

Galle Heritage Foundation - 2021

01. Financial Statements

1.1 Opinion

The audit of the financial statements of the Galle Heritage 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 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 Finance Act No. 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Galle Heritage Foundation 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 Opinion

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 ability of the Galle Heritage Foundation 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 Institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Galle Heritage Foundation.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Institution 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 Institution.

1.4 Scope of the Audit (Auditor's Responsibility on 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:

- 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 of the Galle Heritage Foundation.
- 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 Galle Heritage 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 in relation to 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 Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Section 41 (1) of the National Audit Act No.19 of 2018	Although there shall be an Audit and Management Committee for every auditee entity, Galle Heritage Foundation had not established and conducted an audit and management committee until the end of the year 2021.	A committee comprised of the following officers for the Audit and Management Committee meetings was proposed and approved by an internal letter referred to the Director and Chairman of the Galle Heritage Foundation on 21 April 2021.	Although the management committees have been established until 30 June 2022, they have not yet been conducted. Therefore, the committees should be established and conducted.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the result of the operations for the year ended 31 December 2021 was a deficit of Rs. 584,118 and the corresponding surplus of the previous year was Rs. 55,286. When compared with the previous year, a deterioration amounting to Rs. 639,404 or 1157 percent of the financial result in the year under review was observed. The decrease in government grants in the year under review by Rs.891,348 was the main reason for the deterioration in this financial result.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The need of amending the Galle Heritage Foundation Act No. 07 of 1994 had been identified with the objectives of gaining more powers to the Galle Heritage Foundation and to increase the income generation for the foundation, a Cabinet Memorandum was prepared for that purpose in the year 2015. However, an amendment	In the year 2018, the former government had started the preliminary work to prepare a new bill for the Galle Heritage Foundation. There was no expectation of amending the existing Act and arrangements were made	Action should be taken to amend the Act.

had not been made to the said Act even by 31 December of the year under review.

to prepare the new Act as "Southern Forts Authority Act" under the leadership of the Ministry of Southern Development.

It was decided at the committee meeting of the Board of Management held on 21 February 2022 that the new Board of Management will amend the same Act and to prepare new proposals for that and the proposals will be forwarded to the Ministry and action will be taken to amend the Act.

- (b) Even though the Deputy Project Director of the Strategic Cities Development Project of the Ministry of Megapolis and Western Development and to the contract companies of the Conservation of the Ancient Rampart in the Galle Fort Project were allowed to use the land worth Rs. 1,036.5 million transferred from the Galle Four Gravets Divisional Secretariat to the Galle Heritage Foundation and the building valued at Rs. 3.825 million for a period of one year for temporary accommodation and the contract company stayed there for a period of 02 ½ years after extending the period, a tax had not been collected from the contract company. Although an annual budget allocation of the year 2021 amounting to Rs. 7.85 million has been allocated for the conservation of the building, the foundation was unable to renovate the building as the contractors had resided in the building.
- Arrangements have been made to initiate the conservation activities of this at the beginning of 2021, and although the conservation of the building was delayed until then due to delays in the approval of plans, preparation of engineering estimates and delays in the procurement process, steps have been taken at present to begin conservation activities of the building.
- Action should be taken to collect taxes from the contractor. Arrangements should be made to fulfil the desired objectives from the capital allocations made.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Management	Recommendation
During the year under review, provision of Rs.25.8 million had been approved for 12 projects. An allocation of Rs.17.55 million, out of that, had only been spent. Although an expenditure of Rs.1.22 million had been incurred for 04 projects, for which provision of Rs.12.05 million had been allocated out of the approved allocation, the purpose of carrying out those projects had not been fulfilled.	Delays in approving the conservation plans, delays in the preparation of engineering estimates, delays in the procurement process and locking down of the country due to the Corona situation were the reasons for that.	Action should be taken to fulfil the objectives of the projects using the provision made. Ability to accomplish it should be checked before construction.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
According to the budget documents prepared by the Galle Heritage Foundation for the year 2021, there were significant variations between the estimated value and the actual expenses incurred for the activities of the year. The percentage of the variation had been 66 percent to 99 percent.	The delay in the conservation of the police quarters, approval process of the initial plans, the delay in the procurement process due to the Corona pandemic and the inability to proceed as planned were the reasons for those savings.	In the preparation of budgets, action should be taken according to the available resources and the existing information and on the achievable targets.