

## **National Book Development Council of Sri Lanka - 2010**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the National Book Development Council of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the National Book Development Council of Sri Lanka as at 31 December 2010 and the financial results of its operations for the year then ended.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Best Accounting Practices**

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The following observations were made.

- (a) Accounting policies 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, 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 90 per cent discount from the cost had been accounted at the cost of Rs.7,776,495.

### 1.2.2 Unreconciled Control Accounts

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The following items of accounts shown in the financial statements could not be confirmed in audit as correct due to non reconciliation with the relevant subsidiary records/ reports.

Item of Accounts	Balance according to the Accounts	Subsidiary Books/Records	Balance mentioned in the Subsidiary Books / Records	Difference
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	Rs.		Rs.	Rs.
(a) "Sanhitha" Project II	64,015	Stock Register	74,635	10,620
(b) Project of Beautification of Forest	133,590	- do -	132,860	730
(c) Sinhala Alphabet	20,493	- do -	20,355	138
(d) "Sanhitha" Project I	70,380	- do -	70,265	115

### 1.2.3 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 unidentified balances amounting to Rs.2,876,614 appeared in the Balance Sheet under current liabilities which were brought forward from the year 1986 without any change.

- (c) Action had not been taken to recover the balance of Rs.18,711 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.

#### 1.2.4 Lack of Evidence for Audit

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The following items shown in the financial statements could not be satisfactorily vouched / verified due to lack of evidence indicated against each item.

Item -----	Value -----	Evidence not submitted -----
	Rs.	
(a) Fixed Deposit - Rs.250,000	250,000	Deposit Certificates
(b) 4 numbers of Fixed Deposits	7,479,866	Confirmation of Balances
(c) Journal Entry Nos. 3, 4, 6 and 7	135,882	Supporting Documents

### 1.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance with laws, rules, regulations etc. were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Articles of the National Book Development Council of Sri Lanka (i) Paragraph 7  (ii) Paragraph 14	General administration, control of Bank Accounts and control of Funds of the Council had been carried out by the Secretary of the Council without being delegated the powers by the Director.  Although a report on activities of the Council for the preceding year should be submitted to the Minister on or before 31 March every year, action had not been taken accordingly.
(b) Section 09 of the Public Enterprises Circular No. PED 12 of 02 June 2003	Delegation of powers and segregation of duties had not been done, having prepared an Organization Structure of the Council and as such duties of each officer had not been specified.

- (c) Public Enterprises Circular No. PED 25 of 29 July 2004
- Although the surplus funds of the Council amounting to Rs.6,608,579 had been invested in fixed deposits, approval of the Minister in charge of the Ministry and the Minister of Finance had not been obtained therefor.
- (d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (FR) F.R. 880 and 881
- Three officers who should furnish securities in terms of the Public Officers Security Ordinance had not furnished securities.

## 2. **Incorporation of the Council**

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According to a decision taken at the meeting of the Cabinet of Ministers held on 17 May 1972, the approval had been granted for the establishment of the Book Development Council of Sri Lanka, to incorporate it by an Act of Parliament and for the transfer of assets and staff of the defunct National Books Corporation to the proposed National Book Development Council. Even though the National Book Development Council had been established in accordance with that decision, it had not been incorporated as a statutory institution. Subsequently, the Cabinet of Ministers had, at the meeting held on 12 June 1974, decided that the Council should be maintained as a non statutory Board, functioning under the direction of the Secretary of the Ministry in charge of the subject of education. However, according to the decision of the Cabinet of Ministers No. CM/07/0542/316/022 dated 26 April 2007 of the Secretary of the Cabinet of Ministers, the Council was unable to implement the procedure approved for bringing the Council to the statutory status even during the year under review.

### **3. Financial and Operating Review**

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#### **3.1 Financial Review**

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##### **3.1.1 Financial Results**

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- (a) According to the financial statements presented, the operations of the Council for the year 2010 had resulted in a surplus of Rs.2,646,830 as compared with the corresponding surplus of Rs.1,981,278 for the year 2009. Accordingly, the financial results had indicated an improvement of Rs.665,552 as compared with the year 2009.
- (b) Although purchasing, printing and marketing of books were the 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.
- (c) Although the realizable value of stock of books had been very low due to improper storage of books at the stores and involving natural disaster, relevant adjustments had not been made for them. As a result, an incorrect surplus had appeared in the income and expenditure account.

## **3.2 Operating Review**

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### **3.2.1 Performance**

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- (a) Although there should be a Board of Members consist of 15 members for carrying out activities mentioned in paragraph 03 of Articles of the National Book Development Council, a Chairman had been appointed on 28 February 2011 after the resignation of the Board of Members who existed up to 12 May 2010 without appointing a Board of Members so far.
  
- (b) Although a sum of Rs.4,665,000 being 50% of the total estimated value had been allocated in the Action Plan for the year under review relating to 13 programmes, any activities had not been carried out, out of the above provisions.

### **3.2.2 Management Inefficiencies**

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The following observations were made.

- (a) Although 6,792 books valued at Rs.1,194,550 had been purchased during the year under review from the Writer Assistance Project, a review had not been carried out as to support the criteria introduced by the Council while making those purchases. A programme had not been implemented to make aware of the author about the Project.
  
- (b) Although donating all the books purchased under the Writer Assistance Project for the purpose of the development of libraries in the poor school was the policy of the Council, donations had been made on the request of the "Dhaham Pasals" public libraries etc. irrespective of the above mentioned schools.

(c) Stock of Books

- (i) It was observed that the annual levels had been continuously increasing due to lack of proper procedure relating to marketing and donation of books.

Year	Closing Balance of Stock
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	Rs.
2010	12,344,516
2009	11,498,162
2008	11,268,802
2007	9,738,106
2006	7,880,758

- (ii) Large quantity of books had been destroyed by the natural calamity and insect nuisance due to improper storage.
- (iii) Board of Survey in respect of books had not been carried out in terms F.R. 756 from the inception to date.
- (iv) Utilisation of Goods Receipt Note and Goods Issue Note in terms of F.R. 752 and 753, proper recording of issues and receipts in the inventory register in terms of F.R. 751 and 754 and balancing of inventory register had not been carried out.

**3.2.3 Underutilization of Funds**

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Although cash balance as at 31 December 2010 amounted to Rs.2,050,276, it was observed at the examination of bank accounts that the average monthly cash requirement amounted to Rs.500,000 and attention had not been paid to invest the above surplus fund effectively in order to earn revenue.



### **3.2.4 Action Plan**

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According to paragraph 5.1 of the Circular No. PED/12 dated 02 June 2003 on Good Governance of the Public Enterprises, a Corporate Plan had not been prepared by the Council.

### **3.2.5 Audit and Management Committee**

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According to paragraph 7.4.1 and 7.4.2 of the Circular No. PED/12 dated 01 July 2003, the Audit and Management Committee had not been established.

### **3.2.6 Internal Audit**

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

### **3.2.7 Budget**

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The following observations were made.

- (a) The budget of the Council for the year under review had not been prepared in accordance with the paragraph 5.2 of the Circular No. PED 12 dated 02 June 2003 of the Ministry of Finance on Good Governance of the Public Institutions.
- (b) Variances from 20 per cent to 100 per cent between the budgeted and actual expenditure and inability to reach the actual revenue with the budgeted revenue by 24 per cent had indicated that the budget had not been made use of as an effective instrument of management control.

#### **4. 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 and Delegation of Powers
- (c) Control of Stock
- (d) Performance
- (e) Planning and Budgetary Control
- (f) Purchasing and Marketing of Books