

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Cultural Affairs for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Cultural Affairs was issued to the Accounting Officer on 30 July 2021 in terms of Sub-section 11 (1) of the National Audit Act, No. 19 and the Detailed Annual Management Audit Report relating to the Department in terms of Sub-section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 30 July 2021. This report will be presented 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Department of Cultural Affairs as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 opinion.

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

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

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 the report of the Auditor

General 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, and its materiality depends on the influence on economic decisions taken by users 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5. Report on Other Legal Requirements

I express the following matters in accordance with Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year.
- (b) The recommendations made in my report on the financial statements of the preceding year with respect to the observations included in Paragraphs, 1.6.1 and 1.6.2 (a) of this report, had not been implemented.

1.6 Comments on Financial Statements

1.6.1 Non-compliances with Provision of Circulars relating to Financial Statements

The financial statements should have been prepared in accordance with Guideline 06 issued by the Department of State Accounts, but instances of deviations from that requirement are as follows.

Audit Observation	Comment of the Accounting Officer	Recommendation
If there are non-financial assets which are yet to be reported, they should be properly identified and should be accounted at cost or in the absence of costs, they should be accounted at assessment values in terms of Paragraph 8.2 of State Accounts Circular, No. 267/2018 of the Director General of State Accounts dated 21 November 2018, and accounting of all the non-financial assets required to be completed by 2020 by all the entities. However, 05 buildings, 14 vehicles costing Rs. 53,400,000, eleven vehicles with unidentified value, and 05 lands in extent of 3.7371 hectares belonging to the Department, had not been brought to accounts even by 31 December 2020.	As it is mentioned under general instructions 8 (8:1) and (8.2) of the Circular, No. 267/2018 that a Register of Fixed Assets can be maintained through the CIGAS programme, action had been taken to furnish the softcopy.	As per Paragraph 8.2 of the said Circular, all the non-financial assets of the Department should be identified and brought to accounts at cost or the assessment values.

1.6.2 Reconciliation Statement on the Advances to Public Officers Account

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) A difference of Rs. 444,761 existed as at 31 December 2020 between the debit balances shown in the Public Officers Advance "B" Account and the computer printouts of the Treasury. Action had not been taken to identify this difference continued to exist from the years prior to 2004 and adjust in the accounts.	Action will be taken to identify the reasons for this difference continuing to exist since the years prior to 2004, and make adjustments in the accounts.	In case of a difference in the balances between the advance control account and the computer printouts of the Treasury, action should be taken to identify that difference and adjust in the accounts.
(b) A loan balance of Rs. 23,500 receivable from a transferred officer, had not been brought to the advance account.	It is speculated that the loan balance of Rs. 23,500 had been settled. Once confirmed, corrective measures will be taken.	All the receivable loan balances should be brought to accounts.
(c) A difference of Rs. 84,513 existed between the total of the classification of individual balances of the Advances to Public Officers Account and the balance of the control account of the Department.	It will be kindly informed as soon as the reasons for the difference are identified.	As mentioned in Paragraph 05 of the State Accounts Circular, No. 256/2017 dated 05 July 2017, reasons for the difference should be explained.

1.6.3 Lack of Evidence for Audit

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
The officer in the post of Dancing Exhibitor had participated in foreign trips to China and Korea in the years 2003 and 2004 respectively. However, files relating to foreign tours had not been maintained.	The duties relating to foreign tours had been entrusted to the Artists ' Affairs Division of the Department in the year 2016. That Division has been properly maintaining the files since then.	Action should be taken to properly maintain all the files relating to foreign tours.

2. Financial Review

2.1 Revenue Management

Audit Observation	Comment of the Accounting Officer	Recommendation
The Department had received a sum of Rs. 17,463,012 from the Central Government under the Head of Revenue, 2004.01.00 as social security contributions. However, that revenue had not been estimated.	Social security contributions under 2004.01.00 has not so far been included in the revenue estimate. Action has been taken to include that into the revenue estimate with effect from the ensuing year.	Action should be taken to estimate all the revenue to be received.

2.2 Management of Expenditure

Audit Observation	Comment of the Accounting Officer	Recommendation
Provision amounting to Rs. 55,744,019 and Rs. 141,109,951 had been saved under 42 recurrent Objects and 11 capital Objects respectively. Those savings represented 6 - 100 percent of the provision made through revised estimates.	As the health guidelines imposed in regard of Covid-19 had to be followed, the impediments to the implementation of programs planned for the year 2020 had attributed to the said issue.	Attention of the management should be drawn on preparing the expenditure estimate in a realistic manner.

