

JR Jayewardene Historical Research, Archives and Library Centre – 2016

The audit of financial statements of the J.R. Jayewardene Historical Research Archives and Library Centre for the year ended 31 December 2016 comprising the statement of Financial Position as at 31 December 2016 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 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 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. Jayewardene Historical Research Archives and Library Centre as at 31 December 2016 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 non compliances were observed.

a) **Sri Lanka Public Sector Accounting Standard 02**

Adjustments of stock relating to the previous year amounting to Rs.3,212,560 which was not effected to cash flow had been shown as a cash flow.

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

(i) Although the value of the lands and buildings should be assessed separately and taken in to accounts, it had not been done and 5 per cent of provisions for depreciations had been made for lands

(ii) Although the traditional assets with historical value in the Museum should be disclosed in the financial statements, actions had not been taken accordingly.

2.2.2 **Accounting Deficiencies**

The following observations are made.

(a) A desktop computer with accessories and a scanner had been donated to the library during the year under review and the value of those had not been assessed and brought into the financial statements for the year under review.

(b) An interest income for fixed deposit and receivable interest amounting to Rs.36, 626 had been overstated due to errors of calculation.

(c) A sum of Rs.4.3 million had been shown in the financial statements as at the end of the year under review as investment made in the year 1998 in a private company named J.R. Jayewardene Information Centre. In the event of closing down that company in the year 2008, the assets of the company had been assessed at a value of Rs.61, 500. Although 8 years had been lapsed over the company was closed, actions had not been taken to make adjustments in the accounts for the non-receivable balance and the assets.

- (d) Although the balance of retained profit and reserves was Rs.33, 759,354 as at 01 January 2016, it had been brought forward as Rs.33,871,339, thus the retained profit had been overstated by Rs.111,985.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.479, 600 and Rs.1, 845,108 should be recovered over a period of more than two years from two Public institutions and three persons as building rent.
- (b) Action had not been taken to settle three debit balances and three credit balances totalling Rs.93, 184 which had been brought forwarded over number of years.

2.4 Non - compliance with Laws, Rules and Regulations and Management decisions.

The following non- compliances were observed.

Reference to laws, Rules and Regulations	Non – compliance
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(a) Section 4(1)(d) of the J.R. Jayewardene centre act- No.77 of 1988.	As per the act, the institute was responsible for the safeguard and conservation of audio and visual tapes. However actions had not been taken to transfer to the digital technology or conserve those tapes.
(b) FR 756 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and the Public Finance Circular No. 05/2016 dated 16 December 2016	A board of survey had not been carried out as at 31 December 2016 and a Board of Survey had not been appointed.
(c) Section 5.3.11 of the Procurement Guideline 2006	Although a bid bond should be furnished in the due format by all bidders in competitive bidding process, A bid bond had not been obtained by the institute in connection with the procurement valued at Rs. 1,537,239 for supplying security service for the year under review.
(d) Section 4.2.2 and 4.2.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003	Monthly financial statements should be forwarded to the Board of Governors in every month and discussions should be held on the performance in every 6 months. Further the reports of discussions should be sent to the Department of Public Enterprises. However none of the meeting of the Board of Governors had been held after 09 December 2015.

(e) Public Enterprises Circular No. PED1/2015 dated 25 May 2015

Contrary to the terms of the circular, a sum of Rs.89,000 had been paid to a technical assistant and to an electrician as transport expenses during the year under review.

2.5 Transactions not Supported by adequate authority

A sum of Rs.9,397 included in receivable interest income and an unidentified balance of Rs.187,363 included in payables had been written off by journal entries without obtaining proper approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Centre for the year ended 31 December 2016 had resulted in a surplus of Rs.2,510,103 and as against to the deficit of Rs. 3,384,454 in the preceding year, thus indicating an increase in the financial results by Rs.5,894,557. The increase of income of building rent by Rs.3,030,549 and hall reservation fees by Rs.1,687,477 and interest on fixed deposits by Rs.1,008,442 during the year under review had mainly effected to the above increase.

Even though a financial surplus had existed in the year 2012 and 2013 in the analysis of the financial results for 04 preceding years and the year under review a financial deficiency had existed in the year 2014 and 2015 further surplus had existed during the year under review. However, considering the adjustments of employees remuneration, government taxes and depreciation for non-current assets made to the financial results a continuous favourable contribution had shown and the contribution of the year 2012 had increased from Rs.12,092,793 to Rs.20,568,938 in the year 2016.

3.2 Working Capital Management

In considering the working capital management of the centre the current ratio of the previous year was 5:8:1 and it had become 7:3:1 for year under review and the quick assets ratio was 7:1:1. Further 82 per cent of the current assets had represented by short term investments.

4. Operating Review

4.1 Performance

The main objectives of the Centre are to bestowing documents, files, mementos, awards and received gifts belonging to the former President Mr. .J.R Jayewardene, protection and conservation of those materials, exhibit, holding scholarly meetings, keeping all reports and printed materials which are handed over to the State Record Room etc. The following observations are made in connection with the fulfillment of performance of the centre.

