

Tower Hall Theatre - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 and the 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 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 of the Foundation as at 31 December 2020 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 responsibility, 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 Audit Scope (Auditor's Responsibility on the Audit 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'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 skepticism 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.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded on the appropriateness of the Management's use of the going concern basis of accounting of the entity 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. However, future events or conditions may cause to cease to continue as a going concern.

- Evaluated 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 Council 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 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 Statement

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 Sri Lanka Public Sector Accounting Standards	Comments of the Management	Recommendation
<p>(a) The comparative figures of 9 accounting items restated in financial statements for the year under review and the relevant figures of the preceding year had been re-adjusted by Rs.771,107,315. Nevertheless, the facts to be revealed in accordance with Paragraph 54 of the Sri Lanka Public Sector Accounting Standards 03, those prior year adjustments had not been disclosed in the financial statements. accurately.</p>	<p>It is kindly stated that the actions will be taken to present such restated comparative figures in detail in future.</p>	<p>The matters which should be disclosed should be made in financial statements in accordance with the terms of the Standard.</p>
<p>(b) Although the entire class of property, plant and equipment to which that asset belongs should be revalued in terms of Paragraph 49 of the Sri Lanka Public Sector Accounting Standards No. 07 , only the land and Head Office buildings out of lands and buildings that existed in 2016 had been revalued to Rs.614,000,000 and Rs.163,000,000 respectively and 2 plots of land valued at Rs. 328,000,000 and 4 buildings valued at Rs. 400,360,931 as at 31 December 2020 had not been revalued even by the end of the year under review.</p>	<p>Preliminary works have been done on this re-valuation activities and necessary letters have been sent to the Government Valuation Department. Accordingly, it is kindly stated that the steps have been taken to complete this revaluation before 30 June 2022. Although the Head Office is our property, since it had been leased out for 30 years, the revaluation has not been done.</p>	<p>Actions should be taken to revalue the entire class of property, plant and equipment to which an asset belongs in terms of the provisions in the Standard.</p>
<p>(c) Although the fair value of an asset should be indicated by the accounts in accordance with Sri Lanka Public Sector Accounting Standards No. 07 , as a result of failure to act accordingly, actions</p>	<p>Accept. It is kindly stated that the actions would be taken to be accounted for after carrying out revaluation activities in the year 2022.</p>	<p>Actions should be taken to state fair value of assets in financial statements in accordance with the provisions in the</p>

had not been taken to re-adjust the estimated error of useful life of 08 vehicles which were fully depreciated but still being used cost at Rs. 34,833,215 in the accounts .

Standard.

(d) The reasons had not been explained including a reconciliation in between budget values and actual values in the financial statements or material differences in between the budget values and actual values.

It is kindly stated that the actions would be taken in accordance with Paragraph 14 of Accounting Standards 15 in preparation of the final accounts for the year 2021.

Actions should be taken to compare the differences between the budget and the actual value and to explain the reasons for it in accordance with the provisions in the Standard.

(e) When accounting for the value of a cab on 01 January 2019 donated by the Ministry of Education in the year 2018, instead of fair value existed as at the date of acquisition of assets in accordance with Paragraphs 25 and 43 of Sri Lanka Public Sector Accounting Standards No. 07 , it had been brought to accounts considering the assessed value for insurance activities amounting to Rs. 4,000,000 in the year 2017 as the cost.

It is accepted that it was a mistake made by a lack of knowledge in that year. The Valuation Department is conducting the revaluation activities by now and it is kindly mentioned that it would be completed by the end of April.

Arrangements should be made to state the fair value of assets in financial statements following the provisions stated in the Standards.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
As a result of the Head Office Building cost at Rs. 161,750,000 and the Studio cost at Rs. 1,250,000 as at 01 January 2020 had not been depreciated since 2017, the depreciation expenses for the year under review and the cumulative depreciation were understated by	Accept. Though the property belongs to us, the revaluation activities has not been carried out because it was leased out for one year. However, it is kindly stated that	Actions should be taken to accurately identify the depreciation expenditure of assets and appear them in the accounts.

Rs.16,300,000 and Rs. 48,900,000 the depreciation respectively. As a result, the deficit activities will be of the year was understated by made after carrying Rs.16,300,000 and the cumulative out the revaluation profit had been overstated in the activities in the year financial statements by Rs. 2022. 48,900,000 .

