

JR Jayewardene Historical Research, Archives and Library Centre – 2017

The audit of financial statements of the J.R .Jayewardene Historical Research, Archives and Library Centre 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 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 Management’s Responsibility for the 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 judgment, 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 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 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 Standard 07**

- (i) Even though the value of the lands and buildings should be assessed separately and taken in to accounts, it had not been so done and 5 per cent of provisions for depreciations had been made even for the lands.
- (ii) Even though the assets with historical value in the Museum should be disclosed by the financial statements, actions had not been taken accordingly.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.153,129 incurred for the recurrent type of expenditure in the year 2017 had been capitalized and Rs.6,334 had also been provisioned for the depreciation based on that value.
- (b) The value of the investment made in a private company named JR Jayewardene Information Centre by the Centre in the year 1998 had been shown as Rs.4.3 million in the financial statements as at the end of the year under review and in the event of closing down of this company in the year 2008, its assets had been assessed at Rs.61,500. Even though 9 years had been elapsed after closing the company, actions had not been taken to make adjustments in the accounts for that unrecoverable balance and the assets.

2.2.3. Lack of evidence for Audit

Documentary evidence for confirming the ownership and the accuracy of 16 items valued at Rs.59,419,511 and shown as the assets of the Centre, were not presented to the Audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though a rent of Rs.2,324,708 aging of more than two years should have been received for the buildings rented to the institutions and persons and even though the Centre was taking actions to charge those rents, it was unable to recover even by the end of the year under review.
- (b) Action had not been taken to settle 07 debit balances totaling Rs.370,825 and 05 credit balances totaling Rs.272,222 bringing forward over number of years.

2.4 Non - compliance with Laws, Rules and Regulations and Management decisions

The following non- compliances were observed.

<u>Reference to laws, Rules and Regulations</u> -----	<u>Non – compliance</u> -----
(a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>	
(i) Financial Regulation 135	A proper method for the delegation of financial authority had not been established within the Centre.
(ii) Financial Regulation 880	Even though Bonds should be kept by the officers who in charge of funds, the officers who certify the vouchers and sign the cheques, action had not been so taken.
(b) Section 16 of the Finance Act No.38 of 1971	Even though the approval of the Governing Board and the Minister of Finance should be attained in obtaining bank overdraft, bank Overdraft up to a maximum of Rs.1,693,242 had been obtained without such an approval and Rs.20,810 had been paid as overdraft interest.
(c) Public Enterprises Circular No. PED 1/2015 dated 25 May 2015.	In contrary to the provisions in the circulars, Rs. 106,800 had been paid to two employee been in the position of Technical Assistant and Electrician as transport allowance in the year under review.

(d) Section 3.1 of National Library and Documentary Service Board Circular No.2004/අප/01/(2016-Revised) dated 22 December 2016.

Even though a survey on books should be conducted annually and the recommendations of the report presented by the board of survey should be implemented within 3 months, survey held at 31 December 2017 had not been completed properly and survey reports had not been presented even by the audited date of 30 April 2018.

2.5 Transactions not Supported by adequate authority

Even though Rs.411,916 had been paid as bonus for the year 2017 on 29 December 2017 by the Centre based on the Department of Management Service Circular No.02/2015 dated 09 December 2015, approval of the Board of Governors had not been obtained for that in terms of the circular.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2017 had been a surplus of Rs.10,756,476 as compared with the corresponding surplus of Rs.2,510,103 for the preceding year, thus indicating an improvement of Rs.8,246,373 in the financial result as compared with the preceding year. The increase of building rent income by Rs.5,136,959 and interest on fixed deposits by Rs.2,551,520 with compared to the preceding year had been mainly affected to the above increase.

In analyzing the financial results of the year under review and 04 preceding years, the surplus of Rs.7,523,410 of the year 2013 had been a deficit in the year 2014 and 2015 and again it had been a surplus in the years 2016 and in the year under review. However, in readjusting the employees' remuneration and the depreciation on non-current assets to the financial result, even though the contribution of Rs.20,207,834 in the year 2013 had been decreased up to Rs.11,474,265 by the year 2014, it had been continuously increased and amounted to Rs.32,451,885 as at the end of the year under review.

3.2 Analytical Financial Review

In considering the working capital management of the Centre the current assets ratio of 7.1:1 and quick assets ratio of 6:9:1 had been in the year under review and even current assets ratio and the quick assets ratio of the preceding year was similar to the ratios of the year under review. 80 per cent of the short term investments are represented in the current assets and accordingly, it was observed that a large amount of assets of the Centre had been retained in the liquid assets.

4. Operating Review

4.1 Performance

4.1.1 Operation and Review

Out of 26 targeted activities with an estimated cost of Rs.9,273,500 as per the action plan, 21 activities with an estimated cost of Rs.7,648,500 had not been performed. Out of this, 18 activities with an estimated cost of Rs.7,028,500 were the activities included in the action plan even in the year 2016 .

4.2 Management Activities

The following observations are made.

