

Sri Lanka Foundation -2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Foundation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 the Financial 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 Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position 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 based 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 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.

1.4 Auditor's Responsibility in Auditing 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 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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 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.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
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Although the assets valued at Rs. 65.36 million had been fully depreciated as per the Sri Lanka Public Sector Accounting Standards No. 07, they were continuously to be used. However, no action has been taken to rectify this estimated error in accordance with the Sri Lanka Public Sector Accounting Standards No. 03 and this has also not been disclosed in the financial statements.	Necessary arrangements are being made for revalue the fixed assets that are still in use at the end of their life time in the future.	Actions should be taken as per Accounting Standards.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Internet facility charges and electricity bill charges of Rs. 2 million which had been paid during the year under review for the years 2017 and 2018, was stated in the financial statements as expenditure for the year under review instead of the adjusting retrospectively.	The outstanding internet facility charges are to be paid as installments in 2019 and the outstanding electricity bills of 2018 are accounted as expenditure in 2019.	Transaction should be accounted with regarding to the specified period.

1.6 Accounts Receivable and Payable

Receivables

Audit Observation	Comments of the Management	Recommendation
The balance relating to the Miscellaneous Education and Business Development Unit amounted to Rs. 15.81 million represents 63 percent out of total accounts receivable as at 31 December 2019. Actions had not been taken to recover the outstanding loan balance of Rs. 2.92 million in between 01 year and 5 years.	Steps are already being taken to seek the advice of the Governing Body on matters that may require legal action.	Appropriate arrangements should be made to recover the loan balances.

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

The following observations are made.

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulation of the Democratic Socialist Republic of Sri Lanka			
(a) Financial Regulations 156(7)	Although a sum of Rs.	The Accounts Division has	Action should be taken in accordance

	215,550 had been repaid out of Rs. 242,000 advance issued to 12 officers which savings are ranging from 50 percent to 100 percent due to non-preparing of proper estimates in giving advances.	already taken the necessary control measures to rectify such shortcomings by some of the officers who receive advances.	with Financial Regulations.
(b) Financial Regulations 761	Computer accessories and office equipment amounting to Rs. 1,725,245 had not been included in the Inventory Register purchased during the year under review.	Accuracy of the information in the fixed assets register maintained by the Accounts Division will be verified.	All assets purchased should be recorded in the inventory.

2. Financial Review

Financial results

The operating result of the year under review amounted to a deficit of Rs. 9,370,945 and the deficit for the preceding year amounted to Rs.34,683,516 as corresponding to that. Accordingly, a growth of Rs. 25,312,571 of the financial result was observed. The increase in recurrent grant and other income by Rs. 58,005,867 had mainly attributed to this growth.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
Internet connection of Rs. 87,500 monthly rent had been transferred to a wider connection of Rs. 175,000 without any technical study. The Foundation had to pay a	The institution had to pay that amount due to a decision taken unanimously by the former Chairman.	Decisions like these had to be taken after based on a technical evaluation report.

bill of Rs. 1,242,250 relevant to that period due to the action had been taken to stop using this connection from a short period of two months.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Aggregating Rs. 6.9 million had been spent for starting and maintaining a television channel in 2018 and 2019. Although an income of Rs. 4 million was expected, the revenue earned was only Rs.190, 000 during the year under review.</p>	<p>Generating new revenue are focused in 2020 and its successful results are been achieving now.</p>	<p>Ensure to earn income as expected.</p>

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The number of total lecture attendance of the 14 Lecturers recruited on a permanent and contract basis for 158 Advanced National Diploma, Certificate Courses and various workshops conducted during the year under review were 2923 hours and the number of lecture attending hours of external resource persons in these courses were 8436 hours. Annual salaries and other allowances of the lecturers recruited on permanent and contract basis amounted to Rs. 16,407,816 and the total allowance paid to external resource persons for the year under review was Rs.18,402,918. Whilst the</p>	<p>I request that the overall contribution made to the institution be taken into account in the audit of the salaries of internal lecturers.</p>	<p>The performance of the lecturers should be reviewed.</p>

value of a lecture hour of an external resource person is Rs 2,181, the value of a lecture hour of an Internal Lecturer was Rs. 5,613.

3.4 Procurement Management

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>A sum of Rs.1,049,124 had been paid for a contract to obtain consultancy services for the construction of a proposed studio in 2018 and action had been taken contrary in terms of guidelines 3.2, 3.3, 3.4 and 9.2.1 of the Procurement Guidelines on Consultant Selection and Acquisition of Services. According to a decision taken by the management, due to a finding issue the project of constructing this studio was suspended only for plans and the consultancy fee was a useless expense.</p>	<p>According to a decision taken by the management of the Sri Lanka Foundation, the construction of this studio has been halted due to a funding issue.</p>	<p>Actions should be taken in complying with the Guidelines of the Procurement Guidelines.</p>

3.5 Resources released to other organizations

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>The cost of Building at Rs. 5,283,015 including the value of the land on Nidahas Mawatha belonging to the Foundation was given to an outsider without any rent or a written agreement and the Board had not taken the necessary steps to formalize the situation.</p>	<p>We have tried to take over this property several times but have not been able to acquire it.</p>	<p>Action should be taken to take over the property used by an external party.</p>

3.6 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
----- It was observed in audit that an adverse effect on the administration due to two out of five senior management level vacancies as on 31 December 2019.	----- The relevant functions have to take up by the relevant senior level officers in the Institution presently, as a solution to the financial problems that arise when filling the senior level vacant posts.	----- Action should be taken to fill the vacancies.