

Tower Hall Theatre Foundation - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the foundation as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the foundation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Foundation.

1.4 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the foundation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the foundation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the foundation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the foundation has complied with applicable written law, or other general or special directions issued by the governing body of the foundation;
- Whether the foundation has performed according to its powers, functions and duties; and
- Whether the resources of the foundation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non-Compliance with the relevant standard	Management Comment	Recommendation
(a) Although the property, plant and equipment class to which the property belongs should be revalued in full when revaluing a property, plant and equipment item in accordance with paragraph 49 of Sri Lanka Public Sector Accounting Standards No. 07, Of the lands and buildings in existence in 2016, the head office land and	I kindly inform you that necessary steps will be taken to conduct a revalue in the future.	Action should be taken to fully revalue the property, plant and equipment class to which the property belongs, in accordance with the terms of the standard.

buildings alone were revalued at Rs. 614,000,000 and Rs.163,000,000 and Lands valued at Rs. 328,000,000 and buildings valued at Rs. 234,023,047 had not been revalued by the end of the year under review.

- (b) The Tower Hall Theatre valued at Rs.123,825,922 and Elphinstone Theatre valued at Rs.95,579,894, which were identified as inherited assets under Accounting Standards No. 07, had not been depreciated in accordance with paragraph 10 of the standard, and The matters to be disclosed in accordance with paragraph 11 of the standard had not been disclosed.
- I kindly inform you that the Elphinstone Theatre and the Tower Hall Theatre, which have been identified as National Heritage Sites, will be subject to depreciation in accordance with paragraph 10 of Sri Lanka Accounting Standards No. 07 and the relevant disclosures in accordance with paragraph 11 of the standard.
- Action should be taken to account depreciation and disclose in accordance with the standards.
- (c) When accounting the value of a cab donated by the Ministry of Education in the year 2018 on 01 January 2019, Rs.4,000,000 which the appraised value for insurance in 2017 was accounted for as cost, instead of the fair value at the date of acquisition of the asset in terms of paragraphs 25 and 43 of the standard. The Foundation had 11 vehicles and although the property, plant and equipment class had to be fully re-valued in accordance with paragraph 49 of the above Accounting Standards No. 07, on the contrary, the assessment value given by the Government Valuation Department on 01 August 2019 only for the insurance of 08 vehicles including the above vehicle was taken into account as the revaluation value of the relevant vehicles on that day.
- I kindly inform you that action will be taken to rectify this in the future.
- Action should be taken to state the fair value of the assets in the financial statements following the terms of the standards.
- (d) According to Sri Lanka Public Sector Accounting Standards 07, the fair value of an asset should be reflected in the financial statements, 09 vehicles which were completely depreciated but still in
- I kindly inform you that in the year 2021, the assets will be properly revalued and necessary steps will be taken to adjust the accounts.
- Action should be taken to review the useful lifetime of such assets in accordance with the terms of the standard.

use, costing Rs.29,504,473 had not been assessed and taken into account and No action had been taken to appear in the financial statements as per Sri Lanka Public Sector Accounting Standards No. 03.

1.5.3 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Depreciation expenses for the year under review were understated by Rs.16,300,000 and accumulative depreciation was understated by Rs.48,900,000 in the financial statements, due to not depreciating the head office building which cost Rs. 161,750,000 and the studio which cost Rs. 1,250,000 as at 01 January 2019 since 2017.</p>	<p>Due to the ownership issues of the building, the values of the building and studio where the foundation is located were taken into account but not depreciated. I kindly inform you that action will be taken to resolve this in the future.</p>	<p>Action should be taken to identify the depreciation expenses of the assets correctly and accounted for.</p>
<p>(b) The gratuity allocation of Rs.21,873,938 was classified as reserve and investment of Rs.191,317,911 in fixed deposits for a period of one year were classified as non-current assets and stated in the financial statements.</p>	<p>I kindly inform you that the gratuity allocation will be made as a liability in the financial statement and the investment in fixed deposits will be accurately stated in the future.</p>	<p>Current and non-current assets and liabilities should be classified according to the standard and stated in the financial statements.</p>
<p>(c) In calculating the cash flow generated by the operational activities of the cash flow statement, the depreciation value was adjusted to the cash flow statement by understating Rs.1,412,950.</p>	<p>I kindly inform you that necessary steps will be taken to rectify this in future.</p>	<p>Action should be taken to adjust the financial and non-financial items to the cash flow statement properly.</p>

