

Tower Hall Theatre Foundation - 2014

The audit of financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive income statement, 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. My comments and observations which I consider should be published with the Annual Report of the Foundation in terms of Section 14((2)(c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation'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 Tower Hall Theatre Foundation as at 31 December 2014 and its financial performance and its 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 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to revalue and account the fair value of property, plant and equipment costing Rs. 173,403,545 fully depreciated but still being utilized.
- (b) Despite the ownership of assets costing Rs.105,238 which were not belonging to the Foundation, those had been brought to account as the assets of the Foundation.
- (c) Depreciation of buildings and studio equipment for the year under review had been understated by Rs.446,304 in the financial statements due to computation errors in depreciation.
- (d) Instead of accounting a sum of Rs. 793,500 granted by the Ministry for incidental expenses of the participants at a Drama Festival in India as an income and expenditure of the Foundation, it had been deducted from the foreign travelling expenses. As such, the foreign travelling expenses and the income of the Foundation had been understated in the financial statements by that amount.
- (e) Stocks at book value of Rs. 1,432,858 at the end of the year under review had not been physically verified and the necessary adjustments had not been made.

2.2.2 Inadequate Disclosures in the Accounts

Even though consultancy services had been supplied by the Department of National Buildings for the Project of Modernization of the Elphinstone Theatre commenced from 31 May 2012, no agreements whatsoever had been entered into with that Department up to 30 June of the year under review. However, according to the agreement entered in to with that Department on 30 June of the year under review, a payment of Rs.8,723,050 should be made for the supply of consultancy services. Nevertheless, neither disclosures whatsoever had been made in this connection in the financial statements nor provisions made for the payments.

2.2.3 Lack of Evidence for Audit

Adequate evidence to ensure the accuracy of the values relating to the following items appearing in the financial statement was not been made available to audit.

| Item ----- | Value ----- Rs. | Evidence not made available ----- |
|---------------------------------------|-------------------------------------|---|
| (a) Donations - cash | 18,577,319 | Relevant files and Schedules of Donations |
| (b) Donations - materials | 58,890,541 | - Do - |
| (c) Equipment Aid Japanese Government | 20,090,000 | - Do - |

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to recover advances of Rs.100,000 granted to 3 suppliers from a period of 2 to 6 years.
- (b) Action had not been taken to recover a sum of Rs.70,400 receivable for providing studio services and conducting classes at the Rukmani Devi Theatre from a period of 02 to 05 years.

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

The following instances of non-compliance with laws, rules, regulations etc. were observed.

| Reference to Laws and Rules, ----- | Non-compliance ----- |
|---|---|
| (a) Section 11 of the Finance Act, No. 38 of 1971 | Even though the Foundation had deposited a sum of Rs.110,998,772 in fixed deposits and a sum of Rs.20,687,000 in seven days call deposits by 31 December of the year under review, action had not been taken to obtain the concurrence of the Minister of Finance according to the provisions of the Act. |
| (b) Section 10.1 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | The approval of the Prime Minister had not been obtained by 3 officers prior to departure from the country for the participation in an international congress and a cultural event. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulations 102 and 757(2) | Action in terms of the Financial Regulations had not been taken even in the year under review on the shortage of 492 units of 84 categories of goods revealed at the Board of Survey conducted relating to the preceding year. |

