

## **Central Cultural Fund - 2012**

### **01. Financial Statements**

#### **1:1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the Central Cultural Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **1:2 Comments on Financial Statements**

##### **1:2:1 Sri Lanka Public Sector Accounting Standards (SLPSAS)**

According to paragraph 106 of the Sri Lanka Public Sector Accounting Standard No. 01, a separate disclosure should be made in the financial performance statement whenever an expenditure item is material. However, excavation and conservation expenses, ticket printing expenses and fuel and lubricants expenses amounting to Rs.318,880,051, Rs.56,299,899 and Rs.27,825,804 respectively had not been separately disclosed in the financial statements.

##### **1:2:2 Accounting Deficiencies**

The following deficiencies were observed.

- (a) The value of land at Nugagahawatta, Galle purchased for constructing the Tsunami Museum had not been assessed and brought to account. It's value was Rs.2,558,000 at the time of purchase in 2005.
- (b) A sum of Rs.5,067,106 incurred as taxes and warehouse charges only had been capitalized as value of the vehicle imported in 2009 from the Japanese aid received for improving the tourist activities of the Sigiriya Project. According to the register of vehicles, its value had been shown as Rs.8,500,000. Action had not been taken to compute the fair value of the vehicle and brought to accounts.
- (c) Twenty one vehicles had been obtained as foreign aid grants from 1984 to 2004. Of these, the insured value of 15 vehicles amounted to Rs.5,823,900. Action had not been taken up to end of the year under review to capitalize the fair value of these vehicles.

- (d) Action had not been taken to determine the fair value and accounted the correct amount of furniture and fittings and equipment costing Rs.102,397,951 which continued to exist since 1982, although they had been fully depreciated by now.
- (e) Out of the 117 vehicles belonging to the Fund as at end of the year under review, 98 vehicles had been fully depreciated by 31 December 2011. Of these 98 vehicles, 34 vehicles had been revalued and brought to account in 2012. But, action had not been taken to revalue 64 vehicles costing Rs.15,512,727 and brought to accounts.
- (f) A sum of Rs.1,250,000 had been included in the accounts as revalued amount of a cab. However, the cab had not been included in the assessment reports.
- (g) A sum of Rs.4,548,648 paid to renovate the internal access road of the Polonnaruwa Sacred City by spreading cemented concrete paving blocks during the year under review had been capitalized under buildings instead of being shown under conservation expenditure. Accordingly, the value of property, plant and equipment shown in the financial statements had been overstated by similar amount.
- (h) The expenditure incurred during the year on behalf of 2 construction contracts which had not been completed as at 31 December 2012 amounted to Rs.414,149 and Rs.139,686. This had not been accounted for, as work in progress. Instead, this had been capitalized by debiting the relevant asset account.
- (i) Surcharge amounting to Rs.3,731,926 had been paid for delay in remitting Employees' Provident Fund contributions in 2009 and a sum of Rs.1,782,000 had been paid to the Attorney General's Department on behalf of the year 2011 and 12 prior years. However, provision had not been made for these during those years. Instead, these had been written off as expenditure of the year under review thus understating the surplus of the year by Rs.5,513,926.
- (j) The balance of Rs.71,766 in the suspense account which continued to exist for over 5 years had been included in sundry debtors and accounted for, instead of being shown in a suspense account.

1:2:3 Accounts Receivable

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The following observations are made.

- (a) The combined loan balances of Rs.720,663 due from 24 permanent employees for over 5 years and the balances of distress loans amounting to Rs.366,721 granted to labourers not belonging to the permanent staff existing for over 5 years remained recoverable as at 31 December 2012.
- (b) The balances of festival and special advances amounting to Rs.1,289,871 which had been included in the balances of accounts receivable under current assets existing for over 5 years continued to be shown in the accounts without being recovered even as at 31 December 2012.
- (c) Advances amounting to Rs.504,465 given to the head office and the office of the Sigiriya Project remained unsettled for over 2 years. Meanwhile, the courts deposits of Rs.44,534 existing for over 7 years too had been shown as balances receivable under non-current assets.
- (d) The debtors balance of Rs.526,610 remaining recoverable for over 5 years continued to be shown under current assets as at end of the current year.