1.5.4 Documentary Evidences not made available for Audit

Subject	Amount	Evidences not made available	Management Comment	Recommendation
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-----	Rs..	-----	-----	-----
Reserves	79,091,701	Information / files / documents on 5 account balances brought forward over the years	/ These balances are old / balances that have been brought forward in books for many years and I kindly inform you that no relevant files or other documents can be found to confirm these balances.	Action should be taken to present evidence for audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Observation	Management Comment	Recommendation
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Although it was stated in the financial statement that the debtor balance of Rs.1,414,650 was due from the Department of Cultural Affairs and Rs. 20,735 due from the Ministry of Culture, these institutions had confirmed that there were no such balances to be paid. Accordingly, no action had been taken to adjust these values and display them in the financial statements.	I kindly inform you that letters have been sent to recover the debtor balance.	Action should be taken to verify receivables properly and adjust to financial statements.

1.6.2 Payables

Audit Observation	Management Comment	Recommendation
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No action had been taken to settle or write off the contract retention amount of Rs.15,121,232 held since 2009 under the creditors.	I kindly inform you that action will be taken this year to settle this balance.	Action should be taken to settle the balance due or write off to the income if there is no further liability.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules, Regulations	Non-compliance	Management Comment	Recommendation	
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Financial Regulation 381(1)	Treasury approval had not been obtained to open two current accounts and two savings accounts owned by the Foundation.	The Foundation has obtained the approval of the Board of Trustees for all accounts. I will take action to obtain Treasury approval in the future.	Action should be taken to obtain Treasury approval as per the Financial Regulations.
(b)	Public Enterprise Circular No. PED/12 dated 02 June 2003. Paragraph 6.5.1	The financial statements for the year under review were submitted to the Auditor General on 04 March 2021.	I kindly inform you that due to the Covid-19 epidemic situation in the country in the year 2020, the Board of Trustees meetings of the Foundation chaired by the Prime Minister were delayed and the financial statements were delayed from being submitted for audit.	Action should be taken to submit financial statements on the due date as per the circular.	
(c)	Treasury Circular No. 2015/03 dated 14 July 2015.	On 04 occasions, sub imprests amount of Rs.997,177 had been paid exceeding Rs.100,000 and one officer was given two advances of Rs.571,000 in one day. Out of the total advance of Rs.896,625 given on 20 occasions, Rs.405,012 or between 32% and 64% had been repaid due to advance payment	Less than Rs. 100,000 will be given to an officer as an advance as per the circulars. Out of the 04 advances, 03 advances have been paid by the cashier to those who have to pay for the relevant work. One of these advances is not a cash advance but a purchase advance. It has been provided by the relevant officer. In the future, I will take steps to properly manage and settle advances. Although the estimate was prepared after	Action should be taken to make advances subject to the limitations set out in the Circular and taking into account the need.	

