5 Transactions contrary to Objectives

A sum of Rs. 48,300 had been spent by the Council to write lyrics, compose music and record a song for a felicitation ceremony of the Minister and an expenditure of Rs. 34,384 had been incurred to purchase bottles of water for two workshops on the request of a Coordinating Secretary to the Minister.

4.6 Personnel Administration

Even though the approval for the recruitment of 06 posts including the Chief Executive Officer had been granted by the Department of Management Services, a permanent officer had not been appointed for the post of the Chief Executive Officer (Secretary of the Council) of six posts even at the end of the year under review and an officer of the Department of Cultural Affairs had been appointed on acting basis from a period of about 2 years.

5. Systems and Controls

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

- (a) Accounting
- (b) Stock Control (Books and Magazines)
- (c) Meetings of the Council and Meetings of Sub-committees