

National Library and Documentation Services Board - 2017

The audit of financial statements of the National Library and Documentation Services Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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 22 of the National Library and Documentation Services Board Act, No.51 of 1998. My comments and observations which I consider should be presented to Parliament, appear in this report.

1.2 Management's Responsibility for the 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 judgement, including the assessment of the risks 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 Board'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 Board'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 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 National Library and Documentation Services Board as at 31 December 2017 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 2

In the preparation of the cash flow statement, only financial movements relating to the accounting period should be considered by identifying activities specifically. However, the net cash flow arising from operating activities had been understated by Rs.2,032,625 due to the adjustment made in the working capital movement without eliminating the accrued expenditure incurred for the purchase of capital assets, included in the balance of opening accrued expenditure. As such, the cash flow statement had not been correctly prepared.

(b) Sri Lanka Public Sector Accounting Standard 3

Even though changes in accounting estimates should be disclosed in the financial statements, the wall painting costing Rs.1,200,610 remained as a fixed asset of the Board, had been eliminated by the Board from the end of the year 2018. As such, changes in the **useful life** of the assets made in estimates had not been disclosed in the financial statements.

2.2.2 Accounting Policies

Even though it was disclosed that stocks had been valued at cost by the Board, the said Policy had not been followed for valuation of entire stocks and stocks had been valued under other bases except for the cost.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to transfer the sum of Rs.155,081 incurred in the acquisition of fixed assets by using recurrent provisions, from the recurrent provision to the State Capital Grant Account.
- (b) Agreements had been entered into for the **Publication Assistance Project** exceeding budget provisions of the year. As such, a sum of Rs.3,215,953 payable to 49 authors as at 31 December 2017 had not been brought to account.
- (c) The value of stock of books according to accounts as at 31 December 2017 had been Rs.4,367,889 and according to the reports on physical verification, it had been Rs.7,895,098, thus understating the stock by Rs.3,527,209 in the financial statements.

2.2.4 Unexplained Differences

Necessary action had not been taken on the stock shortage of 3,457 units of stocks of books remained since the year 2012, by identifying persons who are responsible therefor.

2.2.5 Un-reconciled Control Accounts or Records

The following observations are made.

- (a) Even though the closing balance of the Capital Reserve Account had been Rs.23,678,741, the bank balance relating thereto had been Rs.22,448,787. As such, unexpended provisions of Rs.1,229,954 had not been represented by cash.
- (b) The distress loan balance as at 31 December 2017 had been Rs.12,762,122 and according to the Register on Distress Loans, it had been Rs.12,827,184, thus indicating a difference of Rs.65,062 and the said difference had been disclosed in the financial statements as an unidentified balance from the preceding year.

2.2.6 Lack of Evidence for Audit

In terms of sections 2(a), (b) and (e) of the Treasury Circular No. 842 of 19 December 1978 and the Management Audit Circular No.DMA/2009(2) of 01 September 2009, maintenance of assets costing Rs.171,324,300 could not be verified according to financial statements as at 31 December 2017 due to failure in performing functions such as creating a standard classification for all fixed assets, identification and accounting of assets and identifying and recording assets by assigning a departmental number for each fixed asset for facilitating the control thereof. Out of that, the stock of preserved books of the National Library valued at Rs.106,790,091 had not been surveyed over a period of 41 years from the year 1976 to the year 2017.

2.3 Accounts Receivable and Payable

2.3.1 Accounts Receivable

The balance of sundry advances valued at Rs.248,496 had not been settled over a period of 8 years. Out of that, the balance of Rs.121,970 had been disclosed as unidentified advances in the financial statements.

2.3.2 Accounts Payable

The Withholding Tax amounting to Rs.750,215 older than a period from 2 years to 11 years, to be remitted to the Commissioner General of Inland Revenue, had not been remitted to the Commissioner of Inland Revenue even up to 18 July 2019.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations	Non-compliances
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(a) Section 7 of the National Library and Documentation Services Board Act, No.51 of 1998	Even though the appointment of Committees and formulation of rules on its performance should be made under the prior approval of the Minister, in the appointment of the Committee on Determination of Purchase of Publications under the Aggregate Development Policy , prior approval of the Minister had not been obtained therefor. Moreover, rules in respect of the performance of the Committee had not been formulated over a period of 20 years.
(b) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulation 507	
Sections 4(a), (b)	

In case of discrepancies between the quantity recorded in the books of accounts and the quantity actually available in stock and between the book value of stock-in-hand and their valuation by the Board, action should be separately taken thereon by the Chief Accounting Officer in terms of Financial Regulation 757, it had not been so done.

