

Sri Lanka Arts Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Lanka Arts Council for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report. In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of Sri Lanka Arts Council as at 31 December 2020, and its financial performance and 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Council'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 intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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.
- Evaluate the 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.
- 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 Council'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 Council to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements including 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 Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Medical Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council 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 “device and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are 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 is compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any difference.

1.5.2 Non- compliance with Sri Lanka Public Sector Accounting Standards

Non- compliance with reference to the relevant Standard	Comment of the Management	Recommendation
----- Reconciliation between the values of the Budget and the actual values and an explanation for the quantitative differences between those values had not been included in the financial	----- The relevant rectifications would be made after obtaining Accounting instructions.	----- Action should be taken in terms of the requirements of the Standard.

statements, in terms of the Paragraph 14 of the Sri Lanka Public Sector Accounting Standard 15.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
The deficit of the year under review had been overstated by that amount due to the Refundable Deposit amounting to Rs.1,380,015 made to Sri Jayawardanepura Municipal Council being brought to account as an expenditure.	The relevant rectifications would be made in the Financial Statements of the year 2021.	Action should be taken to make the rectifications.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not Available	Comment of the Management	Recommendation
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-----	Rs.	-----	-----	-----
(a) Stock of Publications	438,730	Survey and Estimates Reports	Necessary steps would be taken to carry out the Board of Survey of the year 2021 on the scheduled date.	Action should be taken to carry out and to present the reports as required.
(b) Advisory Council Meeting Minutes	-	Meeting Minutes including the Decisions made in the Meetings of 11 Advisory Councils and the Advices being given.	Action would be taken to obtain Advisory Council Meeting Reports from the Secretaries of the Panels and from the Assistant Secretaries.	Action should be taken to furnish the necessary information to the audit.

1.6 Non- compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non- compliance	Comment of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 381(1)	The approval of the Treasury had not been obtained for the opening of a Current Account.	Action would be taken to obtain the approval of the Treasury.	Action should be taken to obtain the approval of the Treasury.
(ii) Financial Regulation 756	The Board of Survey had not been carried out and the reports had not been furnished to the Auditor General.	The Board of Survey could not be carried out due to the delay in obtaining a premise for an Office and the Office Equipment being piled up in an intermediate location. Steps would be taken to carry out the Board of Survey for the year 2021, as required.	Action should be taken to carry out the Board of Survey and to submit the Board of Survey Reports.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003.			
(i) Section 4.2.6	Quarterly Performance Reports had not been presented to the Line Ministry and to the Ministry of Public Enterprises.	Action would be taken to present the relevant reports accurately.	Action should be taken to present the reports as required.
(ii) Section 5.2.5	The Budget for the year under review	It would be accurately presented,	Action should be taken to present the Budget

had not been in the future. accurately.
 presented to the
 Auditor General.

(c) Paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014. An Action Plan had not been prepared for the year under review. Steps would be taken to maintain the Action Plan accurately. Action would be taken to prepare the Action Plan annually.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.737,820 as against the corresponding surplus of Rs.1,917,377. As such, a deterioration of Rs.2,655,197 was observed in the financial result. The low receipt of provisions and the increase in the administrative and institutional expenditure had been the main reason for this deterioration.

3. Operational Review

3.1 Operating Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
Even though AUD 2100 remained payable for 03 years, AUD 700 each per year for the renewal of the membership of the International Federation of Arts Councils and Culture Agencies for the period from the year 2019 to the year 2021, AUD 2700 had been paid in this connection to the respective Institution. As such, AUD 600 or a sum of Rs.80,413 had been overpaid.	The membership fee of the years 2019- 2021 as per the Invoice sent by the Organization for the renewal of the membership for a period of 03 years from the year 2021 of the IFACCA International Arts Organization had been AUD 2700. Not paying attention to the fact included in the Letter referred with the Invoice that, the Membership Fee is increased only by AUD 100 per year is our mistake. The Executive Director of the Organization has stated relating to the discrepancy in that payment that, the increase of the membership fee mentioned in the	Action should be taken to recover the overpaid amount of Rs.80,413.

Letter is an error made by an Officer of their Office and that a Letter would be issued relating to that error at official level. It has been mentioned that the amount paid, as mentioned in the Invoice is accurate. As such, hereby, I kindly inform that an overpayment had not been made on any manner whatsoever.

3.2 Procurement Management

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>Agreements had not been entered into in entrusting contracts amounting to Rs.78,840 and Rs.981,218 respectively to a private company for the printing of 500 copies of the Art Magazine and for the printing of 27000 other Art Books. Here, 75 per cent of the contractual value or sums of Rs.59,130 and Rs.735,913 respectively had been paid as Advances contrary to the Procurement Guidelines 5.4.4 and Advance Securities had also not been obtained.</p>	<p>Necessary steps would be taken in the future to enter into Agreements properly and to obtain Advance Securities. Steps had been taken to make a payment of 75 per cent of Advance due to the fact that all the formats of all the publications being prepared and had been referred to our Institution for obtaining approval for the final publication by the date that the payment of the Advance is made.</p>	<p>Action should be taken in compliance with Procurement Guidelines.</p>

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation -----	Comment of the Management -----	Recommendation -----
<p>The financial statements for the year ended 31 December 2020 had been presented to the Auditor General on 30 March 2021 and the Draft Annual Report that should be presented alongside the financial statements as well, had not been presented to the audit.</p>	<p>It would be presented on the due date, in the future.</p>	<p>Action should be taken to present the reports on the due date.</p>