

JR Jayewardena Historical Research, Archives and Library Centre - 2015

The audit of financial statements of the J.R.Jayawardene Historical Research Archives and Library Centre for the year ended 31 December 2015 comprising the statement of Financial Position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended and the 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 7(2) of the J.R.Jayawardene Centre Act, No.77 of 1988. My comments and observations, which I consider should be published with the Annual Report of the Centre in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Responsibility of the Management 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. 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Centre'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 Centre'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 the 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

My opinion is qualified based on the matters described in paragraphs 2.2 of this report.

2. Financial Statements

2.1. Qualified Opinion

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 J.R.Jayewardene Historical Research Archives and Library Centre as at 31 December 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standard-07

The following observations are made

- (a) Even though the value of lands and buildings should be separately recognized and brought to account, provisions for depreciation at the rate of 5 per cent had been made even in respect of the lands without identifying.
- (b) Even though the useful life of the asset should be considered in the determination of the percentage of depreciation, the attention in respect of the useful life had not been paid on depreciation of the motor vehicles in the institution.
- (c) Even though the traditional assets with historical value in the Museum should be disclosed by the financial statements, action had not been taken accordingly.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) An investment of Rs.5,000,000 had been made in a Private Company affiliated to the Centre in the year 2008 and subsequently that Company was closed down and only a sum of Rs.700,000 had been reimbursed in respect of the investments of the Centre. Even though it was indicated that the above investment is not realized further, action had not been taken to make an adequate provision thereto or disclose in the accounts.
- (b) The balance stock of books valued at Rs.4,140,350 which had been kept for sale at the library in the institution as at the end of the year under review had not been brought to account in the year under review.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover the balances amounting to Rs.2,065,667 receivable from the year 2012 for the buildings granted on rental basis for the Public and Private institutions .

- (b) Action had not been taken up to 31 December of the year under review to identify and settle or bring to the income the refundable rent deposits amounting to Rs.1,187,190 and Security Deposits amounting to Rs.1,154,624 which is being brought forwarded before the year 2013.
- (c) Action had not been taken to settle the audit fees relevant to the years 2011 and 2012 amounting to Rs.294,471 included in the creditors balance.

2.3 Non - compliance with Laws, Rules and Regulations and Management decisions.

 Following non- compliances were observed.

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| <ul style="list-style-type: none"> (a) Paragraph 4.2.2 and 4.2.3 (a)(b) of the Public Enterprises Circular No.PED/12 dated 02 June 2003 (b) Treasury Circular No .842 dated 19 December 1978 | <p>The activities such as furnishing of monthly financial statements to the Board of Control ,having discussions once in 06 months on performance and submission of the reports therein to the Department of Public Enterprises had not been fulfilled due to the meeting of the Board of Control had been held on 09 December 2015 after 33 months that is after 08 March 2013 .</p> <p>A Register of Fixed Assets had not been maintained in respect of the fixed assets totalling Rs.105,750,350.</p> |
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3. Financial Review

3.1 Financial Results and Analytical Review

- (a) According to the financial statements presented, the operations of the Centre for the year ended 31 December 2015 had resulted in a deficit of Rs.3,384,453 as compared with the corresponding deficit of Rs. 5,585,848 in the preceding year, thus indicating a decrease in the financial results by Rs.2,201,395. Even though the income of the year under review had decreased by Rs.2,934,398 ,utilization of communications and other income decrease by Rs.6,397,733 had mainly attributed for the decrease of the deterioration .

Even though a continuous financial surplus had existed up to the year 2013 in the analysis of the financial results of the preceding years , a financial deficiency had existed in the years 2014 and 2015. The overall contribution of the Centre from the year 2013 to the year 2015 was Rs.21,318,216, Rs.12,384,561 and Rs.17,889,699 respectively in considering the employees remuneration, Government taxes and depreciation for non- current assets . Accordingly, a high contribution had shown in the year 2013 but the Centre could not maintain at that level in following years. However, attention had not been paid in respect of the methodologies for the improvement of the contribution.

