

Tower Hall Theatre Foundation 2013

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The audit of financial statements of the Tower Hall Theatre Foundation comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 13(1) of the Finance Act, No. 38 of 1971 My comments and observations which I consider should be published with the Annual Report of the Foundation in terms of Section 14((2)(c) of the Finance Act, appear in this report.

1:2 Management's Responsibility for Financial Statements

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act,

No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1:4 Basis for Qualified Opinion  
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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial statements  
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2:1 Qualified Opinion  
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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Tower Hall Theatre Foundation as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements  
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2:2:1 Sri Lanka Public Sector Accounting Standards  
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Sri Lanka Public Sector Accounting Standards No. 7  
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The following observations are made.

- (a) The fully depreciated assets which are being used at present, the assets for disposal and idle assets included in 11 items of property, plant and equipment costing Rs.135,835,222 and net value amounting to Rs.16,969,479 had not been disclosed in the financial statements.
- (b) Even though 21 items of assets costing Rs.258,942 should have been treated as assets disposed of and eliminated from the accounts, the cost thereof had been shown under the property, plant and equipment in the financial statements.

- (c) The expenditure of capital nature amounting to Rs.1,636,320 incurred on the modernization of the air-conditioning system of the Tower Hall Theatre for enhancing the effective life, had been written off against the income for the year under review.

2:2:2 Accounting Deficiencies

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The following observations are made.

- (a) The depreciation on the buildings for the year under review had been understated by a sum of Rs.408,586 due to the failure to make provision for the year in accordance with the depreciation policy of the Foundation.
- (b) The sum of Rs.124,600 received in the year 2012 for the grant of scholarships to the students of the Drama School had been brought to account as advances instead of being credited to a Scholarships Account.

2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following instances of non-compliance were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulations 102 and 757(2)	Action in terms of the Financial Regulations had not been taken on the shortage of 327 items of 58 categories of goods revealed at the Board of Survey conducted in respect of the year 2012.
(ii) Financial Regulation 702 and Section 8.9.1 of the Procurement Guidelines	A Memorandum of Understanding had not been entered into with the Department of Civil Security for obtaining labour contribution for the modernization of the Elphinstone Theatre and a sum of Rs.9,032,850 had been paid to that Department for the services of 20,073 mandays.

(iii) Financial Regulation 756 Even though a Board of Survey for the conduct of the Annual Board of Survey should be appointed on 15 December or a date close to that of each year, the appointment of the Board of Survey or the conduct of the Board of Survey for the year under review had not been done even by June 2014.

(b) Section 8.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 Even though the Foundation had invested Rs.103,548,271 in fixed deposits and Rs.25,300,000 in seven days call deposits by the end of the year under review, the approval thereof had not been obtained from the General Treasury in accordance with the circular instructions.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the financial result of the Tower Hall Theatre Foundation for the year under review amounted to a deficit of Rs.8,370,607 as compared with the corresponding deficit of Rs.11,411,238 for the preceding year. The deficit as compared with the preceding year had decreased by a sum of Rs.3,040,631. The increase of the overall income for the year under review by a sum of Rs.3,813,044 and the increase of expenditure only by a sum of Rs.772,413 had been the main reason for the improvement.

4. Operating Review

4:1 Performance

The following observations are made.

(a) According to the plans made for the year under review, the activities estimated at Rs.47,700,000 relating to the installation of seats, laying of floor tiles and the installation of the electrical lighting system in connection with the modernization of the Elphinston Theatre should have been completed by the end of the second quarter of the year, but it had not been possible to commence those activities up to March 2014. It was observed that the delay had been due to the complexity of the activities and the delay in the receipt of funds for modernization.

- (b) Even though the modernization of the Rukmani Devi Theatre and the Tower Hall Theatre had been planned for completion by the end of the third quarter of the year under review and an allocation of Rs.4,115,000 had been made for the purpose, those activities had not been commenced even up to 31 March 2014.
- (c) Six other programmes planned for implementation in the year under review for which provision amounting to Rs.5,950,000 had been made, had not been implemented as planned.

#### 4:2 Management Inefficiencies

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The following observations are made.

- (a) The income of the Rukmani Devi Theatre maintained by the Tower Hall Theatre Foundation had not been adequate even for the payment of salaries of the employees. Even though its income for the year under review amounted to Rs.474,050, expenditure on salaries of employees amounted to Rs.1,469,158 while the income for the year 2012 amounted to Rs.824,830 and the expenditure on the employees' salaries amounted to Rs.1,268,412. Action had not been taken to increase its income at least to cover the maintenance expenditure.
- (b) The Board of Trustees had held 9 meetings during the year under review. The attention of the Board of Trustees had not been paid to the non-participation at any of the meetings by the Minister in charge of the subject of Local Government and Provincial Councils and the Mayor of the Colombo Municipal Council who are ex-officio members of the Board.

#### 4:3 Transactions of Contentious Nature

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The objective and the beneficiary of the Drama Programme conducted at Maho and Polpithigama at a cost of Rs.195,000 and without a preliminary plan had not been determined. In addition, the resource persons and the officers of Tower hall Theatre Foundation had not participated in the event of which no supervision had been exercised.

#### 4:4 Underutilization of Funds

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The sum of Rs.7.5 million given by the Treasury in September and October 2012 for the modernization of the Rukmani Devi Theatre had been invested in seven days call deposits up to the end of the year under review without being used for the intended objective . The modernization of the Theatre had not been commenced even by the end of the year under review. In addition, to this the sum of Rs. 20 million given by the Treasury on 11 November 2011 for

capital works had been invested in seven days call deposits from time to time without being used for the intended activities.

4:5 Resources given to other Government Institutions

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A motor vehicle of the Tower Hall Theater Foundation had been released for use by a Coordinating Secretary of the Minister of Culture and the Arts and that motor vehicle had run 2,634 kilometres during September of the year under review.

4:6 Personnel Administration

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The following observations are made.

- (a) Even though approved carder of the Foundation as at the end of the year under review had been 86, the actual personnel as at that date had been 61. Out of the vacant posts personnel action had not been taken for filling of 06 posts in the Executive Level.
- (b) The present Director General of the Foundation, appointed to that post with effect from 23 December 2005 had been granted 15 salary increments in the salary scale HM-1-7 relevant to the post and placed on the maximum salary of Rs.55,030 and paid salaries with effect from 01 March 2007. According to the Management Services Circulars No. 30 of 22 September 2006 and No. 39 of 06 May 2009, the recommendation of the Salaries and Cadre Commission and the approval of the Department of Management Services should be obtained before determining the salaries. Nevertheless, contrary to that requirement, the salary had been so paid in terms of a decision of the Board of Trustees. Reasonable and acceptable matters leading to the grant of 15 salary increments within a service period of one year had not been furnished to audit.

5. Accountability and Good Governance

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5:1 Presentation of Financial Statements

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According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year ended 31 December 2013 should have been presented to the Auditor General before 28 February 2014. Nevertheless, the financial statements had been presented only on 20 June 2014.

5:2 Corporate Plan

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A Corporate Plan for the year under review had not been prepared and presented to the Auditor General in terms of Section 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5:3 Budgetary Control  
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Comparison of the estimated income and expenditure according to the revised budget for the year 2013 with the actual income and expenditure revealed variances ranging from 32 per cent to 580 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

5:4 Tabling of Annual Report  
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The Tower Hall Theatre Foundation had not tabled the Annual Reports for the years 2011 and 2012 in Parliament even by 31 March 2014.

6. Systems and Controls  
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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director General of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Accounting
- (c) Stock Control
- (d) Personnel Administration
- (e) Assets Management
- (f) Contract Administration