

Tower Hall Theatre Foundation - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, summary of significant accounting policies 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 and the Finance Act, No 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Foundation as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 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 qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, 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.

In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No.19 of 2018, the Foundation 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 of the Foundation.

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 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of

information to enable a continuous evaluation of the activities of the Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation;
- Whether the Foundation has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

It is necessary to maintain a sufficient "well-designed" internal accounting control system to obtain reasonable confirmation for such as execution of transaction with general and precise authority of the management, recording transactions and maintaining accounting for assets as required to prepare financial statements in accordance with applicable reporting standards, access to assets only with the general and specific authority of management, to the accounting activities for the recorded assets to be compared with the existing assets in reasonable periods of time and take appropriate action if there are any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comment of the Management	Recommendation
(a) In terms of paragraph 80(c) of the Sri Lanka Public Sector Accounting Standard No.01, although the liabilities to be settled within 12 months from the date of reporting should be classified as current liabilities, the provisions of Rs.1,345,805 for gratuity for three employees who are to be retire in the year 2023 had not been stated under current liability.	It has been noted to make correct adjustments in the accounts for the provisions of gratuity for such retirements in the future.	It should be act as per the Sri Lanka Public Sector Accounting Standards.
(b) Rs.942,000,000 of 03 lands and Rs.584,828,968 of 05 buildings owned by the foundation which was held at the 31 December 2022 including the head office land and building which were revaluation in the year 2016 had not been revaluated in accordance with paragraph 49 of the Sri Lanka Public Sector Accounting Standard No.07 by the end of the year under review.	Preliminary work has been carried out in the year 2022 to obtain the assessment report required for this revaluation and necessary letters have been sent to the Government Valuation Department. Even though the Valuation Department has informed that the assessment work of our institution will be completed	It should be act as per the Sri Lanka Public Sector Accounting Standards.

by the end of the year 2022, since the work has not been completed so far as the Government Valuation Department is carrying out the assessment of public property due to the turmoil in the country in the year 2022, letters have been sent to the Valuation Department once again. However, It is stated that all steps will be taken to complete this assessment in the year 2023.

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| (c) | Rs.230,375 of provisions for gratuity had not been made for the year 2022 for ten employees/ officers who had not completed 05 years of service but had served for 12 consecutive months by the year under review in terms of paragraph 62 of the Sri Lanka Public Sector Accounting Standard No.19. | Action will be taken to correct from year 2023. | It should be act as per the Sri Lanka Public Sector Accounting Standards. |
| (d) | According to paragraph 12 of the Sri Lanka Public Sector Accounting Standard No.20, although the government grants relating to depreciable assets should be identified as the deferred income for profit or loss during the period in proportion to the depreciation expense of the respective assets, Rs.47,344,638 of deferred income for the year under review had been credited to the accumulated fund by the foundation instead of accounting as income of the year. | It was made a note to correct in the year 2023. | It should be act as per the Sri Lanka Public Sector Accounting Standards. |

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Due to the fact that, depreciation adjustments have not been made for the period from 2017 to 2021 for Rs.161,750,000 of head office building and Rs.1,250,000 of Studio	The studio and building were depreciated and accounted for from the year 2022 and adjustments were not made for the previous years. It will	Action should be taken to make the relevant depreciation adjustments from

