

1.1 Qualified Opinion

The audit of the financial statements of the Arts Council of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Auditor's responsibility on the audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance applicable standards	with	Comments of management	Recommendation
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<p>In terms of Section 65 of Sri Lanka Public Sector Accounting Standards 07, the effective lifetime value of non-current assets for non-current assets is not reviewed annually thus cost of Rs.306,441 office equipment and Rs.133,900 computer equipment, though completely depleted, was still in use. Accordingly, the estimated error was not revised in accordance with the Sri Lanka Public Sector Accounting Standards 3.</p>		<p>The assistance has been requested from the Line Ministry of an Internal Audit examiner as well as Accountant Advice for preparation of Financial Statements and Supervision of Daily Finance, but has yet to respond.</p>	<p>Valuation of fixed asset and financial statements must be submitted according to Sri Lanka Public Sector Accounting Standards.</p>

(b) The statement of accounting policies used in the measurement of inventory, including the cost formula used in subsection 47 (a) of Sri Lanka public sector accounting standards 09, must be disclosed in the financial statements as at December 31, 2018 but the value of the publication inventory Rs.398,511 had not been disclosed in financial statements.

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The accounting policy for valuating inventory should be disclosed in the financial statements.

1.5.3 Accounting Policies

----- Audit observation -----	----- Comments of management -----	----- Recommendation -----
<p>Although allocations have been made for post-employee benefits since 2017, a policy has not been formulated based on the recent statements of the agencies that create the standards in terms of section 15 of Sri Lanka Public Sector Accounting Standards for calculating the amount of allocations for the year. In the absence of such a policy, gratuity of Rs.632,000 and Rs.716,851 respectively for 05 workers had been provided for the years 2017 and 2018.</p>	<p>The requested assistance from the Line Ministry has of an Internal Auditor as well as Accountant Advice for preparation of Financial Statements and Supervision of Daily Finance, but has yet to respond.</p>	<p>A policy should be made in line with the government's legal framework for allocating employee benefits.</p>

1.6 Non-compliance with laws, rules, regulations and management decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations	Non-compliance	Commentary on management	Recommendation
(a) The Sri Lanka Arts Council Act No. 18 of 1952. (i) Subsection 10 (1)	The board should have a meeting every three months, but only one meeting was held for the year 2018.	Political changes in the year 2018 have changed the appointment of members of the Executive Council of the Sri Lanka Arts Council and the State Advisory Council. Due to this, it has not been possible to hold the Arts Council	The board shall comply with the provisions of the Sri Lanka Arts Council Act.
(ii) Subsection 11 (1)	Appointment of the Executive Committee of the Board in terms of subsection 11 (1), all expenditure approvals and other management decisions of the year 2018 have been made by an executive committee that has been appointed by the Minister appointed by the Minister in accordance with Article 07.	meetings properly. The Executive Committee of the Sri Lanka Arts Council has been appointed by the Minister in terms of Section 07 of the Act.	-Do-
(iii) Subsection 12 (1)	The appointment of advisory councils is to be done by the 05 members of the board appointed by the minister in terms of section 7 (a) of the act,	Although the request had been made from the line ministry to appoint chairmen and members of advisory councils, only two members have been	-Do-

	but the chairman of the council has been appointed by the chairman of the council for a period of 03 years from 14th June 2018.	appointed to the executive committee.	
(iv) Section 13 (2)	Although the executive committee of the board is the authority to appoint 05 board members / employees, the chairman of the board has made the appointment and confirmation of the service.	Steps will be taken to make relevant corrections.	-Do-
(v) Section 23	Laws drafted by the Board had to be published in the Gazette by the Minister of Rules, but the scheme of recruitment of the Board had not been published in a gazette notification.	If any corrections are made in this regard, actions will be taken to rectify the matters.	-Do-
(b) Section 11: 10: 2 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Contrary to the rules, 05 officers / employees of the Board have been confirmed in the service with effect from the date of appointment.	Corrections have been made so far.	Compliance with the provisions of the Establishments Code.
(c) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulations 264 (1)	A receipt had not been collected for payments of Rs.3,492,495 from the recipient in respect of 05 payments.	Measures will be taken to minimize such avoidance.	Should comply with Financial regulations.