- a) Out of 30 activities of the action plan which was schedule to be fulfilled by incurring a sum of Rs.18,854,500, 22 activities relating to the estimated value of Rs.16,714,500 had not been fulfilled.
- b) Although a new vehicle park and a bed of herbal plants had been scheduled to be commenced during the year 2015, those activities could not be done. Hence those activities had been rescheduled to be commenced during the year 2016. However center had failed to fulfill those activities during the year 2016.
- c) According to the progress report a lot of activities could not get fulfilled due to financial problems. Accordingly it was observed that there were weaknesses in preparing annual plans by the centre.

4.2 Management Activities

The following observations are made.

- a) A sum of Rs.16, 364,597 had been identified as income of building rent of the year 2016 and building had been rented out in different rates without obtaining monthly assessment report from the Department of Valuation.
- b) The following observations were made relating to the supply of lecture hall facilities by the centre.
 - (i) In any event of avoiding payment as per the agreement relating to the supply of lecture hall facilities, the centre had a right to cancel the agreement. However, lecture hall facilities had been given continuously to a lecturer who had violated the agreement, without taking actions to cancelled the agreement and a sum of Rs.1,104,216 should be recovered as at 31 December 2016.
 - (ii) As per the agreement these halls should be used to conduct lectures only for students. Contrary to this requirement, lecture hall facilities had been given by a lecture to other 08 lecturers without obtaining approval of the centre and the income which should be recovered to the centre had been deprived.
- c) A sum of Rs.264, 040 had been issued as an advance on 18 December 2013 to the Department of Government Printing for printing 2500 copies of a publication valued at Rs.471,500 for sales of the library of the centre. Out of those 05, 04 publications had not been printed and handed over to the centre even up to the date of this report and attention had not been paid by the management in this regard.
- d) A sum of Rs.340, 500 had been incurred for repairing the security camera system which had been damaged by a thunder stroke. However the reimbursement made by the insurance company was Rs.192, 375 thus the loss occurred to the centre was Rs.148, 125. Further this loss had been occurred due to the –failure of fixing lightning conductor which had been mentioned in the conditions of the insurance.

- e) According to the paragraph 03 of the J.R. Jayewardene Centre Act No.77 of 1988 the Board of Governors should be consist with the president of the Republic, living Ex-Presidents, Prime minister, speaker, opposition leader, Secretary to the President, Director of National Archives and two members appointed by the President. The meetings of the Board of Governors could not be conducted practically together with those members and attention had not been paid to the requirement of revision of the Act as possible as to conduct the meeting of Board of Governors properly.

4.3 Transactions of Contentious Nature

The following observations are made.

- a) A sum of Rs.219,141 had been invested in a saving deposit of a private bank.
- b) Three individuals had been recruited as a cook, assistant cook, and a labour for the cafeteria which was conducted by the welfare society of the centre and a sum of Rs.2, 575,975 had been paid as salaries and wages from the year 2014 up to 31 December 2016 by the funds of the centre.

4.4 Idle or Underutilized Assets.

A motor bicycle purchased in 2013 had not been used after 21 October 2014 meanwhile a sum of Rs.20,116 had been paid as annual insurance fees, revenue license fees and emission charges.

4.5 Staff Administration

Following observations are made.

- a) According to the section (b) and (d) of Chapter 9.2 of the Public Enterprises Circular No.PED12 dated 02 June 2003 an organization chart consist with approved cadre had not been prepared and 30 officers had been employed.
- b) Section 9.3.1 (a) of the above circular even though the recruitment procedure of the centre had been prepared, the approval of the line Ministry and the Board of Governors with the consent of the Department of Public Enterprises had not been obtained.
- c) Although there were 07 permanent employees attached to the library, 08 library trainees had been recruited in the year 2016 on the approval of the Secretary General contrary to the section 07 of the Public Administration Circular dated 12 November 2014 further a sum of Rs. 241,900 had been paid to them.
- d) A discrepancy of salaries had been observed in considering allowances of two drivers recruited under contract basis and further under payment of Rs.27,300 had been made in salaries and wages to a driver to the period from 01 July 2013 to 31 December 2016.

5. Accountability and Good Governance

5.1 Budgetary Control

The budget had not been prepared in the format in paragraph 5.2 of the Circular No. PED/12 dated 02 June 2003 and the variances ranging from 18 per cent to 100 per cent between the actual and budgeted expenditure were observed thus indicating that the budget had not been use as an effective instrument of management control.

5.2 Internal Audit

According to the Financial Regulations 133 and the Audit and Management Circular No. DMA 2009 (i) dated 09 June 2009, an internal audit unit should be established in the centre in order to establish internal control of the financial activities of the Centre and to maintain an independent evaluation to disclose and avoid fraud and errors of those activities. However actions had not been taken to establish an internal audit unit for the centre.

5.3 Tabling of Annual Reports

As per the section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 annual reports should be tabled in parliament within 150 days after the end of the financial year. However, the annual report of the centre had not been tabled in parliament after the year 2011 even up to the date of this report.

6 Systems and Controls

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.

Areas of Systems and Controls

Observations

a) Revenue Control	I. Non obtaining of assessment reports and non-implementation of agreement properly. II. weakness in computer system using for receiving money and weaknesses in collecting money.
b) Library Control	Weakness in the internal control of the library.
c) Control of Payment for Consultancy Service	Obtaining consultancy service without proper agreement.
d) Procurement Control	Failure to follow Procurement Guidelines.
e) Staff Control	Failure to get approval for the recruitment procedure and the cadre.