

Arts Council of Sri Lanka - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Arts Council of Sri Lanka for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and the notes in relation with 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 provisions in the 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 financial statements prepared give a true and fair view of the financial position of the Council as at 31 December 2021 and its financial performance and cash flow 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 appear 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 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 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 intend 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 to be prepared.

1.4 Audit Scope (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 skepticism 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded 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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated 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.

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 Council;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of 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.

Audit Observation	Comments of the Management	Recommendation
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The Journal vouchers and a journal had not been used to account for the settlement of advances which were provided for the Council Meetings and Executive Committee Meetings amounting to Rs. 2,102,104 on 17 occasions during the year under review.	The deficiency will be rectified from the year 2022 .	The organization required to “devise and maintain” a system of internal accounting control

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Standards	Comments of the Management	Recommendation
(a) Actions had not been taken to disclose the carrying amount of assets fully depreciated but still in use cost at Rs. 1,406,373 in terms of Section 92 (b) of Public Sector Accounting Standards of Sri Lanka 07 and to revalue the estimated error of the useful life of the assets and to adjust in the financial statements in terms of Sri Lanka Public Sector Accounting Standard No. 03 .	Actions are being taken to review the useful life of the assets and a Committee has been appointed for that. It will be possible to present the fair value of assets in the presentation of financial statements in 2022 .	Actions should be taken in accordance with the terms of the Standard.
(b) It had not included a reconciliation in between the budgeted values and actual values in the financial statements in terms of Paragraph 14 of Public Sector Accounting Standard No. 15 of Sri Lanka or explained the reasons for the quantitative differences between budgeted values and actual values.	Actions will be taken to present a reconciliation in between budgeted values and actual values in the financial statements in the presentation of financial statements for the year 2022 .	Actions should be taken in accordance with the terms of the Standard.

1.5.3 Accounting Policies

Audit Observation	Comments of the Management	Recommendation
<p>Although the government grant amounting to Rs.9,524,709 received during the year under review had been included in the income of the year, the accounting policy related to that had not been disclosed in accordance with Sri Lanka Public Sector Accounting Standard No. 03 . Further, a sum of Rs. 2,211,706 which had been repaid to the State Ministry of National Heritage, Performing Arts and Rural Art Promotion as the balance of provision receipts at the end of the year under review had been identified as an administrative expenditure.</p>	<p>Payment of excess money of the end of the year to the Consolidated Fund was commenced in 2021 . There was a total of excess money of preceding years amounting to Rs. 1,710,066 in the opening balance bank account of 2021 . As there was not only the balance of the receipts of provision of the year 2021, the excess money of the previous years also available in the value of Rs.2,211,701 shown as the closing cash balance of the year 2021, it has not been recorded in the provisions receipt account for the year. However, the error occurred in posting the accounts will be rectified .</p>	<p>Regarding the accounting of government grants, an accounting policy should be prepared and the government grants should be accounted accordingly.</p>

1.5.4 Lack of Written Evidence for Audit

Item	Amount Rs.	Audit evidences Unavailable	Comments of the Management	Recommendation
Stock of Publications	1,476,615	Due to failure to presentation of cost of 2 types of magazines with 511 copies and sale price of 1 type of publication with 2966 copies, it was impossible to ascertain the accuracy of the stock of publications shown in the financial statements as at 31 December 2021 .	The unit cost of Art Magazine relating to the year 2014 is submitted for audit. The publication of a Buddha Statue Sculpture is a religious service and was not done for sale. As it is distributed to leading temples on free, sale price has not been mentioned.	Arrangements should be made to submit the required information to the audit.

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

Reference to Laws, Rules and Regulations	Non- compliance	Comments of the Management	Recommendation
(a) Sri Lanka Arts Council Act No. 18 of 1952			
(i) Sections 7(a), 7(b) and 11(1)	The Board Members and Executive Committee Members were not formally appointed and the appointment letters had not been given.	Appointments have been given by the Line Ministry as per the direction of the Minister of Education, Cultural and Religious Affairs. There is no involvement of the Arts Council of Sri	Actions should be taken in accordance in terms of the Act.

