

Tower Hall Theatre Foundation - 2015

The audit of financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, 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 12 (4) of the Tower Hall Theatre Foundation Act, No.01 of 1978. 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 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 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 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 2015 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

As the useful life time of the non-current assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07, twelve items of fixed assets costing Rs. 108,055,536 were still being used despite being fully depreciated. Action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) Even though the building owned by the Foundation had been valued at Rs. 200 million in the year 2007, action had not been taken to account for the value even up to 31 December 2015.
- (b.) Depreciation on the buildings for the year under review had been understated in the accounts by a sum of Rs. 408,585 due to errors in the computation.

2.2.3 Lack of Evidence for Audit

The evidence shown against the following items, had not been made available to audit.

Item	Value	Evidence not made available
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	Rs.	
Donations - cash	18,577,319	} Relevant files and Schedules of Donations
Donations - materials	58,890,541	
Equipment Aid from the Government of Japan	16,072,000	
Plant and Equipment	687,635	Reports of Boards of Survey

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by October 2016 to recover the total of Rs. 82,315 comprising Rs. 25,735 receivable from two Government institutions and Rs. 56,580 receivable from 05 individuals for the supply of sound studio services and remaining recoverable over a period exceeding 02 years.
- (b) Action had not been taken to settle the advances of Rs. 25,000 and Rs. 51,007, given to an external person and an officer of the Foundation respectively remaining outstanding over a period exceeding 3 years.
- (c) The shop rentals amounting to Rs. 432,961 payable to 10 institutions had not been settled even by the end of the year under review.
- (d) Even though 05 years had elapsed since the completion of renovating the Tower Hall Theatre, action had not been taken up to October 2016 to settle the sum of Rs. 1,639,113 retained in the year 2010 and payable to the Central Engineering Consultancy Bureau in that connection.

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

The following instances of non-compliances with Laws, Rules, and Regulations, were observed.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a.) Section 11 of the Finance Act, No. 38 of 1971, and Section 8.2.2 of the Public Enterprises Circular, No. 12, dated 02 June 2003.	The Foundation had invested sums of Rs. 111,019,428, and Rs. 13,502,000 in fixed deposits and seven days call deposits respectively as at 31 December of the year under review without obtaining the concurrence of the Minister of Finance.
(b.) Section 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	An officer had been appointed for 07 years, whereas another officer had been appointed for 3 years in acting capacity for the Post of Theatre Manager, and sums of Rs. 164,415, and Rs. 123,240 had been paid as acting salaries in the years 2014 and 2015 respectively.
(c.) Section 8.3.5 of the Circular, No. PED/12 dated 02 June 2003.	Contrary to the Circular, sums of Rs. 86,500 and Rs. 268,800 had been paid during January – May , 2015, and in the year 2014 respectively for an official vehicle and fuel allowances of the Director of the Theatre Foundation (Drama Promotion, Education and Programmes).

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Foundation for the year ended 31 December 2015 had been a deficit of Rs.12, 050,421 as compared with the corresponding deficit of Rs. 12,681,847 for the preceding year thus, indicating a decrease in the deficit of the year under review by Rs. 631,426 as compared with the preceding year. Even though the total income had decreased by a sum of Rs. 2,173,513, the decrease in the total expenditure by a sum of Rs. 2,804,939 had caused the decrease in the deficit.

An analysis of the financial results of the year under review and 04 preceding years revealed that , a financial deficit had continuously resulted in the years from 2011 to 2015. However, in considering the employee remuneration and depreciation on non-current assets, the contribution of the year 2011 amounting to Rs. 25,614,800 had reached Rs. 31,686,747 in the year 2015 with a fluctuation.

