

1 Financial Statements

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1.1 Qualified Opinion

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The audit of the financial statement of the Department of National Museums for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, 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 provisions of the National Audit Act, No. 19 of 2018. The summary report including my comments and observations on the financial statements of the Department of National Museums was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018, and the Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 11 June 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Section 10 of the National Audit Act, No. 19 of 2018.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of National Museums as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with generally accepted Accounting Standards.

1.2 Basis for Qualified Opinion

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and the Accounting Officer for the Financial Statements

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The Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Accounting Officer shall ensure that effective internal control system for the financial control of the Department exists, and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

## 1.5 Report on Other Legal and Regulatory Requirements

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I express the following matters in accordance with Section 6 (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) Since there was no need to prepare financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year.
- (b) Since there was no requirement for the Department of National Museums to prepare financial statements for the preceding year, recommendations on the financial statements had not been made.

## 1.6 Comments on Financial Statements

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### 1.6.1 Non-compliance with Generally Accepted Accounting Principles

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The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
A valuation report had been obtained based on the year 2013 stating that the values of lands and buildings of the National Museum in Colombo amounted to Rs. 10 billion and 800 million respectively. However, the same values were shown in the financial statements for the year 2018, and the policy for revaluing the lands and buildings was not disclosed in the accounts. Apart from that, the lands and buildings belonging to 8 regional museums of the Department were not brought to accounts based on assessment value or cost.	The policy for revaluing the assets should be disclosed in the financial statements. The lands and buildings belonging to all the regional museums of the Department should be shown in the financial statements based on the cost or the assessment value.	Agreed with the audit observations.

### 1.6.2 Statement of Financial Performance

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The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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The value of the Treasury imprest for the year 2017 amounted to Rs. 255,311,638 in the Appropriation Account. According to the financial statements for the year 2018, the said value was shown as Rs. 189,440,000 with respect to the year 2017.	The balances of the preceding year should be shown accurately in the financial statements in comparison with the balances of the year under review.	Agreement with the audit observations.

### 1.6.3 Statement of Financial Position

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The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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a) Even though a sum of Rs. 10,460,915 had been incurred in the year under review for the acquisition of capital assets, only a sum of Rs. 2,277,632 had been shown in the statement of non-current assets as purchases made in the year. Accordingly, non-financial assets were understated by Rs.8,183,283.	The capital assets acquired in the year under review, should be shown accurately in the financial statements.	Agreed with the audit observations.
b) The balance in the report of the movement of non-current assets in the financial statements of the year 2017, amounted to Rs. 231,652,699 as at 31 December 2017. However, the opening balance of the financial statements for the year 2018 was shown as Rs. 15,065,148. Accordingly, the non-current assets were understated by Rs. 216,587,551 in the financial statements.	The balances existed as at 31 December 2017 should be shown accurately in the financial statements as at 01 January 2018.	- Do.

#### 1.6.4 Failure to Maintain Books and Registers

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 The following observations are made.

##### Audit Observation

Name of the Register	Relevant Regulation	Observation	Recommendation	Comment of the Accounting Officer
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a) Register of Fixed Assets.	Treasury Circular, No. 842, dated 19 December 1978 / Appendix 11 in terms of Financial Regulation 502 (2).	Not maintained in an up to date manner.	Action should be taken in terms of the Treasury Circular.	Not maintained in an up to date manner.
b) Register of Fixed Assets on Computer Software.	Treasury Circular, No. IAI/2002/02, dated 28 November 2002.	A Register had not been maintained.	Action should be taken in terms of the Treasury Circular.	Agreed with the audit observations.
c) Security Register	Financial Regulation 891 (1)	- Do.	The Security Register should be maintained in terms of Financial Regulation 891(1).	- Do.
d) Inventories of Electrical Fittings.	Financial Regulation 454 (2)	- Do.	An inventory should be maintained in terms of Financial Regulation 454 (2).	- Do.
e) Stock Book on Fuel and Lubricants.	Financial Regulation 1647 (d)	- Do.	Action should be taken in accordance with Financial Regulation 1647 (d).	- Do.
f) Registers of Listing Vehicles.	Financial Regulation 1647 (e)	- Do.	Action should be taken in accordance with	- Do.

