

J.R.Jayawardene Historical Research, Archives and Library Centre - 2014

The audit of financial statements of the J.R.Jayawardene Historical Research, Archives and Library Centre for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and the summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No 38 of 1971 and Section 7(2) of the J.R.Jayawardene Centre Act, No.77 of 1988. My comments and observations which I consider should be published with the Annual Report of the Centre in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Responsibility of the Management for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Centre's preparation and fair presentation of the financial statements 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 Centre's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and(4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraphs 2.2 of this report.

2. Financial Statements

2.1. Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the J.R.Jayawardene Historical Research, Archives and Library Centre as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Even though it was stated in the accounting policies that depreciation at 10 per cent is made for computers, when considering the effective life time of the asset, the realistic nature of depreciation rate was questionable in audit.

2.2.2 Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

(a) **Sri Lanka Public Sector Accounting Standard - 2**

The cash flow statement had not been prepared in line with the standard showing the cash inflows and outflows during the year, while the petty cash balance which should be considered as cash and cash equivalents had been shown as investment activities.

(b) **Sri Lanka Public Sector Accounting Standard - 7**

Even though assets should be systematically depreciated over its useful life from the time when the fixed asset is ready for use, contrary to it, the accounts had been prepared without depreciating from the year of purchase of assets. As such, depreciation totalling Rs.253,559 pertaining to the assets purchased during the year had been understated.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the building for Labourers' Rest Room costing Rs. 469,288 was demolished and a new building had been constructed, action had not been taken to exclude the cost of old building. Further, a sum of Rs.26,693 had been depreciated thereon during the year under review.
- (b) As the values of lands and buildings had not been separately identified and brought to account, provision for depreciation at a rate of 5 per cent had been made even in respect of the land not subjected to depreciation.
- (c) An investment of Rs.5 million had been made in a private company affiliated to the Center in the year 2008 and subsequently that company was closed down and a sum of Rs.700,000 had been reimbursed in respect of the investments of the Center. Even though it was shown that the above investment is not realized further, action had not been taken to make an adequate provision thereto or disclose in the accounts.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to pay the audit fees totalling Rs.396,471 payable by the Center since the year 2011.
- (b) Action had not been taken by the end of the year under review to recover the rent totalling Rs.2,063,697 receivable since the year 2013.

2.4 Non - compliance with the Laws, Rules and Regulations and Management Decisions

The following non- compliances were observed.

| Reference to Laws, Rules, Regulations etc. | Non-compliance |
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| ----- | ----- |
| (a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u> | |
| (i) Financial Regulation 371 | Advances totalling Rs. three million, exceeding the ad hoc Sub-impresst limit of Rs.20,000 in each case had been granted to two non-staff grade officers from time to time during the year under review. Further, instances were observed where several advances had been granted to the same person on a same day before settling the previous advance. |
| (ii) Financial Regulation 396(d) | Action in terms of financial regulations had not been taken with regard to a cheque valued at Rs.45,800 issued but not presented for payment over six months. |

- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka
Chapter XIX Section 5.8
- Even though the officer occupied in the quarters should pay the water and electricity charges of the quarters, a sum of Rs.58,776 had been paid by the Center in respect of supply water and electricity for the quarters from January to December 2014.
- (c) Treasury Circulars
- (i) Circular No.842 of 19 December 1978
- A Register of Fixed Assets had not been maintained by the Centre in terms of the Circular.
- (ii) Circular No.IAI/2002/02 of 28 November 2002
- A separate register for computers valued at Rs.1,119,142 had not been maintained.
- (d) Public Enterprises Circular No.PED/45 of 02 October 2007
- The Board of Directors had not approved the financial statements while the statement of responsibility of preparing accounts had also not been included in the financial statements.
- (e) Public Administration Circular No. 13/2008 of 26 June 2008
- A sum of Rs.28,685 had been granted to the Secretary General of the Centre for additional fuel during the year 2014. Further, a register for additional fuel had not been maintained and a proper approval in this connection had also not been obtained.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Centre for the year ended 31 December 2014 had resulted in a deficit of Rs.5,585,849 as against the surplus of Rs. 7,523,410 for the preceding year, thus indicating a deterioration in the financial results by Rs.13,109,259. A decrease in building rental income and fixed deposit interest income by Rs.3,383,388 and Rs. 7,691,827 respectively and the increase in the expenditure on personal emoluments and supplies and requisits by Rs.2,901,443 and Rs.1,358,369 respectively had mainly attributed to this situation.

4. Operating Review

4.1 Transactions of Contentious Nature

The following transactions had been entered into without a proper approval of the Board of Governors.

- (a) A payment of Rs.100,000 had been made during the year under review in respect of one page of a souvenir for sponsoring a drama show.
- (b) As four fixed deposits totalling Rs.21,500,000 had been encashed before the maturity, a sum of Rs.233,801 brought to account as interest receivable had been deprived of to the Centre.
- (c) An expenditure of Rs.11,868,979 had been incurred during the year under review in respect of a three storeyed building of 1000 square feet in extent being constructed extraneous to the original plan.
- (d) A payment of Rs.2,295,703 had been made to a consultant not properly appointed for the construction work of the new building during the year 2014. It was further observed in audit that 19 per cent of the expenditure incurred on that building during the year had been the payments made to this consultant.

4.2 Management Inefficiencies

The following observations are made.

- (a) The Budget, Procurement Plan, and the Action Plan prepared for the year 2014 had not been approved by the Board of Governors.
- (b) Even though a Bill of Quantity (BOQ) for the land had been prepared at a cost of Rs.599,075 on 27 August 2014, action had not been taken to identify the lands and buildings separately by the end of the year under review.

4.3 Identified Losses

An expenditure of Rs.3,812,072 had been incurred during the year under review in respect of the canteen maintained by the Centre whereas the income earned amounted to Rs.1,950,632. As such, it was observed in audit that a loss of Rs.1,861,440 had been sustained by the Centre due to maintaining the canteen.

4.4 Personnel Administration

Even though it was informed that a proper scheme of recruitment should be existed in terms of Paragraph 9.3.1 of the Circular No.PED/12 of 02 June 2003, an approval for the scheme of recruitment of employees had not been obtained by the Centre.

5. Accountability and Good Governance

5.1 Budgetary control

The budget presented for audit had not been prepared in terms of the format in Paragraph 5.2. of the Circular No. PED/12 dated 02 June 2003 and the variances ranging from 34 per cent to 668 percent between the actual and budgeted expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of financial control.

5.2 Tabling of Annual Reports

Annual reports of the Centre had not been tabled in Parliament after the year 2011.

6. Systems and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Secretary General from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Cash and Banks
- (c) Internal Control