			Lanka in making these appointments.	
(ii)	Section 1 (10)	Although a meeting of the Board had to be held once in every three months, only one meeting had been held for the year 2021.	The Health Guidelines had been issued not to hold public gatherings etc. due to the Corona epidemic 2021. As a result of the large number of people participating in the Meeting of Art Council, the meetings could not be held. Arrangements will be made to hold meetings as scheduled.	Actions should be taken in accordance in terms of the Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulation 135	The Board had not delegated financial authorities for the year 2021.	The Arts Council of Sri Lanka has been operating in accordance with the authorities assigned to the Executive Council by the Sri Lanka Arts Council Act. Steps will be taken in future to delegate financial authorities currently in consultation with the State Ministry.	Financial authorities should be delegated as per the Financial Regulation .
(ii)	Financial Regulation 445	A personnel payroll had not	A register containing all the	Actions should be taken to maintain a

- (1) been maintained. details of personnel payroll. personnel salaries is maintained and arrangements will be made in future to maintain a personnel payroll in terms of Financial Regulation 445(1).
- (c) **Public Enterprises Circular No. PED/12 dated 02 June 2003**
- (i) Paragraph 5.2.5 The Budget for the year 2021 approved by the Board of Directors had not been furnished to Auditor General. The Budget of the year 2021 has been submitted to the Treasury through the Ministry and the Budget will be submitted to the Auditor General from the year 2022. Actions should be taken to furnish the Budget to Auditor General.
- (ii) Paragraph 4.2.6 Quarterly performance reports had not been submitted to the Line Ministry and the Department of Public Enterprises. It has been arranged to be done from the year 2022. Actions should be taken to submit reports as scheduled.
- (d) Treasury Circular No. 842 dated 19 December 1978 A Register of Fixed Assets had not been maintained. It has been commenced to enter the details in the General Format 287, Register of Assets. Actions should be taken to maintain the records.
- (e) Paragraph 2 (vii) of Management Services Circular No. 02/2020 dated 26 October 2020 An employee was recruited on contract basis on 11 December 2012 for the post of Accounts Clerk which was not a approved post of Accounts Clerk in the Department of Cultural Affairs and retired. Being Actions were taken in the year 2012 to recruit an officer who worked as an Accounts Clerk in the Department of Cultural Affairs and retired. Being Actions should be taken to get approved the post.

the Council and the service was being extended annually without obtaining the service segmentation. The allowances of Rs.370,000 had been paid to this officer for the year 2021.

a well experienced senior officer had caused to annually extend the service continuously since 2012 on contract basis.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs. 3,176,242 and the corresponding deficit of the preceding year was Rs. 737,820. Accordingly, a deterioration of Rs. 2,438,422 was observed in the financial result. The increase of administrative and institutional expenses by Rs. 3,791,240 had mainly attributed for this deterioration.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Necessary steps had not been taken to revise the Sri Lanka Arts Council Act No.18 of 1952 considering the changes and needs that have occurred in the field from time to time.	Actions have been taken to amend the Act to resolve the existing problems in the Sri Lanka Arts Council Act. A draft report including the points to be amended has been prepared and submitted to the Ministry. Actions will be taken to make requests from the current Secretary once again.	Necessary steps should be taken to amend the Act.
(b) Due to the fact that the function, role and	Although the Executive Committee of the Arts	Amendments should be made to the Act

responsibility of advisory councils had not been clearly mentioned in the Act, the informal instances such as non-representation of the Council for the meetings of the 11 advisory councils of the Council, officers of the Department of Cultural Affairs having participated in it, failure to submit the reports of the advisory council meetings to the Council, failure to submit the decisions taken in the meetings and the progress of the implementation of the decisions to the Council and failure to obtain the approval for the competitions held in the Council were observed . Further, because of the Act does not specify the minimum and maximum number of members to be in an advisory council there were members in between 10 and 14 in an advisory council and due to the fact that the provisions related to holding advisory council meetings were not mentioned in the Act, the number of advisory council meetings held in the year 2021 had remained in between 0 and 7.

Council of Sri Lanka has been notified to inform about the functioning of the advisory councils, those advisory councils are working in collaboration with the Department of Cultural Affairs in contrary to the advices. The issues regarding the functions of sub-committees have been reported to the Minister-in -charge. He had requested to take over the Arts Council of Sri Lanka also to the Ministry of Buddhasasana, Cultural and Religious Affairs to facilitate the functioning of these institutions. Although the Line Ministry and the Minister have been informed about the existing problems, answers have not been received since the advisory councils are currently acting in contrary to the instructions of the Arts Council.

considering the requirements.