

## **Galle Heritage Foundation – 2017**

-----

The audit of financial statements of the Galle Heritage Foundation for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 and the 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 and Section 13(2) of the Galle Heritage Foundation Act, No. 7 of 1994. My comments and observations which I consider should be published with the Annual Report of the Galle Heritage 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 the 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 judgements, including the assessment of the risks of material misstatement 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. Subsections (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 Adverse Opinion**

-----

If adjustments had been made for the facts in the Paragraph 2.2 in this report, most of the elements in the accompanying financial statements could have had a quantitative impact on the fundamentals.

## **2. Financial Statements**

-----

### **2.1 Qualified Opinion**

-----

In my opinion, due to the importance of the matters described in paragraph 2.2 of this report, a true and fair view is not reflected of the financial position of the Galle Heritage 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**

-----

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

-----

The following observations were made.

##### **(a) Sri Lanka Public Sector Accounting Standard 02**

-----

- (i) Although the other collectibles to be received had been increased by Rs. 1,789,149 than the last day of the previous year by 31<sup>st</sup> December in the year under review, it was mentioned in the cash flow statement under working capital changes as Rs. 2,158,885
- (ii) Although the amount payable and the accrual expense at the last day of the year under review had net increased by Rs. 1,421,099 than at 31<sup>st</sup> December of the previous year, it has been presented under changes in working capital in the cash flow statement as Rs. 39,527
- (iii) Although there had not been any investments done in the year under review, an amount of Rs. 20,988,055 had been stated as new investments in the cash flow statement.
- (iv) Although according to the statement of changes in equity, the capital grant is Rs. 4,282,202 it was stated in the financial activities of the cash flow statement as Rs. 14,849,202
- (v) Although short term and very high liquidity investments could be easily converted into specific currencies, the three year fixed deposits investment had been identified as cash and cash equivalents based on the accounting policy of the foundation. Therefore, cash balance of the balance sheet as at 31 December of the year under review amounted to Rs. 3,447,296 though it had been stated as Rs. 41,202,537 in the cash flow statement.

### **2.2.2 Accounting Deficiencies**

-----

The following observations were made.

- (a) As per the depreciation calculations of audit for the fixed assets relevant to the year under review had been under stated by Rs. 2,231,075
- (b) A sum of Rs. 2,150,000 of capital grants had been received in the year under review from the line ministry had been stated as recurrent grants in the financial statements. As a results, the profit for the year under review had been overstated and capital grants had been under stated by Rs. 2,150,000.
- (c) Provisions had not been made for the employment gratuity in the year under review.
- (d) The retention money payable at the beginning of the year was Rs. 435,803 and out of this Rs. 91,950 has been released in the year. Accordingly the balance should be Rs. 343,853 as at 31 December, but that amount recorded in the balance sheet as Rs. 13,853.
- (e) Although according to the cash book of the foundation as at 31 December of the year under review the current account balance was Rs. 1,395,077, a value of the cash balance of the current account had not been shown in the balance sheet.
- (f) Eventhough, the accumulated depreciation of machines and machineries should be Rs. 410,745 as at the end of the year under review due to the reason of taken it as Rs. 1,496,887 of the financial statements, accumulated depreciation had been overstated by Rs. 1,086,142 and net value of machines and machineries had been recorded in financial statement by understating that amount.
- (g) Instead of accounting the fixed deposit interest income related to the year under review, an interest income of Rs. 1,003,556 had been accounted on cash basis.

### **2.2.3 Unreconciled control accounts**

-----

The 18 items between the financial statements and the trial balance presented to audit, total of Rs. 7,344,621 inequalities had been observed.

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

-----

Following observation are made.

Due to the reasons of the evidence indicated against to the following items was not made available to audit, they had not been examined in a satisfactory level in audit.