2.3 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A balance of Rs. 1,548,821 had been shown under 11 recurrent Objects in the statement of liabilities and commitments of the year under review. In addition to those liabilities however, a sum of Rs. 4,801,039 had been paid under 13 recurrent Objects in January and February 2021 with respect to the year 2020. As such, the total commitments and liabilities had been understated by Rs. 4,801,039 in the financial statements.	The liabilities and commitments received by the Accounts Division up to 31 December 2020, had been included in the Register of Liabilities. Action had been taken in terms of Financial Regulation 115 with respect to the liabilities received thereafter.	All the values payable should be included in the statement of liabilities.

- | | | |
|---|--|--|
| (b) The balance totaling Rs. 1,053,000 payable by the Department to the Tower Hall Theatre Foundation relating to the years 2016 and 2017 had been shown in the financial statements of the latter, but that value had not been shown as liabilities in the financial statements of the Department. | The Tower Hall Theatre Foundation has not presented a bill, or no request has been made in that connection thus far. | All the values payable should be shown in the financial statements as liabilities. |
|---|--|--|

2.4 Certifications of the Accounting Officer

----- Audit Observation -----	----- Comment of the Accounting Officer -----	----- Recommendation -----
In terms of provisions of Section 38 of the National Audit Act, No. 19 of 2018 , the Chief Accounting Officer and 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 presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.	All the measures are taken to maintain an effective internal control system for the financial control of the Department, and the effectiveness thereof is examined often thus ensuring the productivity of the system.	Provisions of Section 38 of the National Audit Act, No. 19 of 2018 should be followed.

2.5 Non-compliances with Laws, Rules, and Regulations

Instances of non-compliances with provisions of Laws, Rules and Regulations observed in audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Observation Non-compliance	Comment of the Accounting Officer	Recommendation
(a) Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.			
(i) Subsection 4.2.3	Distress loans were granted to 05 officers who were about to be retired in the year under review without entering into a mandatory agreement prepared in accordance with the format shown in Appendix 23.	Officers on the verge of retirement have not requested for distress loans at present, nor have distress loans been granted to them. In case of such officers requesting for distress loans, action will be taken in due course to sign a bond with them as mentioned in Appendix 23. However, as for the distress loan balances pertaining to retired officers, if any, action will be taken to request the officer in charge of paying pensions to recover such balances from the converted pension.	Provisions of the Establishments Code should be followed.
(ii) Subsections 4.2.5, 4.5 and 4.6.	Action had not been taken to recover the loan balances totaling Rs. 23,931 that had remained receivable for over 05 years from 05 deceased officers.	In the event that an officer dies before the recovery of his loan, action has been taken to present the Department of Pensions with information of the deceased in order to recover the balance from the monies to be paid to the heirs.	Action should be taken in accordance with provisions provided in the Establishments Code about the loans pertaining to an officer who is deceased before settling loans.

- | | | | | |
|-------|--|--|--|---|
| (iii) | Subsection 4.5 and Section 4.3 (e) of the Public Finance Circular, No. PFD/RED/2015/08 Gen(i) dated 09 October 2015. | As for a sum of Rs. 36,380 remained receivable for over 05 years from 02 interdicted officers, a sum of Rs. 23,923 receivable from 05 unidentified officers, and a sum of Rs.82,923 receivable from 09 officers who had vacated their posts, action had not been taken in accordance with provisions for recovery of the said loan balances. | Once the administrative division is informed on the loan balances pertaining to the officers who had vacated their services or been interdicted, action is taken for the recovery. Information has been presented about the officers who had been identified, and agreed to settle the loans. | Action should be taken in accordance with provisions of the Establishments Code on an officer who has been interdicted or whose service has been terminated before settling a loan. |
| (b) | Regulation 189 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. | Action had not been taken in terms of Financial Regulations on 59 uncleared cheques worth Rs.830,034 that had been deposited during 2018 -2020. | Information is sought on the said 59 cheques that had not been cleared. Once such information is found, action will be taken to inform. | Action should be taken in terms of Financial Regulations. |
| (c) | Paragraph 1.1.7 of the Circular, No. 118 dated 11 October 2004. | Action had not been taken to recover loan balances totaling Rs. 90,568 that had remained receivable for over 05 years from 23 officers transferred to Government Ministries/Departments. | As priority had been given to the essential services in the wake of unfavorable situation that arose in the year 2020, the recovery could not be done during the year 2020. However, the officer in charge of the subject has been informed to take prompt action to recover or settle those loan balances in the year 2021. | Provisions of Circulars should be followed. |

2.6 Operating Bank Accounts

The following deficiencies were observed in the audit test checks conducted on operating bank accounts.