4. Operating Review

4.1 Performance

The main objectives of the Foundation includes : to encourage and promote national theatrical activities, to develop and improve the knowledge, understanding, and practice of the Theatre, to provide financial assistance to Theatre artistes and craftsmen, and to assist in the training of artistes, to engage in the production, experimentation and performance of opera, dance, drama and music, to restore, preserve, maintain and utilize the Tower Hall Theatre as a national monument in order to secure the objectives set out above and for such other purposes as the Board may consider fit.

According to the Action Plan, estimates had been prepared for 28 activities planned to be executed in the year under review under those objectives. However, 14 of those activities had not been executed.

4.2 Management Activities

The following observations are made.

- (a.) Even though the income from the *Rukmani* Devi Theatre amounted to Rs. 408,840 in the year under review, the expenditure on employee salaries amounted to Rs. 1,574,286. The Foundation had failed to increase the income at least for covering its maintenance costs during the 05 preceding years.
- (b.)
 - (i) The Tower Hall Theatre Foundation sells compact disks produced for the conservation of *Nurthi* songs. The production cost incurred on the compact disks/ books produced in the years 2013, 2014, and 2015 amounted to Rs. 2,901,126. However, the income from the sale of compact disks/ books relating to that period amounted to Rs. 481,944. The expenditure had exceeded the income by a sum of Rs. 2,419,182 during that period. The

Foundation had not carried out sales promotion arrangements to sell the compact disks at least for covering the production cost.

- (ii) Twenty five categories of compact disks had been produced during the period 2009 – 2015, and 6,814 of 10,160 units belonging to 13 categories of compact disks, had remained by the end of the year under review without being sold.
- (c.) Even though a Board of Management, responsible for the Board of Trust of the Tower Hall Theatre Foundation, had been appointed for the administration of President's Welfare Fund of the Performing Artistes, no decision whatsoever had been taken by the Board relating to the activities of the Welfare Fund after 29 August 2011.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a.) Advertisements had been published in 05 newspapers at a cost of Rs. 163,736 for the recruitment of an officer to the post of Director General of the Foundation. Even though 15 persons had applied in response to applications called on 21 January 2015, the Chairman of the Board of Control had appointed an external person for that post on 02 July 2015 without calling them for interviews.
- (b.) The Foundation had paid a compensation of Rs. 257,160 in respect of the lawsuit filed by the former Senior Manager (Personnel Administration) of the Foundation on 12 February 2010 for the unfair and unreasonable termination of service, and a sum of Rs. 500,000 had also been paid in the year under review for the settlement of the lawsuit instituted by female Accountant whose service had been terminated on 04 November 2009. Accordingly, due to failure of the top level management to justify the termination of employees, a sum of Rs. 757,160 had been paid to 02 employees as compensation.

4.4 Idle and Underutilized Assets

Prior to the completion of the modernization of *Elphinston* Theatre, 700 seats valued at Rs. 12,768,000 had been obtained from a certain company by February 2015, by paying 80 per cent of that amount. Although payments should be made by inspecting whether the seats comply with the standards after being fixed, it had not been done so, and those seats remained unused even by 30 October 2016.

4.5 Underutilization of Funds

Of the capital grants amounting to Rs. 50,298,221 received in 02 instances in the year under review for the *Elphinston* Theatre Modernization Project, a sum of Rs. 17 million had been saved by the end of the year under review.

