

Tower Hall Theatre Foundation - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2018 comprising the statement of financial position 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 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 financial statements give a true and fair view of the financial position of the Foundation as at 31 December 2018, and its financial performance and 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 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 determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 Foundation.

1.4 Auditor's Responsibilities for 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:

- 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, 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 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
<p>In terms of Sri Lanka Public Sector Accounting Standard 3, a sum of Rs. 271,702,335 to the balance of capital grant received from the Government, a sum of Rs. 4,018,000 to the value of equipment donation received from the Government of Japan and a sum of Rs. 276,798,877 had been adjusted to the accumulated fund in the year under review as corrections of prior period errors. However, action had not been taken to adjust the effect of those adjustments retrospectively, to restate the comparative balances of the preceding year and to make disclosures thereon in the financial statements.</p>	<p>Action will be taken in future to correct the said deficiencies and to use relevant forms.</p>	<p>Relevant disclosures should be made in the financial statements according to Sri Lanka Public Sector Accounting Standard 3.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The notional lease rental of Rs. 200,000 agreed to be charged without a basis, for the year under review relating to the Sausiripaya building, had not been indicated in the financial statements as income receivable. As such, income for the year and the income receivable from lease rental had been understated in the financial statements by that value.	This had not been brought to account as an agreement had not been entered into between the two parties.	In using assets owned by the Foundation, proper agreements should be entered into and in the preparation of financial statements, accepted accounting principles should be followed.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Evidence not made available to Audit	Comments of the Management	Recommendation
	Rs.			
Government grants, receipts of cash donations and donations of goods had been indicated under reserves in the financial statements. However, details on these reserve balances or supporting documents on which accounting of these balances as reserves were based, had not been made available to Audit. As such, these reserve balances could not be satisfactorily vouched in audit.	78,467,860	Receipts, bank deposit slips, goods received notes, donation register	These balances brought forward in books for many years are old balances and relevant files or other documents to confirm the said balances could not be found.	All supporting documents based for the preparation of financial statements should be made available to Audit.

1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
The balance of Other Receivable Account was Rs.4,049,035 as at the end of the year under review and a balance of Rs.1,652,321 out of that was outstanding for over a period of one year. The Foundation had not taken proper measures to recover these receivable balances.	Only a very small amount of these balances could not be settled and action will be taken to settle them as quickly as possible.	Action should be expedited to recover amounts receivable to the Foundation.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Section 8 of the Tower Hall Theatre Foundation Act, No.1 of 1978 and terms of the Special Grant dated 08 October 1980 relating to vesting of the Sausiripaya building and the premises on which it is located, in the Foundation	Even though it is mentioned that this land and the buildings located therein shall not be utilized for any purpose other than to encourage and promote national theatrical activities and on failure to utilize for the aforesaid activities, that it shall again be vested in the Democratic Socialist Republic of Sri Lanka, the Sausiripaya building and the premises on which it is located owned by the Foundation, had been leased out to the Construction Industry Development Authority.	Action is being taken by now to settle this matter.	Provisions specified in the Tower Hall Theatre Foundation Act, should be complied with.

2. Financial Review

2.1 Financial Results

The operations of the year under review resulted in a deficit of Rs.3,039,041 as against the surplus of Rs.9,769,555 for the preceding year. As such, a decline of Rs.12,808,596 was observed in the financial result. The increase in institutional and administrative expenses by Rs.7,985,671 and the decrease in other income by Rs.7,654,660 had mainly attributed to the above decline.

2.2 Analysis of Ratios

Ratio	2018	2017
Current Assets Ratio	0.99:1	4.81:1
Quick Assets Ratio	0.89:1	4.75:1

(a) The decrease in cash at hand and bank balance by 54.08 per cent, deposits, advance payments and advances by 96 per cent in the year under review as compared with the preceding year, increase in creditors and accrued expenses by 44.04 per cent had attributed to the decrease in the current assets ratio of the year under review as compared with the preceding year. Moreover, the quick assets ratio as well had decreased as compared with the preceding year. The said ratios had decreased up to the optimum level and it was observed that the Foundation should take action to avoid such further decrease in ratios.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
A part of the Sausiripaya building vested in the Foundation in the year 1980, had been leased out on an annual lease basis of Rs.200,000 for a 30 year deed of lease to the Construction Industry Development Authority in the year 1986. As the said 30 year deed of lease had expired on 14 May 2016, the said property had been leased out again on an annual lease basis of Rs.200,000 for a 30 year period to the	Action will be taken to settle this matter in future.	In leasing out properties owned by the Foundation, the current economic lease rental should be recovered based on the assessment of the Government Valuer. Moreover, proper agreements should be entered into with the approval of the governing board of the Foundation.

Construction Industry
Development Authority.
Action had not been taken to charge the current economic lease rental based on the assessment of the Government Valuer in leasing out property again. Moreover, the approval of the Board of Trustees had been obtained only on 15 March 2019 for leasing out this property again from 15 May 2016 and in granting the said approval, it has been indicated that the lease rental should be revised as per a Government Valuation Report and that agreements should be entered into for improving building space facility required for the Foundation. Nevertheless, action had not been taken by the Foundation to include those conditions when entering into agreements. Accordingly, the problematic situation of leasing out these buildings on a notional lease rental without any power of authority or a formal agreement, could not be accepted in audit.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year ended 31 December 2018 should be furnished to the Auditor General before 28 February 2019. However,	A meeting of the Board of Trustees was not held, thus resulting in delay of presentation of approved annual financial statements to Audit.	In terms of the referred circular, financial statements relating to a particular financial year, should be presented to the Auditor General before 28 February of the ensuing year.

the said financial statements had been furnished to the Auditor General only on 04 March 2020.

4.2 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Eight programmes at an estimated value of Rs.4,330,000 indicated in the Action Plan of the year under review had not been fully executed and the percentage of achievement of envisaged targets relating to 04 programmes at an estimated value of Rs.13,468,400 had been ranging from 10 to 30 per cent.</p>	<p>Implementation of many programmes was difficult due to the Foundation coming under the purview of various ministries from time to time on the unstable political situation, appointing Directors General in several instances and difficulties relating to taking decisions, documents, and in spending money.</p>	<p>Action should be taken to prepare realistic plans which could be implemented during the year and the affairs of the Foundation should be efficiently directed accordingly.</p>