Audit Observation	Comment of the Accounting Officer	Recommendation
Two balances valued at Rs. 3,040 shown in the bank reconciliation statement as being continued from the year 2014, and 09 cheques valued at Rs. 28,851 that had continuously been shown as unidentified payments relating to the year 2018 and years prior, had not been identified and adjusted.	Accurate information on the cheques and the said payments continuing to exist from the year 2018 and the years prior, is yet to be received. Once found and settled, it will be informed.	Action should be taken to settle the unidentified payments and cheques.

3. Operating Review

3.1 Annual Performance Report

Audit Observation	Comment of the Accounting Officer	Recommendation
The annual performance report that should have been presented along with the financial statements after being prepared as per the format in Guideline 14 issued by the Department of Public Finance in terms of Section 10.2 of the Public Finance Circular, No. 2/2020 dated 28 August 2020 and Section 16(2) of the National Audit Act, No. 19 of 2018, had not been presented to the Auditor General even by 31 May 2021.	Action is being taken to expeditiously present the annual performance report.	The performance report should be presented in accordance with provisions of the Act, and the Circular.

3.2 Procurements

The following observations were made on the renovation of National Art Gallery.

Audit Observation	Comment of the Accounting Officer	Recommendation
(a) A Cabinet Paper had been presented on 29 October 2020 for renovation of the National Art Gallery. Approval had been given through the Cabinet Decision, No. අම/ 20/1760/305/010 dated 15 December 2020 to demolish the building in view of renovation. An estimate valued at Rs. 8,362,898 had been presented by the Navy to construct a temporary roof and remove the rubble. However, the Faculty of Architecture of the University of Moratuwa-the institution providing consultancy services, had informed that only an expenditure of Rs. 6,159,450 (without tax) would be incurred in that connection. As such, the expenditure estimate had been exceeded by a sum of Rs. 2,203,448, but the Procurement Committee had approved the estimate prepared by Navy, on 21 December 2020.	The consultancy services provider informed through a letter that the amount in excess of the estimate would be the cost on temporary roof, equipment, and machines whilst a sum of Rs. 1.5 million therefrom would be recovered from the scarp value. The decision of the Committee stated that the Procurement Committee had drawn attention thereon.	Action should be taken to avoid such uneconomic expenses.
(b) The Navy had been entrusted with this task following approval of the Cabinet, but action had not been taken to enter into a formal agreement in terms of Guideline 8.9.1 of the Procurement Guidelines and obtain a performance security as per Guideline 5.4.8 of the Procurement Guidelines.	The Commander of Navy presented a letter on 23 April 2021 stating that the Navy did not enter into agreements with any institution and no performance securities were provided with respect to construction works undertaken by the Navy.	The Procurement Guidelines should be followed.
(c) The maximum advance payment to be made under Procurement Guideline 5.4.4 would be Rs. 1,520,527. However, an advance of Rs. 5,500,000 had been given. An advance payment guarantee had not been obtained as well.	The said task had been executed on direct basis under Cabinet approval. As such, the provision allocated for the Navy, a Government institution, on demolition purposes, had been paid in cash under approval of the Secretary to the Ministry and the Board of Procurement of the Department.	Advances should be paid only upon an advance payment guarantee in terms of Procurement Guidelines.