- (b) According to the statement of financial position presented, the current ratio of the Centre had been 5.8:1 and 6.9:1 in the years 2015 and 2014 respectively. Eighty nine per cent of the current assets had represented the short –term investments and a large number of assets in the Centre had been tied up with liquid assets. As the stock of books valued at Rs.4,140,350 had not been brought to accounts ,quick assets ratio had also been similar to current ratio.

4. **Operating Review**

4.1 **Performance**

The following observations are made.

- (a) The main objectives of the Centre are bestowing documents, files , mementos, ,awards and received gifts belonging to the former President Mr.J.R Jayewardena protection and conservation of those materials, exhibit, holding scholarly meetings, keeping all reports and printed materials which are handed over to the National Archives etc. However, a provision of Rs.22,500,000 or more than 86 per cent out of the total estimated value of Rs.25,952,400 had been allocated for the construction and renovation works in the Action Plan prepared for the achievement of the said objectives and only 14 per cent had been utilized to achieve the objectives of the Act . Even though, estimates had been prepared for 23 targeted activities to fulfill the targets during the year according to the Action Plan ,necessary action had not been taken to fulfill the 18 activities valued at Rs.25,312,400 .
- (b) In the examination of the Action Plan of the year under review and its progress, Technical and Research Officers who had been responsible for the 12 activities out of 23 had left the service by the year 2015 . However, the necessary action had not been taken to fulfill the activities mentioned in the Action Plan by appointing officers for the said post.

4.2 **Management Activities**

(a) Lease Rental Income from the Buildings

The following observations are made.

- (i) A sum of Rs.13,045,782 had been received as building rent income in the year 2015. Buildings had been leased out to 11 institutions including 3 State institutions and 08 Private institutions at various monthly rentals for different areas of square feet without obtaining an assessment report of monthly rentals from the Department of Valuation.
- (ii) Buildings had been rented out without entering into a formal agreement for two institutions at a monthly rental of Rs.40,000 each.
- (iii) A sum of Rs.434,555 had been paid for water bills of the Centre and leased buildings given on rent basis during the year under review and action had not been taken to recover any amount for water supply from the lessees . Similarly, payment of all water bills had been made by the Centre Even though it was in

certain rent agreements mentioned in that the payment of water bills should be made by the lessee .

- (iv) Payments had been made in respect of electricity bills amounting to Rs.3,024,814 in the year under review as the provisions for the recovery of electricity expenses used by the lessees are not made in the preparation of Lease Agreements. Non installation of separate electricity meters for 9 buildings leased out had also been affected in this connection.
- (b) In terms of Paragraph (3) of the Act No.77 of 1988 of J.R Jayewardene Centre,the Board of Control should consist of the President of the Republic, former Presidents still alive, the Prime Minister ,the Speaker, the Leader of the Opposition, the Secretary to the President, the Director of National Archives and two members appointed by the President. Attention had not been paid in respect of the amendment of the Act enabling to hold formal meetings of Board of Control as holding the Board meetings by gathering of the aforesaid persons is not practicable and as such transactions had been made without the approval of the Board of Control.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) Salaries and wages totalling Rs.1,453,310 had been paid from June 2014 to 31 December 2015 from the Fund of the Centre for 3 persons as the cook, assistant cook and the labourer recruited in the year 2014 for the canteen of the Welfare Society maintained extraneous to the activities of the Centre.

- (b) Consultancy Service Charges

A consultant had been recruited for the construction works by the Centre and a sum of Rs.3,569,456 had been paid as allowances in the year 2014 .The following matters were observed in this connection.

- (i) Even though a suitable person should be selected out of the 3 applicants or more to obtain the service of one consultant in terms of Paragraph 4.4 of the Guidelines on recruitments and employ the consultants issued in August 2007, contrary to that ,an officer had been recruited for the period from 01 August 2012 to 31 July 2015 without calling for applications . Nevertheless, a formal agreement had not been entered into with the selected consultant in terms of the Paragraph 4.6 .
- (ii) A payment of Rs. 2,258,034 had been made for the same task at Rs.18,000 per day as supervision fees a sum of Rs.1,311,421 as consultancy fees which was 8 per cent from the contract amount.
- (iii) Sums of Rs.1,063,043 and Rs.309,357 as Supervision and consultancy fees respectively for the renovation of the lavatories in the ground floor of the Centre and the Brema Building Presidential House for which the Centre had no legal right had been paid in the year 2014. However, it was observed in audit that any renovation work whatsoever had not been carried out in this.

