

## National Book Development Council of Sri Lanka - 2011

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### 1. Financial Statements

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#### 1:1 Qualified Opinion

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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 financial position of the National Book Development Council of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### 1:2 Comments on Financial Statements

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##### 1.2.1 Sri Lanka Accounting Policies

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(a) It was decided at the meeting of the Cabinet of Ministers held on 14 January 2012 subsequent to the meeting of the Committee on Public Enterprises held on 26 August 2011 to eliminate the National Book Development Council which was functioned under the Ministry of Education. Any accounting policies taken as basis for preparing financial statements including the decision for elimination of the Council had not been disclosed with the financial statements.

(b) Although the closing stock of books should have been accounted at purchase price or net realisable value whichever is less, the stock of books of the Children's Project marketed under 20 per cent and 50 per cent discounts from the purchase price and stock of books of "Sanhitha" I and II marketed under 9 per cent discount from the cost had been accounted at the cost of Rs.5,442,866.

##### 1.2.2 Accounting Deficiencies

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The following deficiencies were observed.

(a) Although purchasing, printing and marketing of books are major operational activities of the Council, improper adjustments had been made between the ledger accounts for purchasing

and selling of books and computed the annual financial results without reconciling the cost of books marketed with the sales income and disclosing in the financial statements.

- (b) Although improvement of office premises and purchase of furniture had been made by spending Rs.3,126,393 in the months of June and August of the year under review, provision for depreciation had not been made in this regard.

### 1.2.3 Unreconciled Control Accounts

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According to the accounts the balance of the stock of books such as “ Books approved by the Book Advisory Board”, “Sanhitha Project II”, Internal Library Directory” and “Project of Forest” shown in the financial statements amounted to Rs.233,812 and the balance according to the Register of Stocks amounted to Rs.450,414 whereas these balances of 05 accounts of other stock of books amounted to Rs.338,754 and Rs.253,192 respectively. Accordingly, it could not be assured in audit that these balances are accurate due to non reconciliation of these balances.

### 1.2.4 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken so far to settle the balances of advances amounting to Rs.166,005 granted to outside parties during the period from 1987 to 1997.
- (b) Action had not been taken to identify and settle two balances of liabilities amounting to Rs.2,876,614 appeared in the Balance Sheet which were brought forward prior to the year 1986 without any change.
- (c) Action had not been taken to recover the balance of Rs.18,521 remained in the interest receivable accounts brought forward from the previous year relating to the fixed deposit of Rs.200,000 in the Bank of Ceylon.

### 1.2.5 Lack of Evidence for Audit

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Stock of other books including “Children Book Project “ , “Printed Copies Project” valued at Rs.9,092,361 shown in the financial statements could not be satisfactorily vouched in audit due to lack of physical verification reports and schedules.

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

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The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Public Enterprises Circular No. PED 25 of 29 July 2004	Approval of the Minister in charge of the Ministry and the Minister of Finance had not been obtained for investment of opening balance of the fixed deposit for the year amounting to Rs.7,479,886.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  F.R. 104 (1)	Three thousand five hundred and ninety five damaged books valued at Rs.307,380 had been subjected to dilapidation for several years whereas the entire amount had been written off from the revenue without taking action to conduct inquiries in this regard and recover from the responsible person.

2. Financial Review

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2.1 Financial Results

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According to the financial statements presented, the operations of the Council for the year 2011 had resulted in a deficit of Rs.321,381 as against the surplus of Rs.2,646,830 for the year 2010.

Accordingly, the financial results for the year under review had indicated a deterioration of Rs.2,968,211 as compared with the preceding year. Although the Government grant for recurrent expenditure for the year 2010 amounting to Rs.5,000,000 had increased up to Rs.5,500,000 in the year 2011, increase of expenditure on donation of books for the previous year amounting to Rs.907,353 up to Rs.4,762,094 and write off of Rs.307,380 from the income relating to damaged books had mainly attributed for the deterioration in the financial results.

3. Operating Review

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3.1 Management Inefficiencies

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The following observations are made.

Not using Code Numbers for 59 units of office furniture purchased by paying Rs.1,231,244 and not including them in the Register of Fixed Assets in terms of provision of the Treasury Circular No.842 dated 19 December 1978 and purchasing of 03 chief clerk tables and 03 chairs valued at Rs.110,595 over the requirements.

3.2 Underutilization of Funds

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The following observations are made.

- (a) The entire amount of Rs.5,500,000 provided to the Council for the year under review had been released to the Bank Accounts of the Council by the Ministry on 25 April 2011 without evaluating the action plan and performance.
- (b) Average monthly receipts, payments and balance of the Council for the year under review amounted to Rs.1,246,760, Rs.662,985 and Rs.8,066,225 respectively whereas the cash balance as at the end of the year was Rs.9,055,585. Accordingly, keeping very large amount of money idle in the Bank Current Account exceeding the necessities was obvious that funds provided for achieving the objectives of the Institute had not been properly utilized.

4. Accountability and Good Governance  
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4.1 Presentation of Financial Statements  
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Although the financial statements should be presented within 60 days after the closure of the year of accounts in terms of paragraph 6.5.1 of the Circular No.PED/12 dated 02 June 2003 on Good Governance of the Public Enterprises, the financial statements for the year 2011 had been presented to the Auditor General only on 12 July 2012.

4.2 Corporate Plan  
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A Corporate Plan had not been prepared from the commencement of the Council up to date.

4.3 Action Plan  
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An Action Plan had not been prepared for the year 2011.

4.4 Internal Audit  
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An internal audit had not been carried out even with the assistance of the relevant Line Ministry.

4.5 Budgetary Control  
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Although the cash balances of the Council and annual provision of the Government totalled to Rs.15,030,142, an expenditure estimate at the value of Rs.23,304,068 had been prepared exceeding the above cash balances and only Rs.6,757,682 had been spent.

A Budget had not been prepared for the year under review and as such the opportunity for utilizing the budget as an effective instrument of financial control had been deprived.

5. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Stock Control
- (d) Planning and Budgetary Control
- (e) Performance