

## **Central Cultural Fund - 2018**

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### **1. Financial Statements**

#### **1.1 Disclaimer Opinion**

The audit of the financial statements of the Central Cultural Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 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.

As per paragraph 5.2.5 of Public Enterprise Circular No. PED/12 dated 02 June 2003, due to the delay in the submission of the financial statements of the years 2018 and 2019 to be submitted, a report on the operations of the years 2018 and 2019 under category 3.i was tabled in Parliament on 24 August 2020. Moreover, this report is issued in accordance with the provisions of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

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

#### **1.2 Basis for Disclaimer Opinion**

I expressed disclaimer Opinion on the matters described in Paragraph 1.5 of this report.

I was unable to confirm or verify by alternative means, material items included in the statement of financial performance, the statement of financial position, statement of changes in equity and cash flow statement. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial performance, the statement of financial position, statement of changes in equity and cash flow statement.

#### **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 determines, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

As per sub section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund 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.

#### **1.4 Auditor’s Responsibility for the Audit of the Financial Statements**

My responsibility is to conduct an audit of the fund’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

#### **1.5 Audit Observations on the Preparation of Financial Statements**

##### **1.5.1 Internal Control over the Preparation of Financial Statements**

The Fund is 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**

<b>Non-compliance with Relevant Standard</b>	<b>Reference to the</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to paragraph 29(c) of Sri Lanka Public Sector Accounting Standard No. 01, in relation to the entity’s financial position and financial performance, a particular transaction, to understand the influence of other events and situations. Although Sri Lanka’s public sector accounting standards are insufficient, additional disclosures should be made to make them understandable to users, eleven special fund projects amounting to Rs.9,025,802 under non-current liabilities, in relation to 05 foreign fund		According to paragraph 29 (c) of Sri Lanka Public Sector Accounting Standard No. 01. Please be informed that the additional information required to be disclosed in respect of the special funds mentioned in the financial statements will be disclosed in the preparation of future financial statements. And also I further inform that this information has	Action should be taken as per the terms of the standard

projects amounting to Rs.4,757,900 and 01 foreign fund projects amounting to Rs.676,432 mentioned under non-current assets. Also the nature of those funds the year the fund was received, the purpose for which the fund was received, had not been disclosed in the financial statements.

already been disclosed under Note No. 3 during the preparation of the 2021 financial statements.

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| (b) The non-assessed accounting software (Sage 50) system used by the Fund, and the value of the payroll software purchased in the year 2018 amounting to Rs.182,500 was not shown under intangible assets in the financial statements. | Please be informed that in the preparation of future financial statements, this accounting software and payroll processing software will be shown under intangible assets in the financial statements. | The value of software should be shown under intangible assets in the financial statements. |
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### 1.5.3 Accounting Policies

#### Audit Observation

Regarding allocation of doubtful debt, the policy followed by the fund was not disclosed in the financial statements. Even though there is a debtor balance of Rs.3,432,121 that has not been charged for more than 05 years, and without reviewing it, an unchanged doubtful debt balance of Rs.1,964,833 was continuously maintained in each year.

#### Comments of the Management

Kindly inform that the policy followed by the fund regarding allocation of doubtful debt, is given under note no. 2.3 of the financial statement. Since the debtors were reviewed in 2012 and a part of the amount allocated doubtful debt is still available. And the balances have not been identified to be allocated as doubtful debt during the review of the debtors in subsequent years. That the allocated amount remains till now and I kindly inform that it is not a provisions made in the year under review.

#### Recommendation

The debtors should be reviewed , and the balances of allocated should be identified and the doubtful deb allocation should be done

#### 1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to Statement of Bank reconciliation , although the cash book balance as on 31 May 2018 is Rs.37,892,760 and according to the Sage 50 accounting software used for accounting of the fund, the balance of the cash book on that day was Rs.33,542,285. Therefore a change of Rs.4,350,475 was observed in the same balance.</p>	<p>In the handwritten cash book, transactions cheques are recorded at the time checks are issued. Due to reasons such as resignation of officers who cheques are printed by computer, sudden departure from service, rather than computer printed some cheques have to be hand written and issued and then computerized.</p> <p>For this reason and for reasons such as not recording the date of issue correctly while computerizing payment cheques, in some months the cash book balance in Sage 50 accounting software does not match with the correct cash balance in the manual cash book used to prepare the bank reconciliation statement.</p> <p>I kindly inform you that although the balances of both these cash books are equal at the end of the year, and the monthly and daily cash balances of both these cash books will be maintained equally.</p>	<p>Internal control measures should be introduced and implemented to ensure the accuracy of the data obtained through the computer accounting software.</p> <p>The relevant changes should be compared at that time and the changes should be corrected using journal entries based on proper approvals.</p>
<p>(b) Although the interest receivable as on 31st December 2018 in respect of 04 Fixed Deposits with a value of Rs.730,000,000 invested during the year 2018 is Rs.51,426,027. As it was accounted as Rs.50,509,589, the interest receivable was shown less by Rs.916,438.</p>	<p>In the year 2018 deposited Rs.730,000,000/= since the necessary documents have been handed over to the audit to re-examine and answer the calculation of the interest related to the amount.</p> <p>And I kindly inform you that an answer will be given as soon as the documents are brought.</p>	<p>Interest receivable should be accurately calculated and accounted for.</p>

