

## **Sri Lanka Foundation - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Foundation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets 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 the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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**

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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**

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Management 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 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 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 Foundation.

#### **1.4 Scope of Audit (Auditor's Responsibility on the Audit of the Financial Statements)**

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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:

- 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.
- 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 Noncompliance with Sri Lanka Public Sector Accounting Standards**

<b>Non-Compliance with the Reference to Particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though income, expenditure, assets and liabilities should not be offset according to Section 48 of Standard No. 01, the value of goods amounting to Rs.189,588, which was determined to have been stolen, had been offset against the unsettled balance in the sales ledger.	The value of the stolen goods has been stated in the suspense account of income receipts not specifically identified in the current year for rectifying in the year 2022 and to account them in the relevant accounts. Action will be taken to identify non-identified income and to	Action should be taken according to the relevant standard.

account such income.

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| <p>(b) Although the accumulated fund and fixed asset revaluation reserve had been stated as Rs. 31,020,455 and Rs.487,929,754 respectively in the statement of financial position of the year under review, the values of the contributed capital had been stated as Rs. 595,168,179 and the accumulated deficit had been stated as Rs.76,249,060 other than complying with the values of the statement of financial position by taking action to separately show the aforementioned values in the statement of changes in net assets in terms of Sri Lanka Public Sector Accounting Standards No. 01.</p> | <p>This is only a classification error that has occurred in the disclosure of the facts in the financial statement and it has been disclosed in this manner for a long time and certain balances cannot be identified correctly. However, action will be taken to rectify this in the ensuing year according to the instructions of the Board of Management.</p> | <p>Rectifications should be made as applicable.</p> |
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### 1.5.3 Accounting Deficiencies

Non-Compliance with the Reference to Particular Standard	Comments of the Management	Recommendation
<p>(i) Subsequent to an evaluation of the ability to recover the debt from the debtors, 100 percent provision for doubtful debt had been made for loan balances outstanding for more than 05 years and provision for doubtful debt in between 50 percent to 7.5 percent had been made for other debtor balances, without taking steps to identify the compensation value of the debtors. In this way, the total provision for doubtful debt made at the end of the year under review was Rs.7,696,863.</p>	<p>Although a specific policy for making provision for doubtful debts based on the nature of the business of the institution has been referred to the Audit and Management Committee, the approval has not yet been obtained. Immediately after obtaining the approval, this will be referred to the Board of Management and a specific policy will be formulated.</p>	<p>Since this has also been mentioned in the report of the previous year, action should be taken accordingly.</p>
<p>(ii) The kitchen equipment and repair costs, out of the amount of Rs.26,846,285 spent for the renovation of the kitchen of the institution that is being used even at present, had been stated as work in progress in the financial statements instead of being identified and accounted as inventory items and revenue expenditure as required.</p>	<p>Since the contract has not yet been conclusively completed and handed over, it has been accounted as work in progress. Currently, it is being used and, in the future, it will be included in the fixed asset register based on your recommendations. Although the receipts that have not been specifically identified have been stated in the suspense account, necessary action will be taken to</p>	<p>Rectifications should be made as applicable.</p>

account it accurately in the year 2022.

- (iii) The course fees amounting to Rs.9,563,246 received during the year under review had been stated as unrecognized deposits instead of stating them as income in the financial statements. The rental income of providing facilities amounting to Rs.1,251,450 had not been identified as income in the year under review and had been retained in a suspense account. As a result, the surplus of the year had been understated by Rs.10,814,696 in the financial statements.
- It has been accounted in this manner as it is not possible to identify with certainty by whom and for which courses the direct receipts and payments have been made to the bank. Arrangements will be made in the future to account them on the accurate information received from the relevant course coordinator or registrar.
- Rectifications should be made as applicable.

## 2. Financial Review

### 2.1 Financial Result

The operational result for the year under review was a surplus of Rs. 24,437,646 and different to that, the deficit in the previous year was Rs. 10,778,597. Accordingly, an improvement of Rs. 35,216,243 was observed in the financial result. The increase in the income earned from the course fees was the main reason for this improvement.

## 3. Operational Review

Audit Observation	Comment of the Management	Recommendation
(i) A building with a book value of Rs.5,283,015 and legally owned by the Sri Lanka Foundation had been provided to external parties for use even without a written agreement.	Even though action has been taken to transfer this property, it has not been able to acquire it.  Former President Chandrika Bandaranaike Kumaratunga currently resides in this building.	Action should be taken to transfer this building or to formally hand over it to the relevant party.
(ii) The Sri Lanka Foundation had conducted 130 higher national diploma, diploma and certificate courses and various workshops during the year under review. There had been 11 permanent lecturers in the institution and an amount of Rs.15,633,473 had been paid to them as annual salaries and allowances. An amount of Rs.17,078,356 had been paid to the visiting lecturers as salaries. In an audit test check,	The institute has been conducting nearly hundred diploma courses, certificate courses and training workshops during the last few years. There are no qualified lecturers related to those fields in our institution. At present, 09 permanent lecturers and one lecturer on casual basis are working in the institution. Lecturers cannot	Arrangements should be made to get the maximum service from the lecturers, who are currently employed in the permanent positions.

it was observed that only visiting lecturers had been employed entirely for 67 courses and workshops out of 94 courses and workshops and the resource contribution of visiting lecturers for 27 courses had exceeded 75 percent. Although there was a course coordination unit in the institute, the permanent lecturers of the Foundation had carried out only the coordination activities of these courses.

teach all subjects as most of the courses are career development courses and employment-oriented courses. Therefore, visiting lecturers have been employed to operate the Academic Division of the Institute.