

## **Tower Hall Theatre Foundation – 2017**

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The audit of financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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**

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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**

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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 judgments, 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**

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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 Tower Hall Theatre Foundation 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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The following observations are made.

##### **Sri Lanka Public Sector Accounting Standard 07**

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- (a) In terms of paragraph 49 of the Standard, even though the entire class of Property, Plant and Equipment to which that asset belongs should be revalued in revaluing Property, Plant and Equipment, even though only the head office land costing Rs.275,000,000 and owned by the Fund had been revalued at Rs.614,000,000 in the month of September 2016, Tower Hall land and Sarasavipaya land costing Rs.123,000,000 and Rs.205,000,000 respectively had not been revalued.
- (b) Due to non-reviewing of the useful life time of the non-current assets annually in terms of paragraph 65 of the Standard, even though the assets costing Rs.366,411,129 had been fully depreciated, they had been further in use. Actions had not been taken to revise the estimated error occurred accordingly as per Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Policies**

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The balance of the capital grant account as at 31 December 2017 amounted to Rs.555,334,448 and the Foundation had not identified an accounting policy to recognize the capital grants relating to the assets purchased from that grants, to the income on a systematic basis.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Interim payment of Rs.88,704,638 made for the construction contracts and retention money of Rs.4,598,165 had been debited to the Advance Account instead of debiting to the Work in Progress Account.

- (b) The revalued amount of the building assessed at Rs.163,000,000 by the Valuation Department in the year 2016 had been understated in accounts by Rs.1,250,000 in the year 2017.

#### **2.2.4 Lack of Evidence for Audit**

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The following observations are made.

<b>Subject</b>	<b>Value</b>	<b>Non presented evidence</b>
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	<b>Rs.</b>	
(a) Donations in cash	18,577,319	Receipts, Bank Deposit Slips
(b) Donations in goods	58,890,541	Good Receiving Notes, Register of Donations

#### **2.3 Accounts Receivable**

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Balance of the other receivable account as at the end of the year under review amounted to Rs.4,604,413 and the balance in arrears over one year amounted to Rs.690,770 thereof. A sum of Rs.350,630 fuel allowance paid to a former director without an approval from year 2014 to year 2015 also had been within that value.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Foundation for the year ended 31 December 2017 had been a surplus of Rs,9,769,555 as compared with the corresponding deficit of Rs.17,552,384 of the preceding year thus, indicating an improvement of Rs.27,321,939 in the financial result of the year under review as compared with the preceding year. Increase in recurrent grants receipt by Rs.11,517,000, operation income by Rs.2,743,460 and other income by Rs.15,444,154 had been mainly affected to the above increase.

In analyzing the financial results of the year under review and 04 preceding years, even though there had been a continuous deficit from year 2013 to year 2016, there had been a surplus in the year under review. However, in readjusting the employees' emoluments and depreciation for non-current assets to the financial result, even though the contribution of Rs.28,695,875 in the year 2013 had been decreased up to Rs.26,376,128 in the year 2014, it had been continuously increased again from Rs.31,686,774 to Rs.57,915,183 since year 2015 to the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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##### **4.1.1 Planning**

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Even though it had been included the objectives such as establishing a network of theatres capable of tasting equally to the audience who watch dramas in the capital as well as in the outside, modernized as it match with the modern requirement and preserving and conserving creations of Sri Lankan traditional indigenous folk drama traditions which should be conserved for future generation in the corporate plan, the action plan for the year under review had not been prepared complying with that.

##### **4.1.2 Activity and Review**

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The following observations are made.

- (a) As per the Action Plan in the year under review, out of 21 Programmes/Projects planned to be executed, 03 Programmes/Projects with an estimated cost of Rs.2,550,000 had not been completely executed. Further, physical progress of 03 Programmes/Projects executed was at a minimum level of 16 per cent to 41 per cent.
- (b) Two year- full time Drama and Theatre Higher Diploma Course is conducted by Tower Hall Drama and Theatre School and the number of students in the year 2017 had been increased from 23 to 69 with compared to the students enrolled for that in the year 2012. Course fees of year 2016 also had been increased from Rs.50,000 to Rs.85,000 with compared to the year 2012. Even though the number of students thus increased, lecture hall facilities, library facilities, practicing hall facilities, sanitary service facilities, computer facilities, dressing room facilities, restroom facilities and hostel facilities and canteen facilities etc. required for the students had not been adequately completed. Accordingly, attention of the management had not been paid towards the necessity of developing Tower Drama and Theatre School promptly as it enables to reach to the objectives of the Fund.

