

Sri Lanka Arts Council – 2017

The audit of financial statements of the Sri Lanka Arts Council for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 15(3) of the Arts Council of Sri Lanka Act, as amended by the Arts Council of Sri Lanka (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

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 and fair presentation 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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Council’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 Council’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 the 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Arts Council as at 31 December 2017 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 Standards

The following observations are made

(a) Sri Lanka Public Sector Accounting Standards No 02

A sum of Rs.462,169 prior year adjustment which had not been affected to the operating profit as per the section 21 and 22 of the standard, and it had been shown as an adjustment in the statement of cash flow .

(b) Sri Lanka Public Sector Accounting Standards No 07

Although fully depreciated office equipment which is cost of Rs.306,441 had being further used due to non reviewing of the effective life time of the non current assets as per the section 65 of the standard. Accordingly, an action had not been taken to revise the estimated error as per the Sri Lanka Public Sector Accounting Standard no 03.

(c) Sri Lanka Public Sector Accounting Standard No 09

Although the accounting policy used for inventory measurement should be disclosed as per the section 47 (a) of the standard, the relating accounting policy for books and magazines stock amounting to Rs.404, 288 had not been disclosed.

2.2.2 Accounting policies

Although the provisions had been incurred by the institute for the post employee benefit from the year under review, to calculations of the provisions for the year as per the section 15 of the Sri Lanka public Sector Accounting Standard 3 most recent pronouncement of other standard – setting bodies, although it is needed to prepare an accounting policy based on the future salary increments of employees, discount rates, employees turnover and other acturi assumptions, a sum of Rs.632,000 had been provided as gratuity during the year under review based on the salaries and earnings of the employees without making such a policy in respect of five employees.

2.3 Non – Compliance with Laws, Rules, Regulations and Management Decisions.

The following instances of non – compliances were observed.

Reference to Laws, Rules and Regulations	Non – Compliance
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(A) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Finance Regulation 264(1)	Although the gross receipt of each payment had been paid in the voucher should be confirm from the receipt taken from the Beneficiary the bills amounting to Rs.58,000 had not been submitted and which was paid for providing the accommodation for three person who had participated to the Human Rights art Festival.
(b) Finance Regulation 381(1)	Although the Treasury approval should be obtained to open a official bank account an approval had not been taken for current account which was open in state bank on behalf of the fund.
(c) Finance Regulation 384(2)	Although every cheaues should be Crossed, uncrossed cheaues had been used for the payments of Rs.1,911,498 made through the current account of the Art Council during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review amounted to a deficit of Rs.552,126 as compared with the corresponding surplus of Rs.79,604 for the preceding year. Accordingly, a deterioration of the financial result a mounting to Rs.631,730 was observed as compared with the preceding year. Even though, the provisions for recurrent expenditure had increased by Rs.1,435,000, increasement of the administrative expense by Rs.203,370, increasement of salaries and wages and employee benefits by Rs.276,314 and increasement of workshops, programs expenses and sponsorships by Rs.1,624,384 had been the main reasons for the above deterioration.

While analysis of the financial results in 4 preceding years and the year under review, Even though a financial surplus had been existed in the year 2015 and 2016, financial deficit had existed in the year 2013,2014 and the year under review.However, contributions of Rs.292,428 in the year 2013 had been a Rs.2,021,305 in the year 2016 after the re- adjustment of employee remunerations and depreciation for non –current assets to the financial result.

4. Operating Review

4.1 Performance

4.1.1 Planning

Although an action plan should be prepared mentioning that, the board's targets to be achieved and the responsible officials for those targets, the action plan prepared by the board had not been prepared accordingly.

4.1.2 Implementation and Review

The board was not in a position to implement the 23 programme which estimated cost of Rs.153.26 million out of 37 programme to be implemented under the annual action plan due to the non-receipt of funds in the year under review for the purpose of attaining the objectives of the institution.

4.2 Management Activities

Following observations are made.

- (a) While the Colombo office of the Art Council has been transferred to the Sethsiripaya office from March 2016, an action had not been taken to inform either change the old office telephone bill receivable address or disconnect the line, due to that a sum of Rs.11,081 had been paid as telephone charges as at 23 January 2017.
- (b) Although the printing machine amounting to Rs.38,000 which was purchased on 22 November 2016 had been accounted under property plant and equipment and it had not been included in the fixed asset register.

4.3 Staff Administration

following observations are made.

- (a) The approved cadre for the Sri Lanka Art Council was 06 and the actual cadre was 09. As such, the number of excess cadre as at 31 December 2017 was 03.
- (b) Although the approval had been granted by the Letter No.DMS/E3/53/4/311/1 dated 26 August 2011 of the Department of Management Services in respect of recruitment of the Sri Lanka Art Council, an appointing a permanent officer for the post of Chief Executive Officer (The Secretary to the Council) had not been carried out by the end of the year under review and an officer of the Department of Cultural Affairs had been appointed on acting basis for that post from 06 January 2014.

- (c) An Officer for the post of Secondary Level Management Assistant had been recruited on contract basis and an allowance of Rs.360,000 had been paid for that officer during year under review.

5. Sustainable Development

5.1 The achievement of sustainable development goals

According to the year 2030 Agenda for Sustainable development of United Nations, every state institution should have acted on it and the Sri Lanka Art Council had not been aware of how to proceed with its work coming under the scope during the year under review.

6. Accountability and good governance

6.1 Internal Audit

An internal audit unit had not been established in the board as per the provision of financial regulation 133 and 134 and there was no information to confirm whether carrying out an internal audit by the line ministry as well.

6.2 Audit committee

Although an audit and management committee meeting should be held once in every quarter in terms of section 7.4.1 of the Public Finance Circular no PED / 12 dated 02 June 2003, none of the audit and management committee had been held during the year under review by the Art Council

6.3 Budgetary Control

It was observed that more than 20 per cent variances in 11 times of 13 number of programs, when compared the budgeted expenditure with the actual expenditure during the year under review. As such the budget had not been made use of as an effective instrument of management control.

7. System and control

Weaknesses in the system and controls observed during the course of 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.

Areas of system and control -----	Observation -----
Accounting	<ul style="list-style-type: none"> (i) Interest of fixed deposit had not been accounted correctly (ii) Lack of accounting policy for investment of employee gratuity (iii) 119 adjustmnet had been done to the financial statements during the year without preparing journal vouchers
(b)Asset control	Fixed asset register had not been updated.