- (a) In terms of Paragraph 4.2.2 of Public Enterprises Circular No. PED 12 dated 2 June 2003, monthly financial statements should be presented to the Board of Governors in the each month and in terms of 4.2.3 (a) and (b), even though the performance reports should be discussed in the Board of Governors and its report should be presented to the Department of Public Enterprise once in 06 months, only one meeting of the Board of Governors had been held in the year 2017. Similarly, even though it had been informed in the meeting of the Board of Governors to submit the annual budget and the action plan of 2017 to a next meeting of the Board of Governors, budget and the action plan of the year 2017 had not been approved by the Board of Governors due to not meeting of the Board of Governors thereafter.
- (b) As per the written request of the Secretary General, a professor with the objective of obtaining specialized knowledge for conserving the resources of the library of the Centre and also for maintaining the administrative activities of the museums and archives sections and the service of an Archival Assistant for the book binding and supervision of documentary conservation activities had been obtained since year 2014 without a proper service agreement or proper appointment letter. It had been paid Rs.329,725 to the professor and Rs.40,460 to the officer who comes to supervise the records conservation activities.
- (c) As per the annual budget, even though Rs.22,632,000 had been identified as building rent income for the year 2017 and in renting out the building premises with 17,343 Sq.ft, it had been rented out in different monthly rents rates without obtaining annual assessment report from the Department of Valuation.
- (d) Even though a deposit of Rs.900,000 should be obtained as per the condition 01 of the agreement entered on 26 September 2017 in relation to the premise where an office is holding relating to the Northern Road Project, without taking actions to so obtained, that deposit had been charged in 12 monthly installments at Rs.75,000 each.

- (e) A sum of Rs.499,200 had been paid for the water bills of the building rented for the year 2017 by the Centre and even though it had been mentioned to charge a certain reasonable sum from the renters for the water bills in terms of the conditions of the agreements entered giving on rent base, Centre had not charged a sum for the water bills from the renters.
- (f) Centre had entered into agreements with Java Institute on 14 February 2013 to rent 4,456 Sq.ft at a monthly rent of Rs.445,600 from 15 January 2013 to 14 January 2017 by the agreement No.459. There had been a rent of Rs.1,314,843 to be received from this institute as at 31 March 2018 and it had been unable to utilize that area for another effective activity due to not removing of the equipment belongs to that institute from the office premises.
- (g) Even though Centre had entered in to an agreement with Mahapola Higher Education Scholarship Trust Fund on 08 July 2016 to rent 1,830 Sq.ft at Rs.150 per Sq.ft monthly from 01 September 2016 to 31 August 2018, handing over of the relevant premises to that institute had been delayed until 28 February 2017 due to the delay in repairing the building. Hence, a rent income of Rs.1,647,000 had been loss to the Centre.

4.3 Operating Deficiencies

A sum of Rs.264,040 had been paid to the Department of Government Printing on 18 December 2013 by the Centre for the printing of 2000 copies of 04 types of books which are existing to be sold in the library of the Centre. 1,000 copies from 02 types of books had been received by 14 March 2018 and remaining 1,000 copies had not been received even by the audited date of 31 March 2018. Similarly, 978 books valued at Rs.349,020 existed to be sold had been damaged as unusable.

4.4 Idle or Underutilized Assets

Even though a motor bicycle purchased at Rs.309,120 by the Centre in 2013 had been in a running condition, it had been parked unsafely in the Institute's premises without using since year 2015. It was observed that a expense of Rs.52,735 had been incurred as insurance , revenue license and emission test charges for this vehicle up to year 2017.

4.5 Staff Administration

The following observations are made.

- (a) In terms of chapter 9.2 (b) and (d) of the Public Enterprises Circular No. PED/12 dated 02 June 2003, there should be an Organizational Chart and approved cadre in each Institute and that organization chart and the details of the approved cadre should be registered in the Department of Public Enterprises. Nevertheless, an approval of the Board of Governors had not been obtained for the staff comprised with currently employed 31 persons of the Centre and the Organizational Chart and the details of the approved cadre had not been even registered in the Department of Public Enterprises.

- (b) In terms of Section 9.3.1 (a) of the above Circular, even though the approval of the Board of Governors and the respective Ministry should be obtained for the Scheme of Recruitment of the Centre with the concurrence of the Department of Public Enterprises, the approval had not been so obtained.

5. Sustainable Development

5.1 Achieving Sustainable Development Goals

As per the Letter No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Minister of the Ministry of National Policies and Economic Affairs and United Nations Year 2030 'Agenda' on the Sustainable Development, even though it is required by all the public institutions to be aware on how should be implemented regarding the activities which comes under own scope, Sustainable Development Goals, Targets, and Indices for measuring the achievement of those targets in relation to those activities had not been even identified by the Centre due to not being aware on that.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though the financial statements should be rendered within 60 days after the close of the financial year in terms of the Public Enterprises Circular No PED/12 of 02 June 2003, financial statements for the year under review had been furnished on 24 April 2018.

6.2. Budgetary Control

Due to the variances ranging from 09 per cent to 1261 per cent were observed between the actual expenditure and the budgeted expenditure and hence it was observed that the budget had not been use as an effective financial management controller.

7. 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.

Areas of Systems and Controls

Observations

- (a) Rent Income

Non obtaining of assessment reports and non-implementation as per the rent agreements.

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| (b) Library Administration | Storing of books unsafely and non-conservation of documents. |
| (c) Payment for Consultancy Service | Obtaining consultancy service without a proper agreement. |
| (d) Internal Audit | Non performing of an internal audit |
| (e) Functions and Conference Hall Income | Weakness in the computer system for receiving money and in the internal control of collecting money. |
| (f) Procurement Process | Failure to follow the provisions of Procurement Guidelines 2006 |