- (ii) Financial Regulation 702 and Section 8.9.1 of the Procurement Guidelines
- No Memorandums of Understanding whatsoever had been entered into with the Department of Civil Security for obtaining labour contribution from 31 May 2012 for the modernization of the Elphinstone Theatre up to the end of the year under review. However, a sum of Rs.16,897,050 had been paid to that Department for the services of 37,549 man days up to 31 December of the year under review.
- (iii) Financial Regulation 756
- Even though a Board of Survey for the conduct of the Annual Board of Survey should be appointed on 15 December or a date close to that of each year, the appointment of the Board of Survey or the conduct of the Board of Survey for the year under review had not been done even by June 2015.
- (vi) Financial Regulations 380 and 381
- The bank account in the name of Rukmani Devi Commemorative Scholarship Fund had been closed and approval of the Treasury had not been obtained to open a new bank account in the name of Tower Repertory Theatre with the sum of Rs.56,575 which was in the Rukmani Devi Commemorative Scholarship Fund.
- (v) Financial Regulation 371 (2) (b)
- Sub-imprests exceeding Rs.20,000 had been obtained by 4 officers in 15 instances contrary to the provisions mentioned in the Regulation. The total of advances so obtained was Rs.1,184,575. Moreover, out of the adhoc sub-imprests totalling Rs.555,900 obtained by 5 officers in 7 instances during the year, an amount ranging from 30 per cent- 61 per cent had remained unspent.
- (d) Public Administration Circular No.02/199 of 26 February 1999
- Despite the limits of supply of mobile telephones having been made only for a Secretary to a Cabinet Ministry by the Government, a sum of Rs.200,900 had been spent to supply 7 mobile telephones to 7 officers and provisions had not been made for this in the Annual Procurement Plan of the Foundation.

- (e) Section 8.3.5(a) of the Public Enterprises Circular No. PED/12 of 02 June 2003
- A sum of Rs.268,800 had been spent in the year under review to pay a monthly fuel allowance of 140 litres contrary to the Circular, providing an official vehicle considering the post of Director (Promotion of Dramas, Education and programmes) as a post equal to that of a Head of Department.

3. Financial Review

3.1 Financial Results

The financial result of the Tower Hall Theatre Foundation for the year ended 31 December of the year under review had been a deficit of Rs.12,681,847 as compared with the corresponding deficit of Rs.8,370,607 for the preceding year thus, indicating a deterioration of Rs.4,311,240 in the financial result of the year under review as compared with the preceding year. Even though Government Grants, operating income and income from programmes had increased by Rs.4,874,458, the decrease of other income of the Foundation by Rs.4,899,812 and the increase of administrative and establishment expenditure by Rs.4,679,982 had mainly attributed to this deterioration.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though it had been planned to complete 18 main activities by the end of the year under review relating to the modernization of the Elphinstone Theatre under the Elphinstone Theatre Modernization Project and provisions amounting to Rs.170.6 million had been made according to the Procurement Plan, action had not been so taken. Certain activities had not been commenced even by March 2015 and the delay had been due to the complexity of the activities and the delay in the receipt of Government funds for modernization as well had attributed to the poor performance of the project.
- (b) Even though it had been planned to conduct 8 drama workshops and produce 2 dramas according to the Action Plan during the year under review and provisions amounting to Rs. 800,000 and Rs.1,800,000 had been made respectively, only 01 drama workshop had been conducted and one drama had been produced during the year.

4.2 Management Inefficiencies

The following observations are made.

- (a) The income of the Rukmani Devi Theatre maintained by the Tower Hall Theatre Foundation had not been adequate even for the payment of salaries of the employees of that theatre. Even though its income for the year under review amounted to Rs.562,220, expenditure on salaries of employees amounted to Rs.1,178,244. Action had not been taken to increase its income at least to cover the maintenance expenditure of the Theatre.
- (b) The Board of Trustees had held 6 meetings during the year under review. The attention of the Board of Trustees had not been paid to the non-participation at any of the meetings by the Minister in charge of the subject of Local Government and Provincial Councils and the Mayor of the Colombo Municipal Council who are ex-officio members of the Board.
- (c) The duration of the advance surety bond amounting to Rs.2,905,790 obtained from the company to which the contract of wiring and fixing of electric equipment had been awarded, had terminated on 03 October of the year under review. According to the agreement entered into with the company, the period of completion of this purpose had been delayed by 2 months by 31 December of the year under review. However, action had not been taken to renew the period of the surety bond and to enter into a new agreement up to the end of June 2015.
- (d) Even though it had been identified that 110 units of 45 categories of goods that cannot be made use of, were fit for sale according to the Boards of Survey Report in the year 2013, action had not been taken to sell those goods even by 30 June 2015.
- (e) The Theatre had been closed from 01 August 2011 for the modernization purposes of the Elphinstone Theatre. The period which the Theatre had been closed was 3 years and 5 months by 31 December of the year under review and modernization activities could not be completed up to the date of audit. The Foundation had been deprived of an annual income of approximately Rs.6 million which could be earned from the Theatre.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) Even though a sum of Rs.193,123 had been shown as a Drama and Theatre Scholarship Fund Account in the financial statements, no scholarship whatsoever had been awarded from that Fund in the year under review.
- (b) One thousand two hundred and sixty compact discs amounting to Rs.122,774 produced by the Tower Hall Foundation had been given to the Members of Parliament free of charge.