4.4 Procurement and Contract Procedure

The following observations are made on the expenditure of Rs.7,995,665 incurred for the construction of three- storeyed building .

- (a) Procurement had been carried out for the renovation of three-storeyed building without the approval of an engineering estimate, a Development License of the Municipal Council and the building plans .An agreement had been entered into on 15 March 2014 with the contractor who had presented a minimum price of Rs.6,451,086 and the work should have been completed on 15 March 2014. Even though the work of the ground floor and the first floor had been completed ,the construction work of the second floor had not been completed as at 15 March 2016 ,the date of audit. The retention money of Rs.511,969 retained so far had been released to the contractor without completing the remaining work to be done or cancelling the agreement formally.
- (b) A sum of Rs.2,994,928 had been paid to another contractor without signing an agreement by the Centre after getting the work items of fixing the steel staircase and a roof estimated at Rs.732,500 in the Bill of Quantities in respect of the aforesaid contract by that contractor. Accordingly, a sum of Rs.2,262,428 had been incurred more than the initial estimate. It was observed in audit that the first contractor had stopped the work half way due to get the works assigned to the first contractor done by another party.

4.5 Identified Losses

The following observations are made.

- (a) A loan amounting to Rs.14,000,000 in the year 2013 had been obtained based on the payment of 120 instalments each of Rs.238,900 for the purchase of 02 vehicles, despite a fixed deposits amounting to Rs.91,002,055 existed in the institution. It was observed in audit that a financial loss had occurred to the institution as a sum of Rs.4,438,651 had been paid as the loan interest, as at 31 December in the year under review.
- (b) A loss of 955 books valued at Rs.330,350 had occurred due to the collection of stocks without identifying the optimum stock.

4.6 Personnel Administration

The following observations are made

- (a) Even though the approved Organizational Chart and the staff should be registered in the Department of Public Enterprises in terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003, action had not been taken to get the approval for the Organizational Chart and the staff and to register in the Department of Public Enterprises .
- (b) The approval of the Department of Public Enterprises had not been obtained for the Scheme of Recruitment of the Centre.

- (c) In the comparison of the staff from the year 2012 to the year 2015, an increase of the staff was shown in the years 2013,2014 as compared with the year 2012. However, it was observed that a decrease of the staff in the year 2015 and the cost per employee of Rs.380,159 in the year 2012 was increased up to Rs.529,780 in the year 2015.

5. Accountability and Good Governance

5.1 Budgetary Control

The budget presented for audit had not been prepared in terms of the format in paragraph 5.2 of the Circular No. PED/12 dated 02 June 2003 and the variances ranging from 28 per cent to 658 percent between the actual and budgeted expenditure were observed thus indicating that the budget had not been use as an effective instrument of management control.

5.2 Tabling of Annual Reports

The Annual Report of the Centre had not been tabled in Parliament after the year 2011.

5.3 Internal Audit

An Internal Audit Unit had not been established in the Centre and an internal audit had not been carried out even by the Presidential Secretariat as that institute comes under the Presidential Secretariat.

5. Systems and Controls

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

Major Areas	Observations
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(a) Financial Control	Utilization of Funds for the execution of the main objectives of the Centre had not been carried out adequately.
(b) Revenue Control	Failure to obtain assessment reports and lease agreements not executed formally.
(c) Contract Administration	Failure to follow the Procedure Guidelines relevant to the contracts.
(d) Personnel Administration	Failure to get the approval for the Scheme of Recruitment and the staff
(e) Internal Audit	Failure to carried out an internal audit
(f) Stock Control	(i) Stock books had not been updated and maintained properly . (ii) Action not taken after being identified the optimum stock level.