<b>Subject</b> -----	<b>Value</b> ----- <b>Rs.</b>	<b>Unpresented evidence</b> -----
Fixed Asset cost	38,864,667	(i) Updated fixed assets Register  (ii) Board of survey reports
Main ledger	41,436,719	27 ledger accounts
Stocks	792,865	(i) Stocks book  (ii) Detailed stock documents  (iii) Stock age analysis
Other receivable accounts	2,983,197	(i) Documents for receivable accounts (ii) Balance Confirmation certificates (iii) Age analysis
Other payable accounts	468,141	(i) Balance confirmation certificates (ii) Documents for payable accounts (iii) Age analysis
Miscellaneous payments	252,981	Supporting documents of the payments

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

---

The following non compliances were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management decisions</b> -----	<b>Non compliance</b> -----
The financial regulations of the democratic socialist republic of Sri Lanka -----	
(a) Financial regulation - 137	Although when payments done for vouchers payments should be done for only approved vouchers. But, 12 vouchers total value amounting to Rs. 721,545 had been paid without the approval.
(b) Financial regulation - 257	Although the payments should only be done for certified vouchers, 19 vouchers total value amounting to Rs. 634,382 had been paid without certifying.

- (c) Financial regulation - 272 Although, it's necessary to present all vouchers relevant to payment for audit, 14 vouchers that total valued at Rs. 551,440 had not been presented to audit.
- (d) Financial regulation - 386 (6) All the cheques should be written and crossed as is payable for the order. Although in order to issue open cheques the special authority of a staff officer is needed, without such authority 8 cheques worth of Rs. 786,287 have been issued by cancelling the crossing.
- (e) Financial regulation – 395 (c) Although it's necessary to prepare a bank reconciliation statement by every institute with a bank account, on the situation of transaction before the 15 of the next month, the bank reconciliation statements from July to December 2017 had not been prepared even by the time of auditing which was on 10 August 2018.
- (f) Financial regulation - 756 and the public finance circular No 05/2016 of 31 March 2016 Although an annual board of survey should be done in order to recognize correction of the goods and to report about the unusable goods, action had not been taken accordingly after the year 2013
- (g) Financial regulation – 1646 Although it is necessary to present the monthly summary of vehicle running before the 15 of each month in the general form 268 (a) with the daily running charts to the Auditor General, daily running charts of the vehicle owned by the foundation for the year under review had not been presented to audit.
- (h) Government Procurement Manual - 2006 Although in accordance with the sentence 2.7.5 of the government procurement manual, the departmental procurement committee should be done by the chief accounting officer of the secretary of the line Ministry, there had been Procurement committees appointed in 2017 as needed by the foundation without compliance to that.

### **3. Financial Review**

-----

#### **3.1 Financial Result**

-----

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.1,359,778 as compared with the corresponding surplus of Rs.3,258,813 for the preceding year thus indicating an deterioration of Rs. 1,899,035 in the financial result for the year under review as compared with the preceding year. The increase in the capital projects expenditure by Rs. 1,565,310 had mainly affected to this deterioration.

In the analysis of the financial results in the year under review and 4 preceding years, the deficit amounted to Rs.2,824,939 from the year 2014 with variations had grown surplus of Rs.1,359,778 in the year under review. However, the contribution of the Foundation had increased by Rs. 1,877,576 by the year 2013 has been grown continuously up to Rs. 11,151,762 as at 2016 and it had been decreased to Rs. 8,231,924 during the year under review when taking into account staff remuneration and depreciation for non current assets.

#### **3.2 Legal Action Instituted against the Foundation or by the Foundation**

-----

Subsequent to the dismissal of a female employee recruited on contract basis in the year 2011, a case had been filed in the Labour Tribunal. The Foundation had paid a sum of Rs.150,000 as lawyers' fees for this case as at 31 December 2017 and the judgement had not been delivered even by the end of the year under review.

### **4. Operational Review**

-----

#### **4.1 Performance**

-----

##### **4.1.1 Implementing and reviewing**

-----

The following observations were made.

- (a) A performance report in relation to the activities of the foundation had not been prepared.
- (b) Although in accordance with the corporate plan 2007-2017, management policy implementation projects & organizations for protecting rainforests had arranged to commence green zones in identified sites in the Galle fort, such a green zones had not been commenced even by the end of the year under review.
- (c) Actions had not been taken to reach the following objectives out of the objectives described in 3<sup>rd</sup> section of the galle heritage foundation act No. 07 of 1994.

