

## **Sri Lanka Arts Council - 2015**

-----

The audit of financial statements of the Sri Lanka Arts Council for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of income and expenditure , statement of changes in equity and cash flow statement for the year then ended and a 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 15(3) of the Arts Council of Sri Lanka Act (Cap.278) as amended by the Arts Council of Sri Lanka (Amendment) Act, No. 44 of 1987. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2)(c) of the Finance Act, appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

-----

The 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 and fair presentation 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 Auditing 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Council'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 Council'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 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 the 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 paragraph 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 Sri Lanka Arts Council as at 31 December 2015 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**

-----

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard -03**

The materials to be disclosed in respect of prior period errors had not been disclosed.

(b) **Sri Lanka Public Sector Accounting Standard-07**

Even though the financial statements shall summarize and present under each class of property, plant and equipment, fixed assets valued at Rs.244,203 had not been classified and shown accordingly.

(c) **Sri Lanka Public Sector Accounting Standard-09**

Even though, the final stock shall be computed and accounted at the lower value of cost or net realizable value, the final stock as at 31 December of the year under review had been over stated by Rs.50,331 due to the value of publication stock had not been brought to account accordingly.

#### **2.2.2 Accounting Deficiencies**

-----

The following observations are made.

- (a) One hundred and forty four copies of books and 116 arts magazines printed by the Council as at 31 December of the year under review had not been taken into the closing stock of publications.
- (b) Depreciation of the year under review had been under stated in accounts by Rs.62,833 due to failure in accounting the depreciation on fixed assets amounting to Rs.314,166.
- (c) The interest for the year under review amounting to Rs.17,000 had not been brought to account for the fixed deposits valued at Rs.500,000.
- (d) Twenty copies of books at a cost of Rs.8,222 had not been taken into the closing stock of publications.

### 2.3 Accounts Receivable and Payable

---

Even though the returnable period of 90 copies of 03 books at a cost of Rs.26,325 issued to 03 institutes before 04 years on sale or return basis had elapsed, action had not been taken to recover the relevant money or return the books .

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

---

The following non-compliances were observed

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
-----	-----
(a) Section 47 of the Employees Trust Fund Act, No.15 of 1958	A sum of Rs.61,568 had been overpaid during the year under review due to considering the interim allowances paid with the salary in the calculation of employer's contribution for the Employees' Provident Fund in respect of 05 employees.
(b) Payment of Gratuities Act, No.12 of 1983	Provision for gratuities up to 31 December of the year under review had not been made for 05 officers recruited to the permanent service from 15 September 2014.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulations 756 and 757	Action had not been taken to furnish the reports to the Auditor General after conducting a board of survey for the year under review.
(d) Treasury Circular No.842 of December 1978 and No.IAI/2002/02 of 28 November 2002.	A Register of Fixed Assets on fixed assets and Computer software and hardware software had not been maintained.

### 2.5 Transactions not supported by Adequate Authority

---

The following observations are made.

- (a) Allowances totalling Rs.240,700 had been paid to the two officers and two employees for the participation of sub-committees who were in the permanent staff of the Department of Cultural Affairs and the Art Council without prior sanction of the Director of Establishments and the Treasury in terms of Section 1,2 of Chapter IX of the Establishments Code.

- (b) A sum of Rs.180,000 had been paid from the Fund of the Council for donations and assistance for 06 artists during the year 2015, despite no provision for financial assistance as donations or aid was made under the objectives of the establishment of Sri Lanka Arts Council by the Act.No.18 of 1952.

### **3. Financial Review**

-----

#### **3.1 Financial Results**

-----

- (a) According to the financial statements presented, the financial results for the year under review had been a surplus of Rs.2,079,427 as against the deficit of Rs.265,829 for the preceding year, thus indicating an improvement of Rs.2,345,256 in the financial result of the year under review as compared with the preceding year. Receiving funds from the Line Ministry had increased by Rs.2,632,200 as compared with the preceding year had mainly attributed to this improvement.
- (b) Even though a continuous financial deficit had existed from the year 2011 to the year 2014 while analysis of the financial results in 4 preceding years and the year under review, a financial surplus had been existed in the year 2015. However, contributions of Rs.621,535, Rs.381,583, Rs.292,428 and Rs.628,994 had been shown from the year 2011 to the year 2014 respectively in considering the employee remunerations and depreciation for non –current assets. It had increased up to Rs.4,264,422 in the year under review.

