

## **Head 206 – Department of Cultural Affairs**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Department of Cultural Affairs for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019, the statement of financial performance and cash flow statements for the year then ended, 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. The summary report including my comments and observations on the financial statements of the Department of Cultural Affairs was issued to the Accounting Officer on 23 June 2020 in terms of Sub - section 11 (1) of the National Audit Act, No. 19 of 2018. The Annual Detailed Management Audit Report of the Department of Cultural Affairs in terms of Sub-Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 02 October 2020. This report will be presented to Parliament in pursuance of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements prepared in terms of provisions of State Accounts Circular No.271/2019 of 03 December 2019 give a true and fair view of the financial position of the Department of Cultural Affairs as at 31 December 2019, and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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 opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and in terms of Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as the Chief Accounting Officer and the Accounting Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Department 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 Department.

In terms of Sub-section 38(1) (c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such system and accordingly make any alterations as required for such systems to be effectively carried out.

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

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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 summary 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with the Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 1.5 Report on Other Legal Requirements

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As required by Sub-section 6 (1) (d) and Section 38 of the National Audit Act, No.19 of 2018, I state the followings:

- (a) that the financial statements are consistent with the preceding year,
- (b) that the recommendations made by me on financial statements presented in the preceding year relating to observations included in paragraphs 1.6.1 (a) and 1.6.2 (a) in this report, had not been implemented.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliance of Financial Statements with Circular Provisions

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Even though financial statements should be prepared in terms of State Accounts Circular No. 271/2019 of 03 December 2019, deviations from those requirements are given below.

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Six buildings, 14 motor vehicles costing Rs.53,400,000 and 03 motor vehicles for which the value was not stated, owned by the Department as at 31 December 2018 had not been brought to account even by 31 December 2019.	In terms of paragraph 8.2 of the aforesaid Circular, all non-financial assets owned by the Department should be properly identified and should be accounted at cost or at assessment values.	The Chief Valuer of the Valuation Department has been notified on 12.06.2018 for obtaining a valuation report for the said Departmental motor vehicles. Accordingly, an officer from that department has made a visit and inspected the motor vehicles. However, the report on the said motor vehicles has not been received up to now.
(b) An Imprest Adjustment Account should be prepared for comparing the value to be settled to the Treasury, with the value according to the cash book. Even though a difference of Rs.77,591,654 existed between those values according to financial statements, an Imprest Adjustment Account had not been prepared.	An Imprest Adjustment Account should be prepared to compare the value to be settled to the Treasury or the value receivable from the Treasury, with the value to be settled to the Treasury according to the cash book.	It is informed that action will be taken to prepare an Imprest Account from the ensuing year.

### 1.6.2 Reconciliation Statement on Advances to Public Officers' Account

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The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Action had not been taken to make adjustments in the accounts by identifying the difference of Rs.444,761 brought forward since the year 2004, between the debit balance of the Advances to Public Officers' B Account and the debit balance according to the Treasury computer print outs as at 31 December 2019.	Action should be taken to make adjustments in the accounts by identifying the differences according to the Advances Control Account and the Treasury computer print outs.	As information required to find out the difference is not available in the sources belonging to the Department, attempts have been made to find out from Treasury computer print outs and from information relating thereto. However, it has been difficult to do so.
(b) Reasons for the difference of Rs.91,384 between the total of the summary of individual balances classification and the balance of the Departmental Control Account had not been given.	Reasons for the said difference should be given as mentioned in paragraph 05 of the State Accounts Circular No.256/2017 of 05 July 2017.	Necessary action will be taken once the difference is identified.

### 1.6.3 Lack of Evidence for Audit

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Department</b>
The schedules necessary for ratification of non-financial assets valued at Rs.19,750,744 purchased in the year under review, had not been made available to Audit.	All documents and information required for audit examinations should be made available without delay.	Action will be taken in future to submit necessary documents after your request is made.

#### 1.6.4 Responsibilities of the Accounting Officer

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Audit Observation -----	Recommendation -----	Comments of the Department -----
In terms of provisions in Section 38 of the National audit Act, No.19 of 2018, the Chief Accounting Officer and the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Further, the said reviews shall be in writing and a copy of the same shall be made available to the Auditor General. However, no statements had been made available to the Auditor General as to whether such reviews had been carried out.	Action should be taken in terms of provisions in Section 38 of the National Audit Act, No.19 of 2018.	Necessary action will be taken.

#### 1.6.5 Non-compliance with Laws, Rules and Regulations

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Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p style="text-align: center;"><b>Reference to Laws, Non-compliance Rules and Regulations</b></p> <p>-----</p> <p>Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 835 (2) (c) and (2) (e)</p>	An agreement had been entered into for hiring a building for a five year period from 16 March 2018 to 15 March 2023 without obtaining a valuation in terms of the Regulation.	Action should be taken in terms of Financial Regulations.
		Action will be taken to avoid such omissions.

## 2. Financial Review

### 2.1 Management of Expenditure

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Out of provisions amounting to Rs.374.7 million made for 26 Objects in the year under review, a total of Rs.81.4 million had not been utilized and the savings of those Objectives had been in a significant range between 6.5 per cent and 100 per cent, by the end of the year. Accordingly, the attention of the Department had not been drawn towards preparing the estimate of expenditure realistically.	The attention of the management should be drawn towards preparing the estimate of expenditure realistically.	It is informed that action will be taken to prepare the estimate of expenditure realistically.

