

## **Sri Lanka Foundation - 2020.**

---

### **1. Financial Statements**

---

#### **1.1. Qualified Opinion**

---

The audit of the financial statements of the Sri Lanka Foundation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 the Financial Act No 38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Foundation as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Qualified Opinion**

---

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 opinion.

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

---

Chief Accounting Officer/ Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Chief Accounting Officer/ Accounting Officer determines 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 Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Foundation 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 Company.

#### **1.4 Scope of Audit (Auditor's responsibility regarding the auditing of 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 General'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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluate the 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 Non-compliance with Sri Lanka Public Sector Accounting Standards**

Non-Compliance with reference to the particular Standard	Comments of the Management	Recommendation
(a) In terms of Sri Lanka Public Sector Accounting standard No 03, action had not been taken to review and adjust in the financial Statements the useful life of electric appliances and kitchen appliances costing Rs. 14,110,661 which were still being used despite being fully depreciated.	It was noted to review (statement) the value of these assets in 2021 and account the correct values.	Action should be taken as per the relevant accounting standard.
(b) As per the Sri Lanka public Sector Accounting standard No 10, Rs 1,875,250 being the amount received as work shop and course fee had not been identified as a service revenue and instead mentioned in financial statement as advances payable. Therefore, the deficit and current liabilities of the year under review had been overstated	Although the remittences directly received by the Government are included here, no evidence has been received to identify the purposes for which these deposits have been made till 31 December 2020. It has been informed that income would be deposited in accounts after correct identification,	Action should be taken as per the relevant accounting standard.

by that amount in financial statements.

<p>(c) Although it has been mentioned that the use of accumulated fund and statements of fixed assets revaluation reserve in the statement of financial position of the year under review was Rs.6,582,809 and Rs.530,459,754 respectively, it has been mentioned in the statement of change in net assets that the accumulated deficit stands at Rs.100,686,706 and contributory capital stands at Rs, 637,698,179.</p>	<p>It has been informed that action would be taken in next year to correct the difference occurred when taken as separate items in the statement of standard.</p>	<p>Relevant corrections should be done immediately.</p>
--	---	---

**1.5.2 Accounting Policies**

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>According to the nature of transactions of the Foundation, it has made 100 per cent doubtful debt allocation for debtors whose debt balances have been lasting for more than 05 years and for other debtors, 50 to 7.5 per cent doubtful debt allocation had been made. Accordingly, the total doubtful debt allocation made at the end of the year under review, stood at Rs.6,844,605.</p>	<p>No definite debt allocation policy has been introduced.</p>	<p>Definite debt allocation policy should be prepared.</p>

### 1.5.3 Doubtful Accounts

Subject	Amount	Duration under Doubtfulness	Comments of the Management	Recommendation
Doubtful Account	Rs, 189,587	Since 2015	Since legal procedures are still in progress in this regard, it is not possible to settle the balance in the doubtful account.	Issues regarding doubtful accounts should be sorted out as soon as possible.

### 1.6 Accounts Payable and Receivable

#### 1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
Retention tax of Rs.1,375,812 due from the Department of Inland Revenue related to the time period from 2006 to 2009 had not been settled in the year under review.	Several attempts to recover this amount have been unsuccessful.	This long-standing balance should be settled.

## 1.7 Non-compliance with Laws, rules and Regulations and Management Decisions

Reference to Law, Rules and Regulations	Non-Compliance	Comments of the Management	Recommendation
(a) Chapter 4.3.1(a ) of the Government Procurement Guidelines	No total cost estimate including all related expenses had been prepared when purchasing weight lifting equipment worth Rs.3,722,953.	Although a total expenditure estimate has not been prepared separately, Rs. 04 million overall estimate has been mentioned in application for capital Items. ( Req No 2256) Awareness has been built in this regard by the Tender Board decision No SLF/TB/2019/09 dated 10 07 2019. It has been informed that the officers have been instructed to prepare the all expenses estimate in future transactions.	Action should be taken as per Government Procurement Guidelines.

## 2. Financial Review

### 2.1 Financial Results

The operational result of the year under review was a deficit Rs10,778,597 as compared with the preceding year deficit of Rs.9,370,945. Accordingly, a deterioration of Rs.1,407,652 was observed in the financial result. Decrease in other income had mainly caused this deterioration.

## 3. Operational Review

### 3.1 Management Deficiencies.

Audit Observation	Comments of the Management	Recommendation
A building of the book value of Rs. 5,283,015 legally owned by the Sri Lanka Foundation had been given for use by external parties without written agreement.	Authority of the Sri Lanka Foundation has continuously paid attention in this regard and it has been informed that the institutions responsible have been made aware for necessary action.	Action should be taken to acquire this property.