1:2:4 Evidence not presented for Audit

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The following items of accounts could not be satisfactorily vouched in audit due to non rendition of evidence indicated against each item.

Item	Value	Evidence not Furnished
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	Rs.	
Special Fund Balance	5,797,169	Evidence to confirm the correctness of value relating to 7 Special Fund Balances.
Current Assets- Sundry Debtors	1,060,752	Detailed Schedule relating to Debtors belonging to a period of 2 to 5 years.
Non Current Assets - Project Office Advances	4,604,220	Detailed Schedules.

Arrears of Employees' Loans	2,377,255	Age Analysis
- do -	1,289,871	Detailed Schedules

1:2:5 Non-compliance with Laws, Rules and Regulations

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The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Financial Regulations	
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372(2)	Ad hoc Sub - imprests should be settled immediately after completion of the work concerned. However, it had been taken 2 to 8 months to settle the imprest totalling Rs. 593,040 obtained by 10 officers in 12 instances.
685	An agreement had been entered into with a film producer for a contract of Rs.4,701,000 without being followed the tender procedure, to produce a documentary film covering shrines at Anuradhapura, Polonnaruwa and Sigiriya.
(b) Procurement Guidelines	
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5.3.1(d)	During the year 2012, 34 computers and 17 computer UPS valued at Rs.2,898,313 had been purchased. While doing so, all documents prepared for calling for bids to purchase should have been examined and approved by the Technical Evaluation Committee and the Procurement Committee. However, these had not been done.

5.3.1(d) and 6.3.6

A sum of Rs.675,000 had been spent to purchase 20 teak almyrahs to keep library books. During the course of purchase, the documents calling for bids had not been examined and approved by the Technical Evaluation Committee. Meanwhile, the activities relating to opening of bids had not been reported in the form specified.

1:2:6 Transactions without Adequate Authority

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- (a) According to Section 7 of the Central Cultural Fund Act, No. 57 of 1980, the Secretary to the Ministry of Culture and Arts becomes the Chief Administrative Officer of the Fund by virtue of his office. Provision had not been made in the Act to pay allowances for the post. However, the Fund had paid 33 1/3 per cent of his salary, that is, Rs.20,113 monthly to the Secretary as allowances. In this connection, approval had not been obtained from the Director of Establishments and the Treasury in terms of Section 1.2 of Chapter IX of the Establishments Code and the Public Finance Circular No. 374 dated 04 May 1999.
- (b) An amount totalled to Rs.1,791,507 consisting of 9 miscellaneous deposits balances totalling Rs.152,252, balances of 3 salary advances totalling Rs.24,616, balances of 3 lapsed advances totalling Rs.141,791 and 8 cash frauds valued at Rs.1,472,848 which continued to be brought forward for many years as balances receivable had been written off as bad debts in the accounts for the year under review without the approval of the Treasury.
- (c) A sum of Rs.600,000 had been spent in 2012 to provide a monthly fuel allowance of Rs.50,000 to the Minister of Culture and the Arts.
- (d) A sum of Rs.177,130 had been spent during the year 2012 to purchase furniture to the official residence of the Minister of Culture and the Arts.

**02. Financial Review**

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**2:1 Financial Results**

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The operations of the Fund for the year under review had resulted in a surplus of Rs.227,294,733 according to the financial statements as compared with the surplus of Rs.235,009,985 of the previous year showing a decrease of Rs.7,715,252 in financial results. The income from sale of tourist tickets and the income from investments had increased by Rs.321,556,476 and Rs.25,383,472 respectively compared with those of the previous year while the operating expenses of the Fund had increased by Rs.352,590,118, causing a decrease in financial results.

**2:2 Analytical Financial Review**

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- (a) During the year under review, the increase in expenditure of supplies and consumer materials amounted to Rs.114.9 million or 164.7 per cent as compared with the previous year and the increase in other expenditure amounted to Rs.71.06 million or 138.9 per cent as compared with the previous year. Meanwhile, the increase in expenditure of salaries and wages amounted to Rs.156.7 million or 26 per cent as compared with the previous year. Due to these reasons, a decrease of 3.28 per cent in financial results was observed.
  