### 2.2 Entering into Liabilities and Commitments

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
Liabilities had been entered into for Rs.40,563,969, exceeding the savings totalling Rs.16,087,077 after the utilization of net provisions made under 8 Objects.	Entering into liabilities exceeding approved net provisions, should be avoided.	It is informed that adequate provisions are available.

### 2.3 Operation of Bank Accounts

The following observations are made.

<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
(a) Even though the balance of the cash book was zero as at 31 December 2019, it had been indicated as Rs.2,000,000 according to the statement of financial position and the bank status report as at 31 December 2019.	The values indicated in financial statements should be consistent with the values in Forms relating thereto.	It has been so recorded due to a lapse.

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| <p>(b) According to the bank reconciliation statement as at 31 December 2019, there were 52 cheques valued at Rs.772,224 lapsed over 06 years but not presented to the bank. However, according to the, bank status report the value of cheques lapsed over 06 months not presented to the bank as at that date, had not been indicated.</p> | <p>The values indicated in financial statements should be consistent with the values in Forms and supporting documents relating thereto.</p> | <p>The total of cheques not presented to the bank should be recorded as Rs.772,224 and action will be taken to correct these errors in future.</p> |
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**2.4 Issuance and Settlement of Advances**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
<p>(a) Outstanding loan balances of Rs.143,234 recoverable as at 31 December 2019 from officers deceased, left the service and interdicted, are being brought forward over a period of 05 years and action had not been taken to recover those loan balances.</p>	<p>Action should be taken in terms of provisions in Section 04 of Chapter XXIV of the Establishments Code.</p>	<p>Steps will be taken in terms of the circular in future.</p>
<p>(b) Action had not been taken to recover the outstanding interest of Rs.41,130 on the balance of Distress loan amounting to Rs.139,900 from an officer who had been interdicted on 24 July 2012 and reinstated in the service.</p>	<p>Action should be taken to recover the loan installments and interest thereon accurately.</p>	<p>Action has been taken to recover the said loan interest.</p>

**3. Operating Review**  
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**3.1 Planning**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
<p>Even though an Action Plan had been prepared for the year 2019, the updated organizational structure, imprest requirement plan for annual activities and the internal audit plan had not been included therein.</p>	<p>The organizational structure of the Department updated relating to the relevant year, imprest requirement plan for</p>	<p>As an Internal Audit Unit is not established, there is no possibility of submitting an internal audit plan.</p>

annual activities and the internal audit plan should be included in the Action Plan in terms of paragraph 03 of the Public Finance Circular No.01/2014 of 14 February 2014.

**3.2 Non-achievement of expected Level of Output**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
The physical progress of 04 capital projects expected to be commenced and completed in the year under review had been at a weak level between 5 per cent and 20 per cent.	Action should be taken to achieve the expected progress of the targeted activities during the year.	The unfavourable weather condition prevailed, Easter attack and practical issues arisen in procurement activities had resulted in failure in achieving the expected activities as due.

**3.3 Other Observations**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Savings of 05 projects completed during the year amounting to Rs.14.48 million were observed and it was in the range between 2 per cent and 83 per cent of the estimate.	Overestimates should not be prepared.	Such a situation has arisen due to reasons such as taking action according to requirement, purchasing at the lowest cost, non-receipt of imprests as due and the Easter attack.



### 3.4 Uneconomic Transactions

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>The Department had incurred an expenditure of Rs.161,000 for publishing a notice on invitation for bids on 10 January 2017 in 03 national newspapers relating to obtaining of a building on lease basis for a few institutions functioning under the purview of the Department. However, as a period over one month had been taken to inform thereon to the accepted bidder, he has withdrawn from it. As such, the money spent for the newspaper advertisement had not been put to effective use.</p>	<p>Utilization of public monies should be economically and efficiently carried out and action should be taken to avoid expenditure of this nature.</p>	<p>While the process including calling for a valuation report relating to the building of the bidder accepted on the recommendations of the Technical Evaluation Committee after calling for quotations, was being carried out, the owner of the building had informed the Department by the letter dated 06.03.2017 that the said building could not be leased out.</p>

### 3.5 Management Weaknesses

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<b>Audit Observation</b>	<b>Recommendation</b>	<b>Comments of the Accounting Officer</b>
<p>Only the Encyclopedia Office, library and the disposed goods store with a staff consisting four persons have been located from 16 March 2018 to 31 December 2019 in the building obtained on rental basis for institutions functioning under the purview of the Department. The rental paid for the above mentioned period was Rs.4,256,226. Accordingly, it was observed in audit that the Department had not paid due attention for utilization of public monies economically and efficiently.</p>	<p>The Department should pay due attention to manage public monies economically and efficiently.</p>	<p>The Encyclopedia Office and its library under the purview of the Department of Cultural Affairs have been located presently in the said building. As attaching a Deputy Director has failed up to now, action has been taken to continue functioning the Mahawamsa Office, located in an office room reserved for a Deputy Director.</p>

**4. Good Governance**  
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**4.1 Internal Audit**  
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<b>Audit Observation</b> -----	<b>Recommendation</b> -----	<b>Comments of the Accounting Officer</b> -----
Even though a post of Internal Auditor has been approved since 28 July 2011, it has been vacant up to now.	In terms of Financial Regulation 133, an Internal Audit Unit should be established in departments and a permanent internal auditor should be appointed.	It is agreed with your recommendation.