- owned by Tower Hall Theatre Foundation which was revaluated in the year 2017, accumulated depreciation had been understated by Rs.81,500,000 and the Accumulated Fund had been overstated by that amount.
- (b) As on 31 December 2022, although the balance in account of provision for gratuity was Rs.23,196,800, the investment value of the corresponding fixed deposits was Rs.20,752,432.
- (c) Although the gratuity payments were stated as Rs.1,642,130 according to the cash flow statement, the gratuity paid during the year was Rs.1,709,865 and gratuity payments had been understated by Rs.67,735 in the statement of the cash flow.
- (d) Even though profits generated on revaluation of assets which has been adjusted to the Reserve Account are not included in the cash flow statement, the profit of Rs.34,670,000 generated through revaluation of vehicles in 2022 had been stated under the operational activities of the cash flow statement.
- be taken action to correct by the prior year adjustments in the preparation of financial statements for the year 2023.
- The allocation of money for gratuity has not taken place in the last few years due to the financial crisis. In the year 2023, the deposit of Rs.7,250,432 out of the two fixed deposits reserved for that purpose was increased up to Rs.8,000,000 and invested for 5 years in a public sector bank with a high annual interest rate of 30%.The shortfall of the allocation of that money will be met by the annual interest income from 2023 onwards.
- In the provisions of gratuity, there was an under-provision of Rs.67,735 in the previous year. The payment of that gratuity has been made through adjustments of the previous year. It has been given on page 22 in the prior year adjustment of the final statement of accounts. Therefore this variation has been happened.
- It will be correctly indicated in the cash flow statement in the year 2023.
- the date of the revaluation of the assets.
- Efforts should be made to increase the investment as stated in the answer.
- The value paid in cash should be indicated in the cash flow statement while preparing the cash flow statement.
- Presenting profits which was not generated in cash in the statement of cash flow should be corrected.

- (e) Although the balance of the President's Welfare Fund for performing artists under the Reserves of financial statements for the year 2022 was Rs.60,399,700, the value of fixed deposits in the name of the relevant welfare fund was Rs.70,999,700. As a result, the balance of the fund had been under stated by Rs.10,600,000 and the reasons for this were not revealed.
- Rs.60,399,700 under the reserves of the final accounts is the sum of funds received by the President's Welfare Fund from time to time. After investing that in fixed deposits and paying benefits to the artists from the interest income, the surplus money remaining has been reinvested and the fund has been increased to Rs.70,999,700. At present, the surplus amount of Rs.10,600,000 is included in the accumulated profit under the Reserves of the final accounts. It is informed that necessary steps will be taken to transfer the amount from the accumulated profit to the President's Welfare Fund in the year 2023.
- The balance of the fund should be maintained compared to the fixed deposit value and during the investing of annually remaining surplus money, it should be withdrawn from the accumulated profit and transferred to the fund account.
- (f) Although the balance of Tower Repertory fund was Rs.276,900, the fixed deposit amount in the name of the respective fund was Rs.100,000. Accordingly, the deposit amount was invested less than Rs.176,900 as compared to the balance of the fund and even though the previous year's audit reports also pointed out regarding this, action had not been taken to correct this error.
- Although there was an amount of Rs.276,900 in the name of Tower Repertory Forum under the Reserves in the final accounts, it currently has a balance of Rs.717,015 in the Savings Account of the Bank of Ceylon under the name of Tower Repertory fund. This balance has been originated by adding the income obtained from the performance of drama produced by the Drama School in each occasion. In addition, Rs.100,000 has been invested in a fixed deposit. The balance of the savings account was not invested in fixed deposits because various expenses may have to be incurred for
- The balance of the fund should be maintained compared to the fixed deposit value and the interest collected annually should be withdrawn from the accumulated profit and transferred to the fund account and, only the amount of money that is suitable for the expenses should be kept in the savings account and the rest should be invested.

the production of drama. However, necessary steps will be taken to transfer the amount from the accumulated profit to the Tower Repertory fund in the year 2023.

- (g) Although the fixed deposit interest income was Rs.22,010,386 according to the Financial Statement, the interest income according to the schedule has been stated as Rs.21,461,065. Accordingly, a difference of Rs.549,321 was observed between the financial statements and schedules. In calculating fixed deposit interest, some banks should calculate interest on the number of days and some banks pay interest for the month. Therefore, there are differences between the document (Final account Schedule) indicated to be prepared by the audit queries and the actual interest receipt. Interest income should be accurately calculated according to the number of days related to the period and accounted.
- (h) Although the interest income for fixed deposits for the year under review was Rs.14,082,645, due to the fact that it has been stated as Rs.14,202,278 according to the financial statements of the year 2022, the income of the year had been over stated by Rs.119,633. The answer given in "A" above. Interest income should be calculated correctly and taken into accounts.
- (i) Although the opening balance of the accounts should be forwarded through a journal voucher as of 01 January 2022, the Foundation had not act accordingly. Action will be taken to correctly account in the preparation of the final accounts for the year 2023. Opening balances should be made through a journal voucher when forwarding in the accounts.