			Financial Regulation 1647 (e).	
g)	Attendance Register of the procurement Committee and the Technical Evaluation Committee.	Guideline 2.11.2 of the Government Procurement Guidelines.	- Do. Action should be taken in accordance with the Government Procurement Guidelines.	- Do.

1.6.5 Lack of Evidence for Audit

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The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Assessment tax amounting to Rs. 602,217 had been paid for the Laksala building of the Department. However, the original copy of the valuation report of the building had not been made available.	The original copy of the valuation report of the Laksala building should be furnished to the Audit.	Agreed with the audit observation.

1.6.6 Assurances to be Made by the Accounting Officer

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The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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The Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be furnished to the Auditor General. Nevertheless, no	Action should be taken in terms of Section 38 of the National Audit Act, No. 19 of 2018.	Agreed with the audit observation.

statements were made available to the Audit to ensure that reviews had been carried out in that manner.

#### 1.6.7 Non-compliance with Tax Requirements

Audit Observation	Recommendation	Comment of the Accounting Officer
It was found in the audit test check carried out on 10 payment vouchers along with purchases made that payment of Value Added Tax totalling Rs. 5,353,496, had not been shown in the payment vouchers. Details on the payment of Value Added Tax made in the year including the said sum, had not been made available to the Commissioner General of Inland Revenue in terms of Guideline 5.4.11 of the Procurement Guidelines.	The Value Added Tax should be shown on the surface of the voucher, and report to the Commissioner General of Inland Revenue in terms of Guideline 5.4.11 of the Procurement Guidelines.	Agreed with the audit observation.

#### 1.6.8 Irregular Transactions

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
a) A proper receipt should be obtained for every payment made in terms of Financial Regulation 139 (4). However, 11 cheques written on 31 December 2018 to the value of Rs. 18,104,879 had not been issued even up to 27 May 2019 and retained by the Accountant.	A proper receipt should be obtained for every payment made in terms of Financial Regulation 139 (4).	Agreed with the audit observation.
b) A sum totalling Rs. 2,201,775 saved with respect to 05 projects implemented in the year 2017 and a project implemented in the year	A methodology should be in place to obtain the monies saved at the end of the project from the contractor.	Agreed with the audit observation.

2018, had been settled to the contractor in regard to the renovation of cafeteria of the Department.

2. Financial Review  
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2.1 Issue and Settlement of Advances  
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The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Action had not been taken to recover a sum totalling Rs. 544,309 receivable from 5 officers who had vacated the posts, even after a period of 4-5 years.	Loan balances should be recovered in terms of Financial Regulation 501 (c).	Agreed with the audit observation.

2.2 Operating Bank Accounts  
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The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Action had not been taken in terms of Financial Regulation 396 (d) on 12 outstanding cheques valued at Rs. 190,836 and older than 6months that had not been encashed after being issued by the Department.	Action should be taken in terms of Financial Regulation 396 (d)	Agreed with the audit observation.

3. Achievement of Sustainable Development Goals  
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The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Every public institution should comply with the “2030 Agenda” on sustainable development adopted by the United Nations. The Department, however, had been unable to formulate an accurate database to measure the	An accurate database should be established in order to achieve the sustainable development targets, and it is necessary to proceed in	Agreed with the audit observation.



achievement of sustainable cooperation with development targets. Information other public that the Department had liaised institutions. with other public institutions in that connection, was not made available as well.

4. Human Resource Management

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 The following observation is made.

Audit Observation

Recommendation

Comment of the Accounting Officer

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 A number of 104 vacancies existed in the approved staff. The management had not taken measures to fill those vacancies.

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 Recruitments should be made to the vacant posts thereby ensuring efficiency and productivity in the Department.

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 Agreed with the audit observation.