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| (c) | Included direct deposits in 02 bank accounts, since 06 months Rs. 940,055 had not been recognized and adjusted to the income of the year.   | Since the relevant documents and summaries have been submitted to the audit, please note that we are unable to provide answers to this audit query.  | Direct deposits should be identified and adjusted to the income of the year. |
| (d) | For Fixed Deposit No. 73254947, the interest amount of Rs.1,702,055 received in relation to the year under review, instead of being accounted for as income for the year, it had been accounted for in the interest receivable account. | Revenue is accounted on accrual basis. That is, regardless of the date the income is received, the income is accounted for in the relevant period. Accordingly, without waiting for the interest money to be received, the interest portion for the accounting year is calculated and the interest income account is credited and the interest receivable account is debited. And credits the Interest Receivable account on the date the interest is received. Accordingly, I kindly inform you that the interest income generated from the fixed deposit number 73254947 has been correctly accounted for. | Interest for the year should be accounted as income for the year.            |

### 1.5.5 Unauthorized Transactions

<b>Detail of Unauthorized Transactions</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
To invest money in the fund in terms of section 4(e) of the Central Cultural Fund Act No. 57 of 1980 and although the approval of the Board of director is required to withdraw such investments, In the Board Paper No. 208.4.1 of the year 2018, For 02 investments totaling Rs.450,000,000 not included in the investment description and it had not been obtained of Board approval.	Due to the busy schedule of the governing board members, there is difficulty in organizing the meetings adequately. Therefore, obtaining pre-approval for withdrawing of investment is a difficult task to do in practice. After withdrawal/deposit of investment, In order to get the approval of the director board for the same, and it is done for the first time, For the investment activities done in	As per the instruction of the Act, while Recovery of investment, Management shall act upon the prior approval of the Board of Directors.

the year 2018.

Also Kindly inform that as indicated by the audit query, in making future investments as well as withdrawing, arrangements will be made to obtain prior approval as much as possible.

## **1.6 Account Receivable and Payable**

### **1.6.1 Account Receivable**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
To be collected from private and government institutions for more than 05 years of Rs. 3,432,121 which was entered as long-term receivable balance in the financial statements and the fund had not taken effective steps to recover,	That further steps will be taken to recover the outstanding balances of more than 05 years and kindly note that if they are not recoverable, they will be written off from the financial statements.	Actions should be taken to collect the outstanding loan balances from more than 05 years.

### **1.6.2 Account Payable**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As on 31 December 2018, age analysis relating to deposit balances amounting to Rs.8,141,284 to be refunded was not submitted for audit.	A separate schedule is provided for refundable deposits amounting of Rs.8,141,309.12 which Included in accrued expenses. Due to the large number of transactions in the refundable deposit account, this has been given separately.	age analysis related to deposit balances to be refunded should be prepared and submitted for audit.

### 1.6.3 Advance

Audit Observation	Comments of the Management	Recommendation
<p>According to the debtor age analysis submitted to the audit, the housing loan which is more than 05 years, festival advance, Vehicle loan and special advance balances were Rs.20,736,853, Rs.1,202,010, Rs.114,885 and Rs.86,441 respectively. The fund had not taken any effective steps to recover this debt.</p>	<p>As indicated in this audit query, special loans paid to casual workers and officials who worked in the Central Cultural Fund before the year 2000, after recovery of the identified portions from the festival advances, are no longer identifiable and remain in the account books. Since in the years before 1998, the bookkeeping and preparation of final financial statements were outsourced to an external agency. Due to the fact that this information was not available to the Fund, after obtaining the approval of the board of directors according to the instructions given by the audit and management committee, part of the loan money was written off from the books through the financial statements of the year 2021.</p>	<p>The process of debt recovery should be implemented by top management in a formal and efficient manner. This loan, if any guaranties are involved, An immediate steps should be taken to recover from those guarantors or to recover identified recoverable debts.</p>

### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
<p>As per paragraph 5.2.5 of Public Enterprise Circular No. PED/12 dated 02 June 2003</p>	<p>Although the budget document approved by the Board of Directors must be submitted to the Auditor General, Secretary of Line</p>	<p>Due to the busy schedule of other members including the Honourable Prime Minister who is the Chairman of the Board</p>	<p>As per circular Budget document It should be prepared and submitted in due time.</p>

Ministries and the of directors of the fund.  
 General Treasury 15 It has not been possible  
 days before the to get the budget  
 commencement of the approved on time due  
 relevant year. to the difficulty in  
 The budget document organizing the meetings  
 of the fund for the year as required and other  
 2018, the Board of unavoidable reasons.  
 directors approved the However, I would like  
 budget on February 28, to state that every  
 2018, two months after possible effort will be  
 the beginning of the made to act in  
 year, but the approved accordance with Public  
 budget was not Enterprise Circular No.  
 submitted to the PED/12.  
 Auditor General.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review had been a surplus of Rs.1,917,023,340 as compared with the corresponding surplus of Rs.1,471,822,640 for the preceding year, thus observing a improvement of Rs.346,200,700 in the financial results. This improvement had mainly been attributed by the ticket revenue of Rs.424,174,415 Investment interest income increase by Rs. 66,170,964 and Other expenses decreased by Rs.118,032,784 in the year under review.

## 3. Operating Review

### 3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
Due to withdrawal of Fixed deposit of Account No. 78099850 on 25th June 2018, Which was scheduled to mature on 17th July 2018, therefore the interest income lost to the fund was Rs.3,235,370.	The arrival of foreign tourists, which is the fund's main source of income, is not uniform in every month of the year. Especially in the months of May and June, not enough money is collected even to cover the daily expenses including the payment of employee salaries. In such cases, the fixed deposits have to be withdrawn as per the cash requirement and the	Action should be taken to obtain the fixed deposit so that the fund does not incur losses.



deposit may be withdrawn before maturity. Further in such cases, the fund had maintained short-term fixed deposits with the objective of reducing the lost interest income as indicated by the audit observations.

The deposit numbered 78099850 is also a deposit that matures every three months, and if another deposit that matures in one year was not obtained, the lost interest income as shown by the audit observations could have increased.

Accordingly, the fund has worked to minimize the lost interest income.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Which are relating to the year under review of 25 journal vouchers worth Rs.327,730,795 were accounted for without obtaining approval.	Please note that necessary action will be taken to approve these journal vouchers.	After obtaining the prior approval for journal vouchers, the transactions should be accounted for and the attention of top management should be focused to create a formal internal control system.

### 3.3 Delays in Project Activities or Capital work

Audit Observation	Comments of the Management	Recommendation
In the year 2017, measurement fees of Rs. 50,000 had been paid for the measurement works of the land related to the construction of the Tissamaharamaya Museum. Due to the fact that the acquisition of	Due to its complicated situation, it was take a significant time period to settling the ownership of the proposed land for the construction of the	The tasks that need to be done in the first place have been done promptly and management should take steps to plan and execute the construction activities.

this land had not been completed, it was not possible to start the construction of the museum by the audit date of 10 March, 2023.

Tissamaharama Museum. Even now, those activities are being completed. However, I would like to kindly inform you that the work will be expedited.

### 3.4 Defects in Contract Administration

Audit Observation	Comments of the Management	Recommendation
Included in the work in progress account since 2016, Rs. 4,975,146 was paid for the construction of the National Model School (Replica School). Due to departure of architectural consultant, The contractor had abandoned the work since 2017.	Awarded contract for construction of National Model School (Replica School) building Construction work Stopped in the middle. Further I kindly inform you that we are taking the best possible measures to finish this construction work as soon as possible.	Actions should be taken to complete the construction work at the earliest.

## 4. Accountability and Good Governance

### 4.1 Submission of Financial Statements

Audit Observation	Comments of the Management	Recommendation
Although according to paragraph 6.5.1 of Public Enterprise Circular No. PED/12 dated June 02, 2003, the financial statements must be submitted to the Auditor General within 60 days of the end of the financial year, and the fund had submitted its financial statements for the year 2018 on 20 January 2023 after a delay of 05 years. Accordingly, the usefulness of these financial statements had also been compromised due to the failure of the fund to provide reports on a timely basis.	Since the director board of the fund consists of the Honourable Prime Minister of the Democratic Socialist Republic of Sri Lanka and other ministers, Due to the busyness of these members, it is not possible to organize the meetings as required and resignation of many officers assigned to prepare financial statements this year (including 4 Accounts Officers) and due to other unavoidable reasons could not be submitted to the Auditor General for audit within the prescribed period.	As per the circular, the financial statements must be submitted to the Auditor General on the due date.