

J.R.Jayawardene Historical Research, Archives and Library Centre -2013

The audit of financial statements of the J.R.Jayawardene Historical Research Archives and Library Centre for the year ended 31 December 2013 comprising the statement of Financial Position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and statement of cash flows 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 International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810) that are in line with Sri Lanka Auditing Standards. 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 2013 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 Sri Lanka Public Sector Accounting Standards

Following observations are made.

(a) Sri Lanka Public Sector Accounting Standard -02

Statement of Cash flows had not been prepared in line with the standard showing the cash inflows and outflows during the year under review and following deficiencies were observed in this regard.

- i. Even though the actual cash flow of the acquisition of fixed assets during the year was Rs. 17,827,061, it had been shown as Rs. 81,976,570.
- ii. The investment made by the Board in the year 1997 amounting to Rs. 4,300,000 had been shown as a cash outflow of the year under review.
- iii. The year end cash and cash equivalent values as per the statement of financial position had not been shown in the statement of cash flows.

(b) Si Lanka Public Sector Accounting Standard – 07

Even though an asset should be depreciated when it is ready for use, the assets had not been depreciated in the year of purchase contrary to the standard.

2.2.2 Accounting Deficiencies

Following Observations are made.

- (a) The value of the investment made by the Centre in a private company was Rs. 4.3 million as at the end of the year under review and the Centre had acquired Rs. 61,500 worth of assets after the winding up of that company. But the whole transaction had not been brought to the accounts and as a result the surplus of the year had been overstated by Rs. 4,238,500.
- (b) The interest payable on loans obtained by the Centre had been understated by Rs. 425,677 and the loan amount had also been understated by the same amount.
- (c) Refundable rent deposit of Rs. 351,000 had been deducted from the recoverable deposit account instead of showing as a current liability.
- (d) Rent deposit paid at the end of the rental period amounting to Rs. 314,820 had been debited to the recoverable deposit account instead of debiting it to the relevant liability account.

2.3 Non - compliance to the Laws, Rules and Regulations and to the Management decisions.

Following non- compliances were observed.

<u>Reference to the law, Rule or Regulation</u>	<u>Non- Compliance</u>
(a) J.R.Jayawardene Centre Act No. 77 of 1988 Section 01	Even though the name of the Institution in accordance with the Act is "J.R.Jayawardene Cultural Research, Archives and Library Centre", it had been used as "J.R.Jayawardene Centre" in the financial statements and in the letterheads.
(b) <u>Public enterprise Circulars</u> Paragraph 9.3.1 of the Circular No. PED/12 dated 02 June 2003	The Institution had not got approval for the Scheme of Recruitment.
(c) <u>Treasury Circulars</u> (i) Circular No 842 dated 19 December 1978	A register of fixed assets had not been maintained for fixed assets of the institution.
(ii) Circular No I.A.I/2002/02 dated 28 November 2002	No separate register had been maintained for computers as per the circular

3. Financial review

3.1 Financial results

According to the financial statements presented, the operations of the Centre for the year ended 31 December 2013 had resulted in a surplus of Rs.7,523,410 as compared with the corresponding surplus of Rs. 573,779 in the preceding year, thus indicating an increase in the financial results by Rs.6,949,631. An increase in building rental income and fixed deposit interest income by Rs.6,714,447 and Rs. 5,530, 653 respectively and new income from class room rental amounting to Rs.1,894,365 and also the profit made out of disposal of motor vehicle amounting to Rs.3,239,115 had specially affected to this situation.

4. Operating Review

4.1 Uneconomic transactions

Input and output taxes in relation to the Value Added Tax had been accounted as an income and expenditure instead of maintaining a VAT control account including input and output VAT separately. Accordingly, payable and set off balances have not been reflected in the accounts as at the end of the year. Even though a sum of Rs 11,964 had been shown as a recoverable balance in the tax returns at the end of the year under review, it had not been disclosed in the accounts.

5. Accountability and Good Governance

5.1 Corporate plan

Even though a corporate plan should be prepared for the period of not less than 03 years in order to achieve the vision and mission of the entity as per the paragraph 05 of the Treasury Circular No. PED/12 dated 02 June 2003; such plan had not been prepared including the year under review.

5.2 Action Plan

Action plan had not been prepared for the year under review.

5.3 Audit Committee

Audit committees had not been established in terms of Circular No. PED/12 dated 02 June 2003.

5.4 Procurement Plan

Even though Rs. 17,827,061 worth of Non-Current Assets had been purchased during the year under review, a Procurement Plan had not been prepared.

5.5 Budgetary control

A budget had not been prepared as per the paragraph 5.2.1 of the Circular No. PED/12 dated 02 June 2003 and the variances ranging from 32 per cent to 100 percent between the actual and budgeted expenditure were observed thus indicating that the budget had not been use as an effective instrument of management control.

5.6 Tabling of Annual Reports

The annual reports of the Centre had not been tabled in Parliament after the year 2009.

5.7 Observations related to the Unsettled audit paragraphs

Even though the Committee on Public Enterprises had directed at the meeting held on 19 September 2012 that to present a report to the audit within one month relating to an investment of Rs.5 million in a subsidiary company, no such report had been submitted to audit.

6. Systems and Control

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

- (a) Investments
- (b) Expenditure Control
- (c) Assets Management