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| | made
considering
requirement. | without
the | considering all the expenses in
preparing the estimate, the
organizers unexpectedly
provided food and
refreshments. In such cases,
between 32% and 64% of the
advance balance is repaid. | |
| (d) | Department of
Management
Audit circular
No.DMA/01-2019
dated 12 January
2019. Paragraph
5.3 | Only one audit and
management
committee meeting
had been held relating
to the year under
review. | Although the Audit and
Management Committee
meetings could not be held
properly due to the absence of
an Internal Audit Division
until the end of 2019, the 30th
Audit and Management
Committee Meeting was held
by the Internal Audit Division
on 09.10.2019 by the Internal
Audit Division established in
August 2019. Arrangements
will be made to hold audit and
management committee
meetings as appropriate. | Action should be
taken to held audit
and management
committee meetings
according to the
circular. |
| (e) | Public Finance
Circular
No.02/2015 dated
10 July 2015.
Paragraph
No.04(a) | A car had been
disposed with a time
period of less than 10
years after
registration, but for
that, it had not been
identified by a special
survey board. | The 10 year of the registration
of the Micro car will be
completed in 2019. But this
vehicle was in a condition of
unable to drive by 2018.
Despite several repairs by the
agency, the car could not be
driven. Therefore, as per the
Public Finance Circular
02/2015, it has been informed
that vehicles not exceeding 10
years can also be disposed
with the approval of the
Secretary to the Chief
Accounting Officer, the Line
Ministry, by appointing a
board of survey and newspaper
ads have been published
several times and this vehicle
has been sold. This has also
been approved by the Board of
Trustees. | In accordance with
the circular rule,
action should be
taken to identify the
vehicles that are to
be disposed before
the time period by a
special survey
board. |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 7,503,808 and the corresponding deficit in the preceding year amounted to Rs. 3,039,041. Therefore, a deterioration amounting to Rs. 4,464,767 of the financial result was observed. Even though, the Government contribution for recurrent expenditure was increased by 12,300,000 and hall rental income was increased by Rs.4,545,996 the reasons for the deterioration was mainly due to increase in the pension payment for the artists from Rs.7,818,416, Salaries and wages from Rs.3,565,110, repair and maintenance from 2,873,202 and security expenses from Rs.2,648,927.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Out of the 46 projects to be implemented during the year at a cost of Rs. 52.37 million as per the Expenditure Program Plan prepared for the year under review, 18 projects amounting to Rs. 17.28 million had not been implemented and 21 projects were not completed within the expected completion period. For four projects where the completion percentage was between 90 and 95 percent, and a sum of Rs. 1.04 million had been spent exceeding the estimated value.	Programs were implemented in the scheduled timeframe from January to April and due to the island-wide situation following the Easter attack in April, the government suspended the public gatherings. Thus the programs could not be carried out as planned. Although the relevant approvals have been obtained for the total estimated expenditure head, in some cases action has been taken to obtain the approval of the Director General for projects that exceed the estimated cost.	Action should be taken to implement projects in accordance with plans and to revise plans where such implementation is not possible.
(b)	Although the project to create a CD containing drama songs was estimated at Rs.753,450 and Rs.350,000 in 2018 and 2019 respectively and a sum of Rs.61,665 and Rs.187,911 respectively were spent, the work had not completed and no action had been taken to release the CD even by May 2021.	The CD was delayed due to an emergency renovation at the Tower Studio, where the final recordings containing drama songs were made. Also, the work on the CD was delayed due to the inability to carry out office work, as a result of the terrorist attack on Easter in April 2019. In addition, despite some delays due to the sudden illness of the music director of the CD, another musician has been	Action should be taken to implement Projects according to the plan.

contacted and kindly inform you that the final stages of the CD release are currently underway.

