

## **Zoo Development and Welfare Fund - 2017**

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The audit of financial statements of the Zoo Development and Welfare Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and Statement of 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 provision in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Regulations issued under Section 8(5) of National Zoological Gardens Act, No.41 of 1982. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 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 Fund's preparation and fair presentation of the financial statements in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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.

I believe that audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Zoo Development and Welfare Fund as at 31 December 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Sri Lanka Public Sector Accounting Standard 7

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- (a) Although the 08 categories of assets costing to Rs. 41,677,205 that fully depreciated as the useful life of Non-Current Assets was not reviewed annually as per the Section 65 of the Standard, they had been remained use further. Accordingly, actions had not been taken to revise the estimated error as per Sri Lanka Public Sector Accounting Standard 3.
- (b) Although the depreciation of asset should be done when that asset is capable of intended use as stated by the Section 69 of the Standard, in contrary to that, it had been followed a policy of depreciation for the entire year of the purchased by the Fund. Therefore it had been overstated the provision of depreciation by Rs. 37,450,474 from the year 2012 upto the year under review.

#### **2.2.2 Accounting Deficiencies**

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Following observations are made.

- (a) It was observed that calculating gross profit by adjusting the amount of Rs. 269,066,681 of animal food, animal medicine and entrance tickets printing expense as cost of sales out of the main income of selling entrance tickets income that collected to the zoological gardens fund of Department of Zoological Gardens as the service providing agency that used as cost of sales during the year had not been proper.
- (b) Although it should be adjusted to the surplus/deficit of the Fund by calculating profit or loss in respect of that separately as the selling of souvenirs was an activity out of the main income source of the Fund, without doing so, it had been stated the income received from it amounted to Rs. 86,972 as other income and the cost of sale related to that as the cost of sale of main operating.

- (c) The opening stock balance of souvenir goods amounted to Rs. 1,004,237 had been accounted in less when calculating the cost of sales. Therefore, the surplus of the year under review had been overstated of that amount in the financial statements.
- (d) Action had not been taken to state the tender deposits and statutory retentions of Rs. 733,222 and Rs. 545,000 respectively in the financial statements of the Fund that should be refunded to the suppliers and contractors which was stated in the books of the Department of Zoological Gardens for the 30 contracts related to the Fund.

### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following observations are made.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Paragraph 5.2.4 of Public Enterprises Circular No. PED/12 of 02 June 2003	Although the Budget should be approved by the Board of Directors before 3 months of the beginning of the financial year, the Budget for the year under review had been approved on 08 March 2018.
(b) Treasury Circular No. 842 of 19 December 1978	The Fixed Asset Register had not been maintained and updated as per circular.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the surplus of the Fund for the year under review had been Rs. 507,779,651 and so as to compare with the corresponding surplus of Rs. 581,182,256 for the preceding year, a decline of Rs. 73,402,605 had been in the financial results for the year under review. A decrease in the sales income of the Fund by Rs. 99,285,580 compared to the previous year had been mainly reasoned for the decline in the financial results.

In the analyzing of the financial results of the year under review and of four preceding years, the surplus had been improved from the year 2013 to 2015, the surplus of the year 2016 and 2017 had been decreased. However, after readjusting to the financial result, the employees' remuneration, depreciation on non-current assets and the taxes paid to the government the contribution of the year 2013 amounting to Rs. 455,874,028 had been continuously improved to Rs. 715,337,322 in the year 2015, it had been declined to Rs. 637,250,621 by the end of the year under review.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Operation and Review**

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The following observations are made.

- (a) The action had not been taken to fulfill the following objectives out of the objectives of the Fund as per National Zoological Gardens Act No. 41 of 1982.
  - (i) Recruitment of a set of officers and employees for the administrative activities of National Zoological Development and Welfare Fund.
  - (ii) Provision of special areas for parking vehicles of visitors who came for watching Dehiwala Zoological Garden.
  - (iii) Appointment of Advisory Committee by the Minister for advising the Director in relation to all matters and issues of Zoological Garden and to make recommendations to Minister.
  - (iv) Holding the meetings of above Advisory Committee at least twice every year.
- (b) 10 projects with estimated cost of Rs. 50,500,000 out of 16 projects with estimated cost of Rs. 168,500,000 that were scheduled to complete during the year under review as per Action Plan had not been started by the audited date of May 2018 and 06 projects with estimated cost of Rs. 118,000,000 that started works had not been completed by the month May 2018.
- (c) The foreign tourists who came to Sri Lanka had been gradually increased from the year 2012 and 2,050,832 and 2,116,407 of foreign tourists had arrived to Sri Lanka in the previous year and the year under review respectively. But, the number of foreign tourists who came to watch zoological garden was 415,776 and 369,685 only. Accordingly, the number of foreign tourists who come to watch zoological garden had been decreased by 11 per cent compared to the previous year. Also, the arrival of foreign and local tourists who come to zoological gardens such as Ridiyagama and Wagolla that constructed in the calm environment. The necessary steps had not been taken to develop the facilities as suited for the changes in tourist attitudes and expectations.