1.5.4 Lack of Evidence for Audit

Item	Amount Rs.	Audit Evidences Unavailable	Comments of the Management	Recommendation
Reserves	79,091,701	Information / files/ documents on 5 accounts balances brought forward over the years.	Those balances have been recorded in the books of accounts since the early days of the Tower Hall Theater Foundation. Any document or information related to those balances could not be found and it is kindly stated that the no evidence whatsoever can be found.	Actions should be taken to present the necessary evidence for the audit.

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

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
(a) Section 8 of the Tower Hall Theater Foundation Act No. 1 of 1978 and Terms of the Special Grant	Even though it had been stated that, this land and the buildings on it should not be used for any purpose other than for the	It is kindly stated that the arrangements will be made to submit to the Board of Trustees to take necessary actions to	Arrangements should be made to renew the lease agreement and to recover the arrears of lease expeditiously.

Paper dated 08 October 1980 regarding the transferring of the ownership of the Sawsiripaya building owned by the Foundation and the land on which it is located to the Foundation.

task of promoting and enhancing national dance activities and if not used for those purposes, then it will be returned to the Democratic Socialist Republic of Sri Lanka, the Sawsiripaya building owned by the Foundation and the land on which it is located, had been leased out to the Construction Industry Development Authority. The previous lease agreement had expired on 15 May 2016 and although that Authority continued to stay in the building, no rent whatsoever had levied to the Foundation from 15 May 2016 to 31 December 2021.

renew the lease agreement and to recover the amount of lease as per the discussions made with officers of the both parties and the Prime Minister to resolve the problematic situation exists on the Sawsiripaya building.

(b) Section 13 (8) of the Finance Act No. 38 of 1971

Considering the Management Audit report by the Board of Trustees, the proposed actions to be taken on the facts contained therein had not been informed to the Auditor General within 03 months.

Accept. It is kindly stated that the actions would be taken to send the reply of the next report to the Auditor General within 03 months.

The steps proposed to be taken on the matters contained in the Management Audit Report should be informed to the Auditor General in terms of Section 13 (7) (a) of the Finance Act .

- (c) Sections 20 (1) and 102 of the Inland Revenue Act No. 24 of 2017
- The Foundation had not taken actions to pay income tax for the assessment years 2018/2019 and 2019/2020 and actions had not been taken to register for income tax or to obtain tax exemption.
- The Tower Hall Theater Foundation is a tax-exempted institution and it is mentioned in the Act.
- Actions should be taken to exempt the taxes or to register for taxes in terms of Inland Revenue Act.
- (d) Paragraph 6.1 of Chapter VIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
- A sum of Rs. 1,438,435 had been paid to 51 employees on 08 March 2019 as arrears of overtime from 01 January 2016 to 11 April 2018 on the approval of the Director General determining the hourly overtime rate of the employees of the Foundation as 1 hour to 1 1/2 hours and base on it in contrary to the To Paragraph 02 (i) (a) of the Management Services Circular No. 02/2016 (ii) dated 11 April 2018. Even though the Board of Trustees had given the covering approval on 15 March 2019 to pay this arrears of overtime,
- Because of the Director of the Department of Management Services did not approve this overtime, the payments so made are being recovered. Although the arrears of overtime paid from September have been recovered by the letter dated 27.08.2020, the overtime payments made in installments by now since October are being recovered as informed by the Director General in the letter 2020-09-18 submitted by the staff.
- Such payments which had exceeded the requirements of the Establishments Code should be made with the prior approval of the Board of Trustees and the Department of Management Services.

Director of Management Services had refused to approve the paid arrears of overtime.

(e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 119 (1), 119 (2) and 233

The recovery of the overtime paid on 08 March 2019 to 51 employees without an approval amounting to Rs. 1,438,435 had been delayed up to October 2020. Although the Secretary to the Ministry can authorize the number of recovery installments for exceeding 12 installments, the Director General had allowed to recover up to 48 overtime installments which had paid without an approval and a balance of Rs. 1,027,596 due from 30 employees by 31 December 2020 had to be recovered furthermore.

Accept.

Actions should be taken to recover the overtime payments made erroneously and without having the approval in accordance with the Regulations.