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| (ii) Financial Regulation 756
Section 5(a) | Even though the Form T & A.66 should be used for verification of stocks, the said Form had not been used. As such, the balance indicated in the Inventory as at the date of the Board of Survey, had not been recorded in reports on survey. |
| (iii) Financial Regulation 1646 | Running charts for each month along with the original of the monthly summary had not been presented to the Auditor General by the Transport Officers. |
| (c) Treasury Circular No.I/A/I/2002/02 dated 28 November 2002 | A Fixed Assets Register on computers, computer accessories and software had not been maintained. |
| (d) Public Finance Circular No.02/2015 dated 10 July 2015 | All the proceeds earned by taking action in terms of the Circular should be credited to the Consolidated Fund. However, according to matters agreed verbally with the General Treasury, the sum of Rs.2,710,862 received from motor vehicles sold for the payment of monthly rental of the first year of motor vehicles provided to the Board under operating lease method, had been credited to the Bank account. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year ended 31 December 2017 had been a deficit of Rs.7,801,955 as compared with the corresponding deficit of Rs.14,817,209 for the preceding year, thus indicating an increase of Rs.7,015,254 in the financial result for the year under review as compared with the preceding year. Even though the Administrative Expenditure and the Library Services Expenditure had increased by Rs.7,291,540 and Rs.1,308,222 respectively as compared with the preceding year, the increase in Government Grants for the year under review by Rs.12,700,000 and the profit from sale of Property, Plant and Equipment by Rs.2,130,466 had been the main reason for the said increase.

An analysis of financial results of the year under review and 04 preceding years revealed that the deficit which was Rs.13,747,104 in the year 2013 had decreased up to Rs.7,801,955 by the year under review. However, after readjusting the employees' remuneration and depreciation for non-current assets. The contribution of the Board which was Rs.55,556,073 had improved up to Rs.102,455,957 as at the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

- (a) The Pansiya Panas Jathaka Potha consists of 05 books including 04 Volumes and one Preamble. Even though it had been assigned to the Education Publication Department for the purpose of reprinting, it had not been completed. As such, approval had been obtained in the year 2015 to continue the printing works by the Board and the Preamble and 02 Volumes of 05 books had been completed during the year 2017. Further, Volumes II and IV had not been printed and handed over even up to 21 June 2019, the date of audit.
- (b) The compilation of bibliography of **Sadikari** Sinhala Books comprising names of old literature books published up to the year 1850 and editions published relating thereto up to the year 2000 had been included in the Action Plan of the year 2014. However, it had not been completed even up to 21 June 2019, the date of audit.
- (c) Even though pre-plans on all programmes proposed for functions in the Action Plan should be prepared, pre-plans on proposed programmes to be conducted for certain functions mentioned in the Action Plan of the Board, are not prepared and programmes had been selected and implemented considering requests made during the year.
- (d) Even though a separate detailed budget should be prepared for each programme of all functions mentioned in the Action Plan, a detailed budget had not been prepared accordingly.
- (e) It was observed that 02 functions included in the Action Plan of the year 2017 had not been performed.

4.2 Management Activities

The following observations are made.

- (a) The Board had not printed the sales price of 4 publications to the sales value of Rs.8,166,980 out of publications printed under reprinting of classic books.
- (b) In transferring the book, “Poojawaliya” from the Publication Division to the stores, a shortage of 57 books had occurred and the sales value thereof amounted to Rs.138,510.

4.3 Human Resource Management

- (a) The former Director General had obtained approval from the Senior Assistant Secretary (Administration) to the Ministry by making requests while holding the post of Chief Executive Officer, to be placed in the 10th salary step of the post of Director General, coming into effect from the date of appointment. It was observed that the decision taken by the Committee on Public Enterprises on 22 May 2012 in this connection, had not been implemented up to 21 June 2019, the date of Audit.
- (b) Even though an interview had been held in April 2018 for filling 7 vacancies of the Board, only 4 vacancies had been filled while 3 vacancies had not been filled.

4.4 Operating Inefficiencies

In terms of Format No.2 of Public Finance Circular No.02/2015 of 10 July 2015, once the disposal of vehicles is completed, a detailed report thereon should be submitted to the Director General of the Department of Public Finance with copies to the Director General of State Accounts, the Director General of Treasury Operations, the Director General of National Budget and the Auditor General and a copy should also be forwarded to the Director General of Public Enterprises in the case of a Public Enterprise. However, the Board had not acted accordingly.