#### **4.2 Resources of the Foundation given to other Institutes**

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One floor with a proportion of about 32,000 Sq.ft of the two storied building in which head office of the Foundation is holding, had been given for holding an office of the Construction Industry Development Authority without entering into an agreement since 16 May 2016. A rent had not been charged from that Authority for the use of the building even up to 15 September 2018.

### **4.3 Staff Administration**

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The following observations are made.

- (a) Even though the approved cadre of the Foundation was 91 as at 31 December 2017, the actual cadre as at that date had been 65 and hence numbers of vacancies were 26. Thus, having a large number of vacancies had been a barrier to fulfill the activities of different sections of the Foundation effectively.
- (b) Without taking actions to recruit a permanent officer for an approved position of the post of Director Administration and Development of the Foundation, an officer of an over 60 years of age had been recruited on contract basis from the month of November 2015 and employed even up to the month of April 2018 by extending the contract period annually and totalling Rs.1,495,247 had been paid as salary.
- (c) In contrary to Paragraph 9.3 (iv) of the Public Enterprises Circular No.PED/12 of 02 June 2003, exceeding the acting period of 03 months, it had been appointed for acting for the 04 Posts of Director General, Manager (Rukmani Devi Theatre), Manager (Elphinstone Theatre) and Coordinating Officer (Courses) from 06 months to 1 year and 11 months even by the date of this report and as acting allowance totalling Rs.448,638 had been paid up to 31 December 2017.

## **5. Sustainable Development**

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### **5.1 Achieving Sustainable Development Goals**

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The following observations are made.

- (a) As per the United Nations Year 2030 “Agenda” on Sustainable Development, each public institutions should take actions and Foundation had not been aware on how should be implemented regarding the activities which comes under own scope relating to the year under review.
- (b) Due to the Foundation had not been aware on Year 2030 Agenda as per the above, Sustainable Development Goals, Targets and Road maps for achieving those targets and Indices for measuring the achievement of the targets relating to its activities had not been identified.

## **6. Accountability and Good Governance**

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### **6.1 Presentation of Financial Statements**

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In terms of Sub Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, even though the financial statements for the year ended 31 December 2017 should be presented to the Auditor General within 60 days of the closure of the accounting year, that financial statements had been presented on 05 September 2018 with a delay of 6 months and 5 days.

## **6.2 Internal Audit**

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In terms of Financial Regulation 133, even though an internal audit unit should be established to maintain continuous checks on the internal control and the formality and the adequacy of the internal investigation of the Foundation, actions had not been taken to establish an internal audit unit and to conduct an internal audit in the year under review. Further, even though the approval of the Department of Management Services had been received on 20 July 2011 to fill the post of Internal Auditor, that position had been remained vacant even by 15 September 2018.

## **6.3 Audit Committees**

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As per Section 7.4.1 of the Public Enterprises Circular, No.PED/12 dated 02 June 2003, even though Audit and Management Committee meetings should be held once per each quarter, meetings had not been held during the years 2016 and 2017.

## **6.4 Procurement and Contract Process**

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The following observations are made.

- (a) It had been entered into a supply agreement of Rs.11,400,000 for supply and installation of 700 seats for fixing there before the completion of modifications to Elphinston Theatre and chairs had been purchased by paying Rs.9,019,794 thereof. However, it had been informed to the Director General of the Foundation by the letter dated 16 February 2016 of the supplier that safety and responsibility of the chairs are not taking over by the supplier.
- (b) A sum of Rs. 15,244,049 had been paid for the procurement of an Air- Conditioned System for Elphinston Theatre by 02 April 2018. Even though appropriate and relevant basic information required to the bidder should be included in the invitation to the bids as per 5.3.2 guideline of the Government Procurement Guideline 2006, according to the newspaper advertisement published on 27 February 2015 regarding this procurement activity, attention had been paid only for the supplying of an air conditioned system, installation, checking and implementation in procuring and attention had not been paid on its repairs and maintenance activities. Due to that, procurement activities should have been done by incurring money again for the repairs, maintenance and services of that machine.

## **7. Systems and Controls**

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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.

**Areas of Systems and Controls**

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**Observations**

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(a) Accounting

Capital grants and Property, Plant and Equipment had not been accurately accounted, actions had not been taken in compliance with certain Sri Lanka Public Sector Accounting Standards.

(b) Staff Administration

Permanent officers had not been recruited to fill the vacancies and Officers had been employed for certain posts on acting basis over a long period.

(c) Contract Administration

Non-compliance with certain Procurement Guideline, Failure to complete building constructions within the relevant period, having weaknesses in preparing estimates.

(d) Internal Audit

An internal audit had not been performed.