- | | | | |
|-----|---|--|---|
| (d) | Consultancy services had been obtained from the University of Moratuwa for the task. Although an agreement had not been entered into, a sum of Rs. 1,410,000 had been paid representing 94 per cent of the total consultancy fee amounting to Rs. 1,500,000. | An agreement had been entered into with the institution providing consultancy services. | An agreement should be entered into for the obtaining consultancy services, and payments should be made in terms of the agreement. |
| (e) | Although approval on the renovation works of the building had been given through a Cabinet Paper, a sum of Rs. 269,996 had been incurred for painting the building and landscaping purposes during 03-19 December 2020 by considering the work as being an urgent maintenance activity. However, the building had been demolished by 31 December 2020, hence the expenditure of Rs. 269,996 had become futile. | Painting the building of National Art Gallery and landscaping works were done in accordance with the Note of the Director of Cultural Affairs dated 2020/12/01, and by that time, the Cabinet Decision was yet to be received. Hence, there was no idea in that instance that the building would be demolished soon. | The management is responsible for averting such futile expenses. |
| (f) | The procurement activities pertaining to the renovation of National Art Gallery had been done by the Procurement Committee of the Department. However, it was not verified as to whether the authority for procurements had been compliant to the Guideline 2.14.1 as a total cost estimate had not been prepared. A Technical Evaluation Committee had not been appointed in terms of Procurement Guideline 2.8.1 as well. | As the limit of authority relating to the total cost estimate comes under purview of the Procurement Committee, action was taken accordingly.
A quotation for demolishing works, the first stage of the renovation, was obtained based on the Bill of Quantity (BOQ) that had been approved by the Technical Evaluation Committee and the Procurement Committee of the Department after being prepared previously to call for bids under national competitive bidding. Considering the facts that architectural consultancy services were provided on initial demolition works by the architectural consultancy services unit of the University of Moratuwa; and, the constructions would be done by a Government institution on direct basis under approval of the Cabinet, it was not necessary to seek assistance of the Technical Evaluation Committee. | Action should be taken to prepare a total cost estimate for the task and appoint a Technical Evaluation Committee in terms of Procurement Guidelines. |

3.3 Assets Management

The following observations are made.

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
(a) The Department did not possess any documents to verify the rights to 05 lands in extent of 3.6517 hectares, nor had action been taken to take over the ownership of those lands.	No information is available on the rights to 03 lands in extent of 3.2701 hectares. Action is being taken to take over 02 lands the extent of which is 0.3816 hectares.	Action should be taken to take over the rights to the lands of the Department.
(b) The lorry, with the registration number 41 ཨྱ 9416 belonging to the Department had been released to the Ministry of Buddhasasana, Religious and Cultural Affairs without legally vesting therein.	Following the request made by the Secretary to the Ministry of Cultural Affairs, the lorry bearing the number 41 ཨྱ 9416 had been provided for official works on temporary basis, and action has been taken to properly hand over the lorry.	Action should be taken to legally hand over vehicles to such institutions.

3.4 Securities of the Government Officers

Audit Observation -----	Comment of the Accounting Officer -----	Recommendation -----
Although 52 officers had been identified to be eligible to give securities in terms of Financial Regulations 880-893 and Cap.612 of the Public Officers' (Security) Ordinance, no action had been taken to obtain securities from them.	Officers who should give securities have been identified. Instructions were sought on 24 July 2020 from the Secretary to the Ministry as to how the securities should be given and the values thereof in terms of Public Finance Circular, No. 07/2019 dated 25 November 2019. Once the instructions are issued, action will be taken for the recovery.	Securities should be obtained from the eligible officers in terms of provisions.

4. Good Governance

4.1 Internal Audit

Audit Observation	Comment of the Accounting Officer	Recommendation
An internal audit had not been conducted in terms of Section 40 of the National Audit Act, No. 19 of 2018. Action had not been taken even up to May 2021 to appoint an officer to the post of Internal Auditor that had been approved in the year 2011.	It is not possible for the Department to recruit officers to the post of Internal Auditor; instead, it is the Ministry of Public Administration that should recruit and attach officers to that post. Letters had been sent from time to time since the year 2016 to the Ministry of Public Administration requesting that an Internal Auditor be attached.	Measures should be taken expeditiously to appoint an Internal Auditor and conduct internal audits.

5. Human Resource Management

Audit Observation	Comment of the Accounting Officer	Recommendation
Of the cadre approved for the Department being 850, fifteen percent equivalent to 125 posts had fallen vacant in the year under review; and, 43 percent of the 28 posts in the senior level equivalent to 12 vacancies also existed therein.	The 02 posts of Editor were the promotions given to the Assistant Editor and Deputy Editor, and no recruitments can be made externally to those posts. The competitive examination for recruiting 07 Assistant Editors was scheduled to be held in June 2021 through the Department of Examinations. Furthermore, recruiting to the posts of Accountant, Internal Auditor, and Assistant Director is done through the Ministry of Public Administration. Requests have been made that the relevant officers be attached.	Action should be taken to promptly fill the vacancies by considering the requirements.