1.5.4 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Unsubscribed evidences	Audit Comment of Management	Recommendation
Reserves	79,368,600	Information/files/documen ts relating to 05 accounts balances being brought forward over several years.	It was instructed in the Audit and Management Committee meeting to re-examine the final accounts prepared from	Action should be taken to present the necessary evidence for the audit.

the beginning on all these balances and carry out necessary actions.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Directives of the Special deed dated 08 October 1980 relating to handing over of Sawsiripaya Building and the land where it is located to the Foundation	<p>i. Although it was stated that this land and its buildings should not be used for purposes other than those required to encourage and promote national theatricals activities and, if not used for such purposes, it would then be handed over to the Democratic Socialist Republic of Sri Lanka, Sawsiripaya building owned by the Foundation and its land had been leased to the Construction Industry Development Authority on 02 occasions for 30 years each.</p>	<p>It is kindly mentioned that the approval has been granted to the Board of Trustees for the lease and sale of any property, building, land owned by the Tower Hall Theatre Foundation in order to raise funds to achieve the objectives of the Tower Hall Theatre Foundation Act.</p>	<p>Action should be taken in accordance with the terms and conditions of the Directives of the Special deed.</p>
	<p>ii. By the reply letter dated 09 January 2023 related to the Audit Query No.CAA/A/THTF/2021/05/Q10 dated 13 December 2022 relating to the lease again to the Construction Industry Development Authority for a period of 30 years through an illegal written lease agreement signed by a Director General who has not received formal appointment by formal approval, although the Director General of the Foundation stated that this error will be corrected, the action had not been taken to correct accordingly.</p>	<p>Letters have been sent regarding the expiry of the contract period since 2014. Nevertheless, It is accepted that, signing the agreement against the decisions of the Board of Trustees at the level of the Ministry Secretaries without handing over the Sawsiripaya building is an offence. One meeting has already been held under the chairmanship of the Prime Minister and another meeting with</p>	<p>A new lease agreement should be reached immediately according to the assessment value.</p>

the Secretaries of the Ministries and Heads of Institutions including the Secretary to the Prime Minister to correct that error. It is kindly informed that there is no prospect to take legal action as this is a problem related to a government property and a building run by 02 government institutions.

iii. Due to the inclusion of a clause that includes conditions that lessees have the authority to interim lease of the entire leased property or part of it in the primary lease agreement reach by the foundation with the Construction Industrial Development Authority, the authority had made the interim lease of an area of 2017 square feet from 01 July 2021 to 30 June 2023 to the Construction Guarantee Fund (CGF) at a monthly rent of Rs.227,000. Also, the auditorium belonging to the building which was leased to that authority had also been given to external parties on a rental basis.

It is kindly informed that actions are being taken to resolve the issue.

In entering into a new agreement, the condition of interim leasing in the old agreement should remove and leasing to other entities should be done only by the foundation.

- (b) Paragraph 04 of the Public Finance Circular No.02/2020 of 28 August 2020
- The annual procurement plan of the foundation prepared did not include the procurement plan for the implementation of recurrent programs.
- Procurement Plan for the year 2023 has been prepared properly.
- Action should be taken in accordance with the Public Finance Circular.
- (c) Paragraph 6.6 of the Operational Manual of the
- Although the draft annual report and accounts should be submitted to the Auditor General within 60 days of the
- Even though it was delayed to submit the final accounts 2022 with the approval of
- It should be act as per the Public Enterprises Circular.