4.5 Underutilization of Funds

Procurement activities had not been carried out in the year itself in which they were planned. As such, the balance brought forward from year to year in the Government Capital Grants Account was Rs.30,442,949 as at 01 January 2017. Capital grants of Rs.9,000,000 had been received for the year under review and only a sum of Rs.15,764,208 had been spent in the year under review. Accordingly, procurement activities had not been carried out in terms of plans and as such, a sum of Rs.23,678,741 had been retained as at 31 December 2017 without being utilized.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the Draft Annual Report and Accounts should be rendered to the Auditor General within 60 days after the close of the financial year with copies to the relevant Ministry and the Department of Public Enterprises, General Treasury. However, the financial statements for the year 2017 had been presented to Audit on 12 June 2019, with a delay of 1 year and 3 months. Moreover, the financial statements for the year of accounts 2018 and the Draft Annual Report for the year 2017 had not been presented to the Auditor General even up to the date of this report.

5.2 Maintenance of Financial Statements, Books and Records

The Board had not entered transactions and events at the occurrence itself or on a nearby date since the beginning of the year 2017 in the ledger and the ledger accounts for the year 2017 had not been prepared even up to 01 October 2018, the date of Audit. The ledger had been prepared and submitted after presenting the financial statements in June 2019 and numbering of pages, filing of accounts in order and naming and numbering of ledger accounts had not been done.

5.3 Procurement and Contract Process

The following observations are made.

- (a) Additional provisions of Rs.500 million had been allocated during the year 2017 by the Director General of National Budget under Head 126-01-02-02-06-2102 and Provision No. 2104 of the Ministry of Education by Provision No. 113 under Head 240-02-02-02-2503-103-11 of the Department of National Budget for improving the National Library. Only a sum of Rs.211 million had been allocated out of the said provision for modernization of the Library building and out of that, the Ministry had incurred expenses of Rs.147 million by 25 July 2019.
- (b) The contract value relating to the works of installing a centralized air condition system (excluding VAT) was Rs.59,180,857 and bills amounting to Rs.7,187,709.91 had been submitted for 04 variation orders and 05 leaflets on additional works therefor. Additional works, extra works and variances amounted to Rs.1,269,624, exceeding 10 per cent of the contract value. Moreover, in terms of Guideline 8.13.4 of the Government Procurement Guidelines – 2006, variation orders had not been given for exceeding contingency provisions.
- (c) Even though the Central Engineering Consultancy Bureau had indicated that the works of the centralized air condition system had been completed and handed over on 7 July 2017, the deficiencies identified thereof had not been completed as at that date.
- (d) Several divisions of the Board had purchased printed material. However, information had not been recorded so as to enable the examination of the quantity of printed material purchased during the year. Moreover, plans had not been made therefor in the Annual Procurement Plan of the year 2017.
- (e) The detailed Procurement Plan of the Board had not been prepared according to the format for the detailed Procurement Plan in terms of Guideline 4.2.1 of the Government Procurement Guidelines – 2006.
- (f) The National Library and Documentation Services Board in collaboration with the Information and Communication Technology Agency of Sri Lanka had made plans to commence 26 digital libraries associated with main public libraries including the National Library of Sri Lanka within two years so as to cover the 25 Districts of the island. It was proposed to allocate Rs.225 million therefor under the Consolidated Fund. Seven libraries including the National Library of Sri Lanka had been selected for Stage 1 of the project

which was scheduled to be commenced on 01 April 2017 and completed on 01 April 2019.

The following observations are made in this connection.

- (i) Even though approval had been granted to enter into Memoranda of Understanding at the 170th meeting of the Board of Directors on 14 December 2018, the relevant Memoranda of Understanding had not been entered into even by the end of the project period. **As such, an agreement had not been made relating to procedures that should be followed in respect of maintenance and services and financial contributions therefor,** after the completion of project works.
- (ii) The works of only 6 out of 26 libraries proposed to be commenced, had been commenced under Stage 1 by the end of the project period.

5.4 Unresolved Audit Paragraphs

The following observations are made.

- (a) The cost of wooden office furniture and equipment amounting to Rs.23,089,464 indicated in the financial statements as at 31 December 2014 comprised of a stock of current assets valued at Rs.936,787.
- (b) The class relating to assets valued at a total of Rs.1,306,632 in the financial statements had not been recognized. As such, the said assets had not been depreciated.

6. Systems and Controls

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

Areas of Systems and Observations Controls

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(a) Control of Assets | -----
(i) Non-registration of assets
(ii) Failure in annual survey of books |
| (b) Accounting | (i) Non-submission of financial statements duly
(ii) Non-reconciliations between ledger accounts and schedules
(iii) Failure in mentioning Voucher Numbers in recording in ledger accounts
(iv) Non-maintenance of Stock Control Ledger
(v) Non-maintenance of Ledger Accounts in an updated manner
(vi) Non-confirmation of entries in the Vote Ledger and the Ledger by the Supervising Officer |

- (c) Procurement Failure in taking action according to plans
- (d) Purchase of printed material
 - (i) Non-preparation of plans
 - (ii) Non-identification of previous requirements