(ii)Financial Regulations 381 (1)	Request had not been made from the treasury to open a bank current account since beginning of the board.	Even if there is an error in opening the account, the necessary steps will be taken to obtain Treasury approval in future.	-Do-
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2. Financial Review

2.1 Financial results

The operating result of the year under review was a surplus of Rs.3,285,461, in contradictory to that it was a deficit of Rs.531,989 in the previous year. Accordingly, the financial results reflected an increase of Rs.3,817,450 was observed. An increase in Recurrent expenditure for the year under review by Rs.1,000,000 and capital expenditure increased by Rs.2,020,000 was mainly attributed to the increase.

2.2 Trend Analysis of Key Income and Expenditure

In comparison to the last year interest income had increased by 38.7 percent, revenues for publisher sales had decreased by 95.2 percent and capital expenditures had increased by 100 percent.

2.3 Ratio Analysis

The following were observed.

- (a) The current asset ratio was 1.1: 1 in the previous year and the current asset ratio in the year under review was 4.4: 1. Accordingly, the asset ratio in the year under review has increased by 3.3.1 compared to the current asset ratio. This increase was driven by a 466.11 per cent increase in the balance of the year and a decrease of 10.15 per cent on current liabilities.
- (b) The quick asset ratio for the year under review has increased significantly compared to the previous year. The increase in current liabilities was 245.1 per cent over the previous year, while current liabilities declined by 10.15 per cent were caused to increase in that ratio.

3. Operational Review

3.1 Management inefficiencies

Audit observation -----	Comments of the management -----	Recommendation -----
Without compiling a cost estimate, the total of Rs.180,000 was given as advances for 4 programs.	Steps will be taken to prepare expenditure estimates for all future advances.	Actions should be taken to make advance payments to programs based on expenditure estimates.

3.2 Human Resources Management

Audit observation	Comments of the management	Recommendation
(a) Even though approval has been granted by the Management Services Department through letter DMS / E3 / 53/4/311/1 dated 26th August 2011, the permanent appointment to the post of Chief Executive Officer has not been made by the end of the year under review. A Cultural Officer of the Department of Cultural Affairs was appointed on the basis of acting.	Since the Sri Lanka Arts Council works in collaboration with the Department of Cultural Affairs, an officer from the Department of Cultural affairs has been appointed on acting basis.	Action should be taken to make a permanent appointment to the post of Secretary as per the approved scheme of recruitment of the Board.
(b) An allowance of Rs.360,000 from January to December 2018 had been paid to an officer on contract basis that had been recruited to the post of Account clerk who is not an approved position by the Department of Management Services.	Necessary steps will be taken to obtain this service due to requirements subject to the approval of the Executive Council.	Should be recruited to the posts in accordance with the approved recruitment procedure of the board.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit observation	Comments of the management	Recommendation
Financial statements should be submitted to the Auditor General within 60 days of the end of the accounting year in accordance with Section 6.5.1 of the Public Enterprises Circular dated 2 June, 2003 and PED/12, financial statements were presented on 10 July 2019 with a delay of 04 months and 09 days.	The financial statements will be submitted on due date in future.	Financial statements should be submitted to the Auditor General on due date as per the circular instructions.

4.2 Annual Action Plan

Audit observation

Rs.2.45 million had been spent on Conservation Program of Sokari Shastrikam and for conducting 3 National Bilingual Seminars which are not included in the Annual Action Plan.

(b) 06 programs with estimated cost of Rs.10.4 million were not fully completed.

Comments of the management

The sponsorship of the Sokari Shanthikkim Conservation Program and the Art Adornments Award was held with the approval of the Executive Committee of the Board.

The planned projects could not be implemented as the grants were not made available to us until the end of the year.

Recommendation

Should act according to the approved annual action plan.

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4.3 Internal Audit

Audit observation

The Internal Audit Unit of the Board had not been established in terms of the provisions of Financial Regulations 133 and 134 and the Internal Audit had not been carried out by the Line Ministry during the year under review.

Comments of the management

Since we do not have the necessary staff to establish an Internal Audit Division, we have submitted letters to the Secretary of the Ministry requesting to conduct an internal audit through the Line Ministry.

Recommendation

Should comply with financial regulations.

4.4 Audit and Management Committee

Audit observation

In accordance with Section 7.4.1 of the Public Enterprises Circular No. PED / 12 of 2 June, 2003, the Audit and Management Committee Meetings are to be held quarterly, but no Audit and Management Committee Meeting has been held for the year under review by the Board.

Comments of the management

Attends Audit and Management Committee meetings held by the Line Ministry once a quarter.

Recommendation

Should follow the circular instructions.