## 4.2 Management Activities

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Following observations are made.

- (a) Two food stalls and one souvenir stall of the Dehiwala National Zoological Gardens and two canteens and two souvenir stalls of the Ridiyagama Safari Park, Hambanthota had been leased out to 03 government institutions that selected by deviating from the procurement process without entering into a lease agreement.
- (b) Following matters were observed at the inspection of Pinnawala Elephant Orphanage and Wagolla Zoological Garden held on the month of May 2018.
  - (i) Although the maximum length of the petiole that can be kept out from the starting point of the leaflets of the coconut leaves was 6 inches as per relevant specifications of procurement of supply of coconut leaves to the Pinnawala Elephant Orphanage, the length of the petiole of the coconut leaves that supplied at the observed sample was in between 1 to 5 inches. The net weight of the petioles over 6 inches related to the observed sample was around 200 kilograms and the amount of those petioles according to the weight was Rs. 5,960. When comparing this with the quantity that should be supplied annually, as such, the estimated quantity of the petioles with length more than 6 inches was 146,000 kilograms which amounted to Rs. 4,353,720.
  - (ii) There was no sufficient staff to check the specified weight, quality and standard of the coconut leaves supplied by the contractors for the elephants in the Pinnawala Elephant Orphanage.
  - (iii) Although the supply of coconut leaves to the Pinnawala Elephant Orphanage had been given to 03 contractors, all supplies had been done by only one person.
  - (iv) It had been dispose improperly without referring to recycle the sewage of animals in Pinnawala Elephant Orphanage.
  - (v) Essential x-ray works had been done from external hospitals due to the x-ray machine of the veterinary hospital in Pinnawala Elephant Orphanage was not in operation since year 2014.
  - (vi) There were goods that expired and proposed to be disposed in the drugs stores in Pinnawala Elephant Orphanage, storage of some medicine improperly and lack of air conditioned machine in the stores.
  - (vii) There were no security safes to store tickets in Pinnawala Elephant Orphanage and Wagolla Zoological Gardens and tickets were kept in the shroff Unit insecurely and tickets were not issued in serial order by shroffs and there was no any mechanism of issuing by entering into the ticket register.

- (viii) Although the price of the tickets had been increased from year 2013 in Pinnawala Elephant Orphanage, it had been used the tickets printed in the year 2013 by the audited date of, 01 June 2018 and a stock of 289,000 tickets that printed to the cost of Rs. 445,300 in the year 2013 had been remained in balance.

#### **4.3 Underutilization of Funds**

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According to the budget estimate, the provision of Rs. 1,500,000, Rs. 1,000,000, Rs. 1,400,000 and Rs. 50,000,000 had not been utilized for education and research expenses, souvenirs, animals exchange and breeding of animals, purchasing of other equipments respectively and 76 per cent of Rs. 1,000,000 that provisioned for promotion and advertising, 81 per cent of Rs. 300,000,000 that provisioned for the development activities of Hambantota and Pinnawala Zoological Gardens had not been utilized.

#### **4.4 Idle and Underutilized Assets**

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An amount of Rs. 9,584,223 of 04 motor vehicles had been remained idle without using from the year 2014 to the audited date of June 2018.

### **5. Accountability and Good Governance**

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#### **5.1 Internal Audit**

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The Internal Audit division of the department was consisted of only one officer. Accordingly, it had been observed in the audit that the internal audit division had not been planned as suitably and implemented for the supervision of internal control system of the entity.

#### **5.2 Procurement and Contract Process**

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##### **5.2.1 Deficiencies in Contract Administration**

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Instead of Kumbuk timber that was in the Bill of Quantity, Thulan timber had been used for the wooden bridge constructed across the pond of crocodiles in Kimbul Arana Construction Project with estimated cost of Rs. 59,977,712 in Wagolla Zoological Garden. It was observed at the field inspection held on 01 June 2018 that the controlling authority had prohibited the access of it due to decaying of timber use for it and school children and audience would be met with accidents since timber hand rail in the access road had been constructed insecurely without strong.

### 5.2.2 **Delaying Projects**

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Although the construction works should be completed by 09 March 2017 as per the agreement entered into with Central Engineering Consultancy Bureau for the construction works of Australian zone in Hambanthota Safari Park with an estimated cost of Rs. 59,647,462, the project had not been completed even by the audited date of 30 May 2018.

### 5.3 **Budgetary Control**

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Significant variances ranging from 76 per cent to 100 per cent were observed between the estimated and actual expenditure in respect of 08 objects for the year under review, it was observed that budget had not been made use of as an effective instrument of management control.

### 5.4 **Tabling of Annual Reports**

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Although the Annual Report of the entity should be tabled within 150 days elapsing the accounting year as per Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003, the Annual Report of the year 2016 had not been tabled in the Parliament by the audited date of 30 June 2018.

## 6. **Systems and Controls**

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

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Maintenance of documents	Non-maintenance of contract register including all details related to the new constructions and development projects implemented by the Fund.
(b) Stock Control	Non- maintenance of stock books properly in the regional offices
(c) Budgetary Control	Non-use of the Budget as an effective instrument of control