- (b) A sum of Rs.56,299,899 had been spent to print tourist tickets during the year under review. The increase in expenditure was 2291 per cent as compared with the previous year.

### 03. Operating Review

#### 3:1 Performance

The following observations are made.

- (a) The following activities targeted to be implemented by the Fund in 2012 had not been commenced during the year under review.

Details	Target		Actual Performance	
	Worksites	Units	Worksites %	Units %
Excavation	08	2,856	Not commenced	
Conservation	14	4,362	- do -	
Urgent Conservation work of the Museum, Kataragama	--	145	- do -	

- (b) The following excavation and conservation work were targeted to be implemented by the Fund in 2012. Of these 71 per cent of the expected target had been fulfilled by end of the year under review.

Details	Target		Actual Performance			
	Worksites	Units	Worksites %	Units %	Worksites	Units
Excavation	82	193521	42	18	137893	71
Conservation	151					

- (c) The above excavation and conservation work had been delayed due to reasons such as priority given for urgent conservation activities, dearth of research officers, conservation inspection officers and labourers, delay in tender decisions, dearth of resources and heavy rain.

### **3:2 Management Inefficiencies**

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The following observations are made.

- (a) Action had not been taken even by end of the year under review to auction 4 vehicles which had been recommended for non usage in 2011 and 2012.
- (b) The contract work for repairs to “Adithya” Home at Polonnaruwa in order to use it as a circuit bungalow had been entrusted to an institution for Rs.7,289,264. However, the repairs were not upto the standard. A final payment of Rs.1,926,514 had been made to the contractor on 24 October 2012 without taking action to get the shortcomings attended to, by the contractor.
- (c) The Director General of the Central Cultural Fund had informed the officers that a new tourist ticket had been introduced for foreigners with reference to Polonnaruwa, Anuradhapura and Sigiriya Projects since 01 January 2012. Action had not been taken according to the instructions. Instead, the old foreign tourist round tickets had been further printed and 2994 tickets had been sold after 01 January 2012. As a result, a loss of Rs.10,329,300 had occurred by selling the round tickets which were lesser in prices than the new tickets. Action had not been taken against the responsible officers.

### **3:3 Operating Inefficiencies**

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The following observations are made.

- (a) Many Archeological items found during excavation such as 517 archaeological items of 18 categories kept at the Abhayagiriya Museum and 218 of goods and pieces of gold, silver, bronze, crystal, gem and other alloys kept in Project Office safes as special archaeological items of the Abhayagiriya Project remained without being verified and recorded in registers even as at 31 December 2012.
- (b) Nearly 424 gold and other jewellery items given as offerings to the Ven. “Kapilvasthu Sarvagnna Dhathu” arrived in the island in 1978 and subsequently handed over to the Central Cultural Fund, nearly 294 gold and other jewellery and goods meant for treasure, 42 items of jewellery and goods for museum and 42 items of pooja materials had not been verified, values computed and entered in registers.



- (c) Two thousand eighty five local tiles, 3,725 Adakava tiles, 2,175 screws and 133 hinges had been retained at the Abeygiriya Project Premises for a long time as surplus stock.
- (d) Iron tubes, couplings, planks, 500w Helagen Lamps and other stores materials removed from the Abayagiriya Stupa Project had been issued to project officers and outsiders for their private usage without proper permission. Action had not been taken against the officers who issued them and the officers who had not returned the items they received.
- (e) A sum of Rs.4.5 million had been obtained under the Project of Culture Oriented Tourism Promotion in Sigiriya for supply of resting facilities to visitors had not been accounted for, as special fund. Instead, it had been treated as income under government grant.

### **3:4 Transactions of Contentious Nature**

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The following observations are made.