- (c) According to the revised budget estimate for the year 2014, the sum allocated for foreign travel expenses amounted to Rs.8,000. However, the amount spent was Rs.2,394,065. The adequacy of financial provisions had not been taken into consideration in spending Rs.2,386,065, exceeding the budget estimate.
- (d) Even though the air ticket expenses amounting to Rs.793,500 had been incurred by the Foundation on the agreement of reimbursing it from the provisions of the Cultural Ministry for the year 2015 for a dancing troupe who participated at a Drama Festival held in India, the relevant reimbursements had not been made up to 30 June 2015.

4.4 Underutilization of Funds

The sum of Rs.7.5 million granted by the Treasury in September and October 2012 for the modernization of the Rukmani Devi Theatre had been invested in seven days call deposits from time to time without being used for the intended objectives and the modernization activities of that Theatre had not been commenced even by the end of the year under review. In addition to this, the sum of Rs. 20 million granted by the Treasury on 11 November 2011 for capital expenditure had been invested in seven days call deposits from time to time without being used for the intended purpose.

4.5 Resources of the Foundation given to other Government Institutions

A van belonging to the Foundation had been provided for the use of the Ministry of Culture and Art Affairs and the relevant Minister contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the vehicle had been made to run a distance of 6278 kilo metres. Another vehicle also belonging to the Foundation had been provided for the use of three outside persons and made to run a distance of 2095 kilo metres.

4.6 Personnel Administration

The following observations are made.

- (a) Even though the approved carder of the Foundation by the end of the year under review had been 91, the actual cadre as at that date had been 65. Action had not been taken to fill 26 vacant posts up to now.
- (b) Two officers, one person from 06 years and another person from 02 years had been employed in service by the Foundation on acting basis contrary to Section 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. A payment of Rs.164,415 had been made to the two officers for the year under review for acting in those posts.
- (c) The former Director General of the Foundation, appointed to that post with effect from 23 December 2005 had been granted 15 salary increments in the salary scale HM-1-7 relevant to the post and placed on the salary of Rs.55,030 relating to the maximum salary scale and paid salaries with effect from 01 March 2007 to 02 February 2015. The relevant

approvals had not been obtained in terms of Management Services Circulars No. 30 of 22 September 2006 and No. 39 of 06 May 2009 before determining the salaries.

4.7 Utilization of Vehicles

The bus belonging to the Foundation had been provided to the Ministry of Culture and Art Affairs for 9 days on rent basis and it had been made to run a distance of 2086 kilo metres during that period. However, the Foundation had not taken action to recover the rental amounting to Rs.133,815 up to 30 June 2015.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

The following observation are made.

Even though the financial statements for the year ended 31 December 2014 should be presented to the Auditor General within 60 days of the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, those financial statements had been presented only on 25 May 2015.

5.2 Budgetary Control

Comparison of the estimated income and expenditure according to the revised budget for the year under review with the actual income and expenditure revealed variances ranging from 29 per cent to 19907 per cent in the items of expenditure and 27 per cent to 95 per cent in the revenue items thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director General of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Stock Control
- (c) Personnel Administration
- (d) Assets Management
- (e) Contract Administration