### **4. Operating Review**

-----

#### **4.1 Performance**

-----

The following observations are made.

- (a) The general objectives of the Council is to develop a greater knowledge, understanding and practice of the fine arts, to increase the accessibility of works of art to the public in Sri Lanka , to improve the standards of execution in the fine arts, to preserve, promote and encourage the development of such arts and crafts as are indigenous to Sri Lanka and to advise, and co-operate with Government , Local Authorities and other bodies on any matter concerned directly or indirectly with the aforesaid objectives according to the Arts Council Act, No.18 of 1952.
- (b) Nevertheless, the Council had not prepared an action plan to achieve the objectives mentioned in (a) above.
- (c) Even though provisions amounting to Rs.1,570,000 had been made by the budget to implement 07 entertainment programmes and to print the arts magazine during the year under review ,only 03 entertainment programmes had been implemented by spending a sum of Rs.436,000.
- (d) The Council had failed to performance its functions to achieve the objectives of the Council in terms of a systematic methodology and a proper attention had not been

paid to utilize the funds received from the Line Ministry for incurring recurrent expenditure .

#### **4.2 Management Activities**

-----

The following observations are made .

- (a) Even though a sum of Rs.83,598 had been incurred for the workshop on identification and empowerment of local artists conducted at Wariyapola in the year 2014 , preparation of a catalogue of the artists in the North Western Province which was one of the main objectives of that workshop had not been fulfilled even as at 31 December in the year under review.
- (b) Even though a sum of Rs.13,250 had paid during the year under review to the Sri Lanka Export Development Board for the maintenance of the Council's web site, the web site had not been updated.

#### **4.3 Staff Administration**

-----

Approval had been granted by the Department of Management Services on 26 August 2011 for the recruitment of 06 posts including the Chief Executive Officer to the staff of the Sri Lanka Arts Council. Nevertheless, appointing a permanent officer for the post of Chief Executive Officer (The Secretary to the Council) had not been carried out by the end of the year under review and an officer of the Department of Cultural Affairs had been appointed on acting basis for that post since the year 2014.

### **5. Accountability and Good Governance**

-----

#### **5.1 Corporate Plan**

-----

A Corporate Plan had not been prepared by the Council.

#### **5.2 Action Plan**

-----

An Action Plan for the year under review had not been prepared in terms of Section 5.1.2 of Public Enterprises Circular No. PED 12 dated 02 June 2003 and Paragraph 04 of the Finance Circular No.01/2014 dated 17 February 2014.

#### **5.3 Internal Audit**

-----

An internal Audit Unit had not been established and an internal audit had not been carried out by the Line Ministry as well.

#### **5.4 Procurement Plan**

-----

The Council had not prepared a procurement plan for the year under review in terms of the guideline 4.2 of the Procurement Guidelines of 2006.

## 5.5 **Budgetary Control**

-----  
Significant variances were observed between the budgeted and the actual income and expenditure ,as such the budget had not been made use of as an effective instrument of management control.

## 6. **Systems and Controls**

-----  
Weaknesses 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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
-----	-----
(a) Accounting	Failure to depreciate certain property, plant and equipment and failure to make provision of gratuities.
(b) Stock Control	Failure to maintain stock registers for books and magazines, weaknesses in identification of stocks and accounting them.
(c) Budgetary Control	Budget had not prepared realistically and failure to made use as an instrument of control.
(d) Funds Management	Failure to utilize the funds of the Council efficiently and effectively for the achievement of the objectives .
(e) Procurement	Failure to prepare institutional plans and procurement procedure had not been followed according to a plan.