- (i) The possession, holding, maintaining and disposing of any immovable and movable property which has a historical cultural aesthetic value within the Galle fort and it's historical post space.
  - (ii) Promoting Galle fort residents interest in conservation of houses, buildings and other property built inside the Galle fort and in it's historical background.
  - (iii) Arranging facilities for sightseeing after entering the Galle fort and it's historical background posternate land.
  - (iv) Promoting the general welfare of the residents of the Galle fort and its historical background posternate land.
- (d) According to the action plan prepared for the year under review, the following goals had been unable to achieve.
- (i) Although it was arranged to build a lavatory complex for the use of the tourists visiting to see Galle fort, to perform conversation work of the moon bastion and to rehabilitate the information technology center at a cost of Rs. 14,800,000 the execution of the commencement of the lavatory complex or the conservation work of the moon bastion had not been done even by the time of audit on 30 September 2018 and although Rs. 1,030,129 worth of furniture had been purchased for the information technology center the rehabilitation work had not been finished and had not been opened for the public usage even by the time of audit on 30 September 2018.
  - (ii) In accordance with the action plan it was planned to repair the stairs of Galle fort, the rampat wall and to remove the unwanted amounts of grass growing at a cost of Rs. 3,500,000. Although an amount of Rs. 794,025 had been spent for trimming grass only in the year under review other activities had not been performed.
  - (iii) An amount of Rs. 9,580,000 had been received from the line ministry for the planned capital projects in year under review and out of that an amount of Rs. 3,073,374 had been spent of capital projects, and an amount of Rs. 1,305,769 for purchasing fixed assets and an amount of Rs. 2,053,059 for mowing grass and had returned the amount of Rs. 3,147,798 to the ministry at the end of the year. The management of the foundation had been unable to fulfill their objectives by fully utilizing the money for the planned activities.

## **4.2 Management activities**

-----

The following observations were made.

- (a) Although a cabinet memorandum had been prepared in 2015 after identifying the need to amend the Galle heritage foundation Act No. 7 of 1994 in order to gain more authority on the foundation and to generate an income earning base, they had been unable to perform amendment tasks even by the time of audit on 30 September 2018.

- (b) The Galle fort foundation management had been unable to work in accordance with the guidelines of the organization of UNESCO and to execute the management plan presented to UNESCO in order to project the Galle fort although the UNESCO organization has declared the Galle fort as a world heritage.
- (c) Out of 28 identified illegal constructions legal actions had been taken for 6 places by the Urban Development Authority, but the management had been unable to take any actions regarding the remaining 22 illegal constructions. Further more, the Galle Heritage foundation does not possess the legal provisions to remove the illegal constructions and the ability to assign that to other government institutions directly had also been in minimum level. A sufficient attention had not been taken to prepare solution for such situation.
- (d) Although an amount of Rs. 78,500 had been spent to scientifically remove the Nuga Tree and the other plants expanding the ancient post office building in the custody of the Sri Lanka postal Department which is located in the Galle fort, actions had not been taken to killed scientifically the other plants grown on walls. Due to that it was observed in the audit that main dilapidated wall of this building lied in the unsecurable zone. Although the task of conserving the Galle fort should be done by the foundation along with the Department of Archeology, it was observed that the said two institutions had not worked together in performing the conservation tasks of the wall of the building.

#### **4.3 Transactions of contentions nature**

-----

In accordance with the cheque counterfoil and the cash book, 4 cheques valuing up to Rs. 7,663 issued on 30 December 2017 had been stated as 27 September 2018 by the date of audit of 4 October 2018. Also, the total value of the said cheques had been recorded as Rs. 1,077,788 in the bank reconciliation statements relevant to January to March in the year 2018 and the total value of the said 4 cheques from April 2018 had been recorded as Rs. 7,663.

#### **4.4 Delayed projects**

-----

Although an amount of Rs. 11,474,476 has been spent by the end of the year under review for the task of converting the armory room in the moon bastion of the Galle fort into a showroom of the colonial history started in 2012, the constructions of the showroom had not been finished up to the time of auditing on 30 September 2018. Further more, it was observed that 16 paintings drawn by spending Rs. 1,520,000 for the exhibition in 2014 had remained in the information technology center for 4 years and 12 sculptures made spending Rs. 3,180,000 had remained in the showroom for 4 years and no actions had been taken to conserve the paintings or the sculptures.

#### **4.5 Personnel Administration**

-----

The following observations were made.

- (a) A lady employee had been enrolled in accordance with the contract basis by 02 January 2006 for the post of administrative officer, and it had been observed that she has been working serving by extending the contract period annually up to the year under review.