- (c) According to Section 8 of the Tower Hall Theatre Foundation Act No. 1 of 1978 and the terms of the Special Grant Letter dated 08 October 1980 relating to the transfer of the Sawsiripaya building and its premises to the Foundation, it was stated that the land and its buildings should not be used for any purpose other than those required for the promotion and motivation of national dance activities and if it was not used for such purposes then it would be returned to the Democratic Socialist Republic of Sri Lanka. However, due to the construction of the Sawsiripaya building funded by the Housing Development Authority, an agreement was reached on 15 May 1986 to lease the building to the Urban Development Authority for 30 years. The relevant lease agreement had expired on 15 May 2016 and the building was re-leased to the Construction Industry Development Authority on 19 March 2019 without regard to the terms of the above grant. The contract was for 30 years. It was agreed to levy rent according to the rent levied as per the last lease agreement and from 15 May 2016 to May 2021, no rent was levied by the Foundation.
- Act No. 01 of 1978 stipulated that the Sawsiripaya building belonging to the Tower Hall Theatre Foundation be used only for the promotion and motivation of drama activities and the building was used for the same purpose. This building was constructed with the financial assistance of the Urban Development Authority with the intervention of the then Minister of Urban Development. For such construction, an agreement has been reached to give the building to the Housing Development Authority for a period of 30 years. As the Sawsiripaya building is an asset of the Tower Hall Theatre Foundation, this was done simply as an investment of the Tower Hall Theatre Foundation. The non-payment of any rent to the foundation from 15 May 2016 to May 2021 and the deficiencies in the lease agreement signed for the next 30 years and the use of this building for the purposes of the institution were also discussed at the Board of Trustees chaired by the Hon. Prime Minister. Accordingly, it was decided to hold discussions with the Secretaries of the two State Ministries headed by the State Ministers of the two Institutions and present their decisions to the Hon. Prime Minister. Accordingly, the decision given by the Secretaries of State Ministries is to be presented to the Hon. Prime Minister. I kindly state that I will then act on the instructions received from the Hon. Prime Minister.
- Action should be taken as per the provisions of the Act and other provisions. Action should be taken make arrangements to recover the arrears of rent due for the use of the building on the assessed value.

3.2 Procurement Management

----- Audit Observation -----	Management Comment -----	Recommendation -----
<p>The Procurement Guidelines 1.2.1 had not been complied with in selecting an organization to redesign the Foundation's website and to create a web radio using the latest technology. After spending Rs. 1,203,315 on the project, the project was idled due to abandonment with the approval of the Board of Trustees..</p>	<p>Since the launch of “Sarasa” Web Radio is a creative endeavour, the Sri Lanka Foundation has been selected for this purpose without any call for bids on the recommendation of the Technical Evaluation Committee which met on 13.02.2019 and approved by the Departmental Procurement Committee meeting on 13.02.2019. Accordingly, the procurement process has been followed and the approval has been obtained for this through the Board of Trustees paper No. 2019/294/03/02 dated 15.03.2019. Although the radio station was maintained for a period of one year, due to the low popularity of the audience for this online radio station and the low financial position of the company, it was not possible to continue the activities of this radio station due to the lack of dedicated staff and the ineffective payment of Rs. 52,050 per annum. This radio station has been suspended with the approval of the Board of Trustees under Board of Trustees Paper No. 2020/296/03/17 submitted on 13.10.2020 to suspend it as it was active only for a period of one year under the agreement entered into with the Sri Lanka Foundation. The total cost of creating this radio is Rs. 203,040 which has been given to the Sri Lanka Foundation and all the technical equipment obtained for this purpose has been used for the use of the company itself.</p>	<p>Action should be taken to follow Procurement guidelines when obtaining services and management should take steps to avoid such idle expenses.</p>

3.3 Human Resource Management

----- Audit Observation	Management Comment	Recommendation
----- There were 14 vacancies in 10 posts and one officer and three employees were assigned to work, without filling the vacancies that existed in respect of 04 posts. There were no employees in six vacancies which affecting the performance of the Foundation.	----- There were no qualified candidates for some of the vacancies as per the recruitment procedure approved by the Foundation and although action was taken to recruit for the posts of Primary Semi-Technical Services category, there were no suitable candidates due to lack of NVQ qualifications relevant to those posts. I would like to mention that although the NVQ qualifications have been referred to the Department of Management Services for revision, these vacancies could not be filled due to lack of that approval.	----- Action should be taken to fill the vacancies of essential posts without delay.