#### (a) Construction of the Head Office Building

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- (i) The Fund has no legal entitlement for the land where the head office of the Central Cultural Fund functions at present. Quotations had been called for, in the year 2012 to purchase a land for the purpose and a committee had been appointed accordingly. In spite of this, permanent repairs and new constructions at a gross estimated value of Rs.9,641,843 had been commenced. The amount spent as at 31 December 2012 in this connection amounted to Rs.4,420,370.
- (ii) An initial study of the repairs or the constructions to be done had not been done in order to identify the needs. A gross expenditure estimate for above construction commenced had been prepared one year after commencement of the construction.
- (iii) Direct purchases totalling Rs.4,420,370 had been made considering them as urgent needs, contravening the provisions in 3.8 of the Procurement Guidelines.

- (iv) Approval of the Board of Governors had not been obtained for the total cost estimate and the construction concerned had not been supervised by any technical officer.

(b) Obtaining Employees

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The Fund had entered into an agreement with a company on 31 May 2012 to obtain employees without the approval of the Board of Governors. A sum of Rs.32,388,000 had been paid to that company for the 26,990 man days of work obtained in June, July, August and September 2012. The following observations are made in this connection.

- (i) The company concerned was not a company registered to supply of employees and the employees supplied were not employees of the company.
- (ii) These employees had been obtained stating that the activities pertaining to the Wayamba Cultural Quadrangle has to be intensified. However, they had been employed at the head office of the Central Cultural Fund and other service centres. Further, there was no estimate regarding the number of labourers needed.
- (iii) According to the Cabinet Memorandum relating to the establishment of that company and the approval of the Cabinet of Ministers concerned, the objective of the company was to make use of the employees of the Central Cultural Fund and their salaries should be incurred by the company. However, the above transactions had been done contravening the said objective
- (iv) The Fund had paid Rs.1,200 to the firm for a man day's work for employees obtained from that firm for activities connected with the Wayamba Cultural Quadrangle. However, the company had paid Rs.700 per day to those employees. The Fund had entered into an agreement with that firm so as to allow the firm, to earn an income of Rs.500 for a man day's work. As a result, the firm had been allowed to earn an income of Rs.13,495,000 for the 26990 man days of work obtained from June to September 2012.

(c) Other Cultural Activities  
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The amount spent for other cultural activities under other expenses during the year was Rs.32,915,635. However, norms and annual plans had not been prepared in order to specifically identify the results of the expenditure incurred.

(d) Documentary Film named “Ape Abhimanaya”  
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Action had been taken to produce 3 documentary films named “Ape Abhimanaya” encircling Anuradhapura, Polonnaruwa and Sigiriya as per agreement entered into Rs. 5,191,150 in the year 2011 with the objective of showing them to the tourists who visits the Central Cultural Fund Projects. However, those films had not been presented or telecast for the public view up to the end of December 2012.

However, an agreement had again been entered into with the initial producer on 21 December 2012 for Rs.2,536,000 to produce 3 such documentary films.

(e) Purchase of Air Tickets  
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The Fund had spent Rs.1,187,200 to purchase air tickets for the Italy tour of 4 persons including the Minister of Culture and the Arts on reimbursement basis from the Cultural Ministry. This amount had not been reimbursed by the said Ministry even by 30 September 2013 and had been written off as an expenditure of the year. The cheque for their air tickets had not been drawn in favour of the airline concerned, but, was in favour of another firm.

**3:5 Apparent Irregularities**  
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The following observations are made.

The contract for improving the internal access road of the Polonnaruwa Sacred City for a distance of 1 km had been awarded to a construction firm in 2012 under direct procurement basis at a cost of Rs.38,709,100. The following irregularities were observed in this connection

- (a) The government audit branch and the internal audit branch of the Ministry of Culture and Arts had confirmed that the concrete paving blocks used for construction work were not of the required standards. A sum of Rs.22,099,917 had been paid for those paving blocks which were not of the required standard.
- (b) At the physical verification of audit revealed that a sum of Rs.4,660,998 had been paid for work not done with regard to items 1,2 and 5 of the Bill of Quantities.
- (c) ABC layer and Quarry Dust Mixture used before laying bricks were found to be less by 40 and 50 per cent respectively. As a result, the road surface was uneven and sunk in several places.