Public Enterprises Circular No.01/2021 of 16 November 2021

end of the accounting year, the Foundation had submitted the accounts for the year 2022 to the Auditor General on 19 May 2023.

the Board of Trustees to the Auditor General due to the delay in holding the meetings of the Board of Trustees, the final accounts were submitted to the Audit and Management Committee Meeting held in March 2023 and a draft of the same was submitted to the Audit. It will be submitted without delay from the year 2023 onwards.

1.7 Cash Management

Audit Observation	Comment of the Management	Recommendation
<p>Although the board of trustees paper No.2019/294/03/01 has given approval to increase the pension allowance which was Rs.3,000 to Rs.7,500 stating that the required additional amount of money can be procured through a new strategy, a new strategy had not been identified as of the date of the audit and therefore an amount of Rs.1,816,000 had been taken from the current account No.2327541 of the foundation on 07 occasions due to the fact that the deposit interest income of the fund was insufficient to pay the allowances of Rs.7,435,500 for the year 2022.</p>	<p>The decision of then Prime Minister had also been approved by the Board of Trustees. Although it was proposed to take alternative new strategies in the paper, such strategy had not been made. Although the President's Welfare Fund received government grants from time to time, it did not receive such government grants in previous years. President's Welfare Fund has two main sources of income.</p> <p>01. Fixed Deposit interest income, 02. With the approval of the Board of Trustees, 10% of the amount received from the sale of Kalapura land by the artists to the Tower Hall Theatre Foundation,</p> <p>However, new strategies have been developed by now. Since the fixed deposits receive high interest income at present, new fixed deposits are being started from the rest of money after paying welfare expenses from that income and that</p>	<p>Although the new strategy is to invest the rest of the money in fixed deposits, efforts should be made to provide other alternative ways as the interest on fixed deposit investments fluctuates.</p>

fund is being increased. Therefore, even though the interest rates come down in the future, it is possible to continue the cash flow of the institution without any hindrance while paying the welfare expenses.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was Rs.80,792,883 deficit and correspondingly to that, the deficit in the previous year was Rs.77,244,487. Accordingly, it was observed a decline of Rs.3,548,396 in the financial results. Increases in other allowances, fuel and lubrication costs, repair and maintenance costs, and electricity costs were the main reasons for this decline.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Steps were not taken to amend the Tower Hall Theatre Foundation Act, No.01 of 1978 in a timely manner.	Cabinet approval was obtained to amend the Tower Hall Theatre Foundation Act and a committee was formed for the same and amendments were incorporated to suit the present situation. At present, the Bill containing amendments has been submitted to the Legal Draftsman's Department. It is kindly informed that this work can be completed after it is presented to the Cabinet and Parliament once receiving it from the Department.	Action should be taken to amend the Act immediately.
(b) Due to the increase in the allowance from Rs.3,000 to Rs.7,500, the fund were also facing difficulties in paying the benefits to the beneficiaries who are currently in and, more than 50 artists who had applied from 2014 had to remain on the waiting list for many years as they could not get the pension. It is observed that the foundation has failed in the last few years to achieve the	Accept. The fund has been properly managed by the present and efforts are being made to strengthen the fund.	After considering the financial feasibility and developing methods to increase funds, efforts should be made to increase the allowances.

desired objectives by setting up the President's Welfare Fund due to not taking correct decisions regarding this fund and not taking steps to manage the fund properly.

3.2 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
<p>A person who did not meet the criteria for the post of "Maintainer" was recruited for this post contrary to the Scheme of recruitment of the Foundation.</p>	<p>It is mentioned that, although the newspaper advertisements have been published for many years to fill these technical positions required to run the institute, person who has met the qualifications has not presented. Accordingly, this applicant who has completed NVQ 4 and presented for this interview has been recruited as a maintainer. Further, it has been stated in the Scheme of recruitment that a person with NVQ 4 qualification should be recruited.</p>	<p>Action should be taken according to the Scheme of recruitment and otherwise, the relevant recruitment should be done after amending the Scheme of recruitment.</p>