(ii) Financial Regulations 396

Actions had not been taken in terms of Financial Regulations in respect of 15

It is kindly informed that the actions have been taken in respect of those cheques in

Arrangements should be made to take the cheques which had exceeded

		cheques that had issued for more than 06 months valued at Rs. 124,430 .	accordance with the Financial Regulation 396 so far.	6 months into income expeditiously in terms of Financial Regulations.
(iii)	Financial Regulations from 880 to 893 and the Public Officers' Security Ordinance Cap. 612	Actions had not been taken to identify the officers who are required to give securities and to obtain securities from them.	A letter has been sent to the Secretary seeking advice regarding the officers who are required to give securities. It is kindly stated that the arrangements will be made to follow those instructions in future.	Actions should be taken to obtain securities as per Financial Regulation and Public Officers' Security Ordinance.
(f)	Public Enterprise Circular No. PED-12 dated 02 June 2003			
(i)	Section 4.2.6	Quarterly, Semi-Annual and Annual Performance Reports of the year 2020 had not been submitted to the Board of Trustees.	It is kindly stated that the presentation of the Annual Budget with the approval of the Board of Trustees had delayed due to failure to hold Meetings of Board of Trustees.	Actions should be taken to submit Performance Reports in terms of circular provisions.
(ii)	Sections 5.1.3 and 5.2.1	The Budget of the year 2020 was submitted to the Auditor General on 28 July 2021 and the comprehensive revenue statement, the budgeted statement of financial position and the budgeted cash flow statement had not been submitted.	It is kindly stated that the actions will be taken to furnish the Budget along with the required documents in future.	Arrangements should be made to submit other documents along with the budget in terms of circular provisions.

(iii)	Section 6.5.1	The accounts of the year 2020 had been submitted to the Auditor General on 12 January 2022.	As a result of failure to hold the Meetings of Board of Trustees, submission of Accounts 2020 of the year to the Auditor General with the approval of the Board of Trustees had delayed and it is kindly mentioned that it will be submitted immediately from the year 2022 .	Arrangements should be made to submit accounts in accordance with the circular provisions.
(iv)	Section 6.5.3	The Annual reports for the years 2018 and 2019 had not been tabled in Parliament even by 31 January 2022.	The tabling of the Annual Report in Parliament for the year 2018 has been completed and it is kindly stated that the Annual Report for the year 2019 has been handed over to the Ministry for submission to the Cabinet of Ministers.	Arrangements should be made to table the Annual Reports in Parliament in accordance with the circular provisions.
(v)	Section 7.3	The approval of the Line Ministry and the concurrence of the Treasury had not been obtained for the Manual of the Foundation, which has been in operation since 1997 with the approval of the Board of Trustees.	Actions have been taken in terms of the Manual so far. Since the approval for manuals as such are not approved by the Treasury at present, it is kindly stated that the actions will be taken in the future in accordance with the Establishments Code and the circulars issued from time to time.	Arrangements should be made to obtain the approval of the Line Ministry and the concurrence of the Treasury for the Manual.
(g)	Section 04 of the Public Finance Circular No.	The Action Plan for the year 2020 and the Activity Plan which	Arrangements will be made in future, in accordance with	Actions should be taken to submit the Action Plan in

	01/2014 dated 17 February 2014	should be produced along with it, the Procurement Plan and the Internal Audit Plan were submitted to the Auditor General on 28 June 2021.	Public Finance Circular No. 01/2014 and it is kindly stated that the Internal Audit Plan has been submitted for the Action Plan by now for the year 2022.	accordance with the circular provisions.
(h)	Section 5.2 (III) of the Budget Circular No. 142 dated 31 December 2008	Sixteen employees had paid distress loans amounting to Rs.2,088,106 exceeding the limit of Rs. 250,00 during the year 2020. The distress loans had been paid in the year 2020 exceeding the amount approved by the Board of Trustees by the Budget by Rs. 2,481,987 for the payment of distress loans.	It is kindly stated that the necessary actions will be taken to provide the distress loan amount from this year subject to maximum limit of Rs.250,000.00 It is kindly stated that the necessary actions will be taken to ensure that not to exceed the Budget.	Actions should be taken to pay the distress loan as per the terms of the Circular.
(i)	Public Administration Circular No. 07/2020 (iii) dated 10 June 2020	The employee loans had been recovered deducting 2 months installments per year and the loans had been recovered with a sum of Rs. 274,504 in less in the year under review.	Due to a festive month, the distress loan installments were not recovered with the approval of the Board of Trustees and the errors will be corrected from now on and recovered as scheduled from April this year and it is kindly stated that the actions will be taken in accordance with the instructions of the Board of Trustees on the arrears in future.	Actions should be taken to recover the distress loan balances continuously as per the provision of the Circular.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a deficit of Rs. 96,531,981 and the corresponding deficit for the preceding year was Rs. 30,481,863 . Accordingly, a deterioration of Rs. 66,050,118 was observed in the financial result. Although the government's contribution for the recurrent expenditure had increased by Rs. 13,400,000, decrease in hall rental income by Rs. 13,199,166 and interest income by Rs. 1,428,658 and increase in salaries and wages by Rs. 4,726,839 and depreciation expenses by Rs. 57,554,889 had mainly attributed to this deterioration .