- (b) Steps had not been taken to recruit officers for 6 posts of Development Assistants in the approved cadre, and it was observed during auditing that 3 cultural employees under the ministry of cultural affairs had been assigned as project assistant officers from the year 2006.
- (c) There had been continuous vacancies in the posts of chief executive officer, Administrative officer, 05 Development Assistant officer. But, it was observed that the management of the Galle heritage foundation had failed to fill those vacancies.

## **5. Sustainable Development**

-----

### **5.1 Achieving the targets of sustainable Development objectives**

-----

Every public institution should act in compliance with the circular, No. NP/SP/SDG/17 issued by the secretary to the Ministry of National Policies and Economic Affairs, dated 14 August 2017 and the 2030 Agenda of the UN for Sustainable Development. However the Galle heritage foundation had not been aware as to how to function with respect to the duties under their scope. Due to this there were no identified indicators to reach the surveys of targets and turning points to reach to targets and targets of their duties regarding to sustainable development objectives.

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

-----

### **6.1 Presentation of Accounts**

-----

According to the Public Enterprises Circular No.PED 27 dated 27 January 2005, the financial statements should be furnished to the Auditor General within 60 days from the close of the year of accounts, whereas the financial statements for the year under review of the Galle Heritage Foundation had been presented on 03 October 2018 which was delay by 213 dates.

### **6.2 Audit and management Committees**

-----

Interms of Paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the audit and management committees should be held quarterly the Galle Heritage Foundation had not held audit committees.

### **6.3 Budgetary Control**

-----

A positive variation from 3 per cent to 92 per cent and a negative variation from 23 per cent to 268 per cent had been shown between budgeted and actual figures related to the year under review. Therefore, it was observed that the budget had not been use of as an effective instrument of management control.

#### 6.4 **Tabling of Annual Reports**

-----

Annual Reports related to the years 2015 and 2016 had not been submitted to the parliament.

#### 6.5 **Unresolved Audit Paragraphs**

-----

In terms of the observations of Auditor General's Report No. SNP/GL/E/GHF/FA/2017/19 for the year 2016 dated 21 March 2018, action had not been taken to implement by the Galle Heritage Foundation.

#### 7. **Systems and Controls**

-----

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

<b>Areas of Systems and Controls</b>	<b>Observations</b>
-----	-----
(a) Control of Fixed Assets	<ul style="list-style-type: none"><li>(i) Failure to maintain the Register of Fixed Assets in an updated manner.</li><li>(ii) Accounting Principles followed in respect of the accounting of fixed assets had not been disclosed by the financial statements.</li><li>(iii) Failure to carry out a physical examination relating to fixed assets at the end of the year.</li></ul>
(b) Accounting	<ul style="list-style-type: none"><li>(i) Fixed deposits interest income had not been accounted on cash basis,</li><li>(ii) Differences existed between the values of trial balance and the financial statements.</li><li>(iii) Differences existed between the trial balance and the ledger.</li><li>(iv) Journal Vouchers and the documents relating to that were not made according to the proper approval.</li><li>(v) Failure to calculate the depreciations according to the depreciation ratio disclosed in the Account.</li></ul>

- (vi) Journal Vouchers had not been used for the adjustments of ledger accounts.
  - (vii) Delays in preparing bank reconciliations.
  - (viii) Fixed deposits register had not been updated accurately
  - (ix) Receiving of cheques had not been confirmed.
- (c) Accounts Receivable and Payable
- (i) Action had not been taken to recover the rental income in arrears
  - (ii) Schedules of the Accounts receivable and payable had not been presented
- (d) Procurement
- (i) A procurement plan had not been prepared.
  - (ii) Procurement committees had not been appointed according to the procurement manual.
  - (iii) Procurement procedure had not been followed.
- (e) Mainting of files and registers
- (i) Personal files had not been maintained updated manner.
  - (ii) A register of members loan had not been maintained.
  - (iii) The existence of outstanding vouchers
  - (iv) Existing of differences between the value of voucher and the values of cash book.
  - (v) Notes sketch of the attendance register and the finger printer machine had not been maintained properly.
- (f) Finance Control
- (i) The existence of differences between dates of cash book and cheque counterfoils and dates of cheques.
  - (ii) Not specified the details of advance settlements.