4.6 Procurement and Contract Process

- (a.) The following deficiencies were observed in connection with the purchase of an air-condition system for the *Elphinston* Theatre incurring a sum of Rs. 42,136,294.
- (i) A period of 10 months had been taken to award the tender by calling for quotations.
 - (ii) Expenses amounting to Rs. 12,136,294 had been incurred in excess of the estimated amount of Rs. 30 million.
 - (iii) As 02 conditions that had existed at the time of calling for quotations, had later been eliminated by the Procurement Committee, supplies had been provided by the selected institution by decreasing the price by Rs. 8,906,090. Once those conditions had been eliminated, the bids of the other bidders should have been revised, but it had not been done so.
 - (iv) The machine had been procured irrespective of the maintenance and service charges, and other costs likely to incur.
- (b.) The following observations are made in connection with the *Elphinston* Theatre Modernization Project.
- (i) An estimate had not been prepared for all the materials, and labour costs required for the above project.
 - (ii) Even though labour contribution had been obtained from the Department of Civil Security, an agreement had not been signed in that connection. Nevertheless, a sum of Rs. 21,302,100 had been paid to the Department of Civil Security for 47,338 man days relating to the supply of labourers for the period from 31 May 2012 to 31 December 2015.
 - (iii) Even though advances totalling Rs. 22,432,882 had been paid as at 31 December 2015 for the agreed services such as, indoor wiring, purchasing timber for doors, installation of seats, lighting the stages and installation of lighting system, the agreed activities had not been executed even by 28 March 2016, the date of audit.

4.7 Staff Administration

The following observations are made.

- (a.) Even though the cadre approved by the Department of Management Services had been 91 as at 31 December 2015, the actual cadre as at that date had been 61, and there had been 30 vacancies. Among those vacancies, there had been 01 vacancy for each of the Posts of Director Finance, Internal Auditor, Accounts Assistant, and Senior Sound Engineer, whereas 02 posts of Manager had remained vacant at the

Rukmanidevi and Elphinstone Theatres. Hence, the performance of those areas had remained at a weak level.

- (b.) Approval of the Cabinet of Ministers should be obtained in accordance with Section 9 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka when an officer over 60 years of age is reappointed. Nevertheless, an officer older than 60 years had been appointed to the post of Director General on 02 July 2015 without the approval of the Cabinet of Ministers.

4.8 Resources of the Foundation Released to Other Public Institutions

Resources owned by the Foundation should not be released to external persons or the Line Ministry in terms of Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. Contrary to the Circular, 04 motor vehicles had been released to the Line Ministry and 02 Public institutions on different occasions in order to run for 7,095 kilometers within the first 06 months of the year 2015.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements for the year ended 31 December 2015 should be presented to the Auditor General within 60 days of the close of the year of accounts 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 16 June 2016 after a delay of 3^{1/2} months. .

5.2 Corporate Plan

The Foundation had not prepared a Corporate Plan covering the year under review.

5.3 Action Plan

In accordance with Section 5.1.2 of the Public Enterprises Circular, No. PED/12 of 02 June 2003, the officer whom the responsibility is assigned to for the activities required in achieving the objectives and targets of the institution, should be specifically mentioned. However, the Action Plan of the Foundation had not been prepared accordingly.

5.4 Budgetary Control

As significant variances were observed between the estimated income and expenditure prepared by the Foundation for the year under review, and the actuals, the budget had not been made use of as an effective instrument of management control.

5.5 Internal Audit

Although approval of the Department of Management Services had been received on 20 July 2011 to fill the vacancy of Internal Auditor of the Foundation, no action whatsoever had been taken to fill the vacancy from that date up to October 2016, the date of audit, and the Line Ministry as well had not conducted an internal audit.

5.6 **Audit and Management Committee**

Meetings of the Audit and Management Committee should be held quarterly in accordance with Section 7.4.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003. However, no meetings of the Audit and Management Committee had been conducted in the year under review.

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.

<u>Areas of Systems and Controls</u>	<u>Observation</u>
(a.) Accounting	Certain buildings had neither been brought to account nor depreciated.
(b.) Staff Administration	Failure to take action to fill the vacancies, and officers had been appointed to certain posts on acting basis over a long periods.
(c.) Procurement	<ul style="list-style-type: none"> (i) Incurring unnecessary expenses as procurements had been made without proper planning. (ii) Taking action contrary to Procurement Guidelines. (iii) Failure to complete constructions and modernization activities within a specified time frame.
(d.) Management of Funds	Obtaining Treasury grants without a proper plan, and investing those funds in non-productive investments without being utilized for the intended purposes.