### **3:6 Identified Losses**

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The Fund had not taken action to recover the money before cancellation of advance bond and the performance bond due to the failure of the institutions to act in accordance with the agreement. As a result, the payment of Rs.325,000 made in 2000 and the payment of Rs.1,382,055 made in 2001 to 2 firms both totalling Rs.1,707,055 continued to be shown as unsettled advances in the financial statements.

According to the judgment given on 30 June 2011 regarding the case filed for recovery of Rs.1,382,055 from one firm, the firm was ordered to pay Rs.4,472,150 to the Fund. However, the amount concerned had not been recovered even by 31 December 2012.

### **3:7 Resources of the Fund given to other Institutions**

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According to the Public Enterprises Circular No. 116 of 24 January 1997, other resources including financial resources of a Public Enterprise should not be given for usage of the Line Ministry. However, 9 officers of the Central Cultural Fund released to the Ministry of Culture and Arts in 1989, 2000, 2001, 2005, 2009 and 2011 continued to be employed in the Ministry in the year 2012 too and a gross salary totalling Rs.2,694,912 had been paid to them by the Fund in 2012. Meanwhile, 2 vehicles of the Fund had been released to the usage of the Minister of Culture and Arts with drivers and fuel during the period of 01 to 15 October 2012.

### **3:8 Staff Administration**

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The following observations are made.

- (a) The post of labourers of the approved cadre as at 31 December 2012 was 322. However, there were 811 labourers in the permanent cadre as at 31 December 2012. Meanwhile, 315 labourers had been recruited on casual and temporary basis. In addition, 450 labourers had been employed from a company during the year 2012.

The required number of labourers according to the needs of the Fund had not been included in the cadre and forwarded to the Department of Management Services together with the recommendation of the Salaries and Cadre Commission for approval even by 31 December 2012.

- (b) Vacancies in senior posts of the Fund had not been filled. As a result, acting appointments had been made for those posts. Fourteen officers who functioned in acting capacities for 1 to 3 years continued to carry out those duties even by 31 December 2012. A sum of Rs.632,090 had been paid to them as acting pay during 2012.

### **3:9 Vehicle Utilization**

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The following observations are made.

- (a) A jeep belonging to the Ministry of Culture had been used by the Central Cultural Fund since 2005. However, action had not been taken to properly acquire it, even by 31 December 2012.

- (c) A double cab purchased for Rs.7,900,000 on 31 May 2012 had been given to the vehicle fleet of the Minister. However, it had not been properly handed over. Further, the prior approval of the Ministry of Finance and Planning had not been obtained for this in terms of Paragraph 3.3 of the letter No. CA/1/17/1 dated 14 May 2010 issued by the Secretary to the President with reference to Public Expenditure Management. Meanwhile, running charts and monthly summaries had not been maintained for this vehicle.

## **04. Accountability and Good Governance**

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### **4:1 Presentation of Financial Statements**

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The financial statements had been presented to the Auditor General on 13 May 2013. However, the prior approval of the Board of Governors had not been obtained for the financial statements. The Board of Governors should accept the responsibility for financial statements and approve it. However, such action had not been taken.

### **4:2 Procurement Plan**

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According to the National Budget Circular No. 128 of 24 March 2006, state institutions should prepare procurement plans according to their annual procurement needs and should commence purchases on priority basis. However, it had not been done so during 2012.

### **4:3 Budgetary Control**

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While comparing the revised budget prepared by the Fund for the year 2012 and the financial statements for the year 2012 with the actual income and expenditure, variances ranging from 20 to 329 per cent were observed in one item of income and 36 items of expenditure showing that the budget had not been utilized as an effective instrument of financial control.

## **05. Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Director General of the Fund from time to time. Special attention should be drawn to the following areas of systems and controls.

- (i) Accounting
- (ii) Contract Administration
- (iii) Vehicle Administration
- (iv) Printing of Tourists Tickets and Stock Control
- (v) Procurement
- (vi) Personnel Administration