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken to amend the Tower Hall Theatre Foundation Act No. 01 of 1978 in a timely manner.	It is kindly stated that a Committee has been appointed to carry out the amendment of the Act by now.	Actions should be taken to amend the Act in a timely manner.
(b) Even though the artists' pension allowance existed as Rs. 3,000 had been increased up to Rs. 7,500 by the Decision of the Board of Trustees No. 2019/294/03/01 dated 15 March 2019, any strategy whatsoever had not been introduced to earn additional money. As a result, despite the interest income of the President's Welfare Fund was Rs. 6,254,181, it had to use an another income source to settle the arrears of Rs. 3,014,319 because it had to pay a sum of Rs. 9,268,500 to the artists.	No proposal or action was furnished by the then Director General to get settled the arrears and no such note whatsoever can be found within the institution. It is stated that the Board of Directors have approved this at the time approved the proposals on the basis of political influence and not on a clear agenda. We will make arrangements not to do such informal things in future. Although the fixed deposit interest income is low, the monthly allowance for senior artists has been continuously paid. It is kindly stated that	Future financial decisions should be made by making sure whether the funds are available.

the actions have been taken to cover the arrears occurred on payment from the interest on fixed deposits belonging to the Foundation.

3.2 Operational Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) A policy had not been formulated in respect of providing the theaters belonging to the Foundation on concessionary rate and the approval for that was given by the Director General and subsequently, the covering approval had been obtained from the Board of Trustees.</p> <p>It had lost a rent income Rs. 789,000 due to the theatres were given on concession rate on 10 occasions during the year under review and the preceding year and a sum of Rs. 252,000 because of providing in 3 occasions without the recovery of charges .</p>	<p>It is kindly stated that the necessary actions will be taken to act in accordance with a policy in renting out the theaters in future and to obtain the prior approval of the Board of Trustees for that.</p>	<p>Actions should be taken to formulate a policy in respect of providing the theaters on concessionary rate.</p>
<p>(b) The Performance Report for the year under review had not been prepared in accordance with the Action Plan. Only the percentage achieved had been indicated in showing the physical progress in the Performance Report and as a result of failure to indicate physical goals and physical progress in units the performance stated could not be ascertained in audit.</p>	<p>It is kindly stated that the necessary actions have been taken to prepare the report including the performance of the year 2021 in accordance with the Action Plan.</p>	<p>The performance report should be prepared in accordance with the Action Plan, showing physical goals and physical progress.</p>
<p>(c) Although it had estimated a total of Rs. 1,603,450 for the years 2018-2020 for the project of creating a CD containing</p>	<p>Although the necessary arrangements have been made from the preliminary work of the tri-programmes to printing</p>	<p>Arrangements should be made to complete project works as planned.</p>

Nadagam Songs, a total of Rs. 249,576 had been spent in 2018 and 2019 as Rs. 61,665 and Rs. 187,911 respectively, actions had not been taken to release the CD even by 31 January 2022 by completing the work.

such as launching a CD containing Nadagam Songs and translating selected Sinhala Dramas into Tamil and the Photo Archive and Exhibition, due to the financial crisis in the institution, the relevant payments were not made.

3.3 Human Resources Management

<p style="text-align: center;">Audit Observation</p> <p style="text-align: center;">-----</p>	<p style="text-align: center;">Comments of the Management</p> <p style="text-align: center;">-----</p>	<p style="text-align: center;">Recommendation</p> <p style="text-align: center;">-----</p>
<p>There were 22 vacancies for 11 posts as at 31 December 2020 and out of these 13 vacancies were for staff in the technical categories of the Foundation. The 21 recruitments made in the previous year and the year under review were made with the covering approval of the Board of Trustees and the approval of the Board had not been granted for 03 out of 07 internal recruitments.</p>	<p>The Board of Trustee Paper 2020/295/03/37 has been submitted on 12.02.2020 to obtain approval for those 03 internal recruitments. The Board of Trustees has appointed a Committee of Inquiry to look into appointments made to the Foundation after 2015 on a problematic situation that had arisen there and arrangements have been made to take further actions as per the report to be submitted by the Committee.</p>	<p>Actions should be taken to make recruitments in a transparent manner.</p>