

Galle Heritage Foundation - 2014

The audit of financial statements of the Galle Heritage Foundation for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the 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 and Section 13(2) of the Galle Heritage Foundation Act, No. 7 of 1994. My comments and observations which I consider should be published with the Annual Report of the Galle Heritage Foundation in terms of Section 14((2)(c) of the Finance Act, appear in this report.

1:2 Management’s Responsibility for the Financial Statements

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

1:3 Auditor’s Responsibility

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 audit opinion.

2. Financial statements

2:1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Galle Heritage Foundation as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Foundation for the year ended 31 December 2014 had resulted in a surplus of Rs.420,074 as against the deficit of Rs.2,824,939 for the preceding year thus indicating an improvement of Rs. 3,245,013 in the financial result for the year under review as compared with the preceding year. The increase in the grants made by the Ministry for the recurrent

expenditure for the year under review by a sum of Rs.2.6 million and the rental income by Rs.1.7 as compared with preceding year had been the main reason for the improvement.

3.2 Legal Action Instituted Against the Foundation.

Subsequent to the dismissal of a female employee recruited on contract basis in the year 2011, a case had been filed in the Labour Tribunal, Galle under No.87/2012 claiming her reinstatement. The Foundation had paid a sum of Rs.60,000 as charges for this case and the judgement had not been delivered even by the end of the year under review.

4. Operating Review

4:1 Performance

According to the Action Plan prepared for the year under review it had been planned to open the Moon Bastian Gallery situated in the Galle Fort to the tourists during the final quarter of the year 2014, whereas placing of paintings and sculptures in the Gallery had not been completed even by March 2015.

4:2 Operating Inefficiencies

The following observations are made.

- (a) Even though the cost and the depreciations of the machinery and equipment and office equipment costing Rs.943,682 fully depreciated as at the end of the year under review and rendered unusable at present had been shown in the accounts, action had not been taken to eliminate that values from the accounts.
- (b) The office of the Galle Heritage Foundation had been shifted to a private building situated at a distance of 02 kilometers from the Galle Fort on 03

- (c) December 2012 at a monthly rental of Rs.30,000 and as such a rental of amounting to Rs.360,000 had to be paid annually. Despite being pointed out by the previous year report that this had been an impediment for the achievement of the objectives specified under Section 03 of the Act, under which the Foundation was established, action had not been taken even by March 2015 to establish a suitable office premises within the Galle Fort premises.

4:3 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs. 1,298,565 spent on the Deyatakirula Exhibition by the Foundation during the year under review had been brought to account as a recurrent expenditure and as compared with this expenditure with that of the preceding year it had increased by 328 per cent.
- (b) The expenditure incurred for the entertainment activities during the year under review amounted to Rs.104,211 and it had been Rs. 66,545 in the preceding year. Accordingly, as compared with year 2013 the expenditure of the year 2014 had increased by 56 per cent. The sum of Rs. 72,500 spent on the entertainment activities of the Management Committee meeting held at the end of the year under review had been the main reason for the increase of this expenditure.

4.4 Weaknesses in the Contract Administration

The following observations are made

- (a) A sum of Rs. 4,700,000 had been paid to the National Design Centre for the creation of sculptures and paintings required for the establishment of an exhibition stall in the military compartment of the Moon Garret of the Galle Fort conserved at a cost of Rs. 4,340,950 in the year 2013,.

The following observations are made

- (i) According to the first condition of the agreement relating to the creation of sculptures and paintings entered into between the National Design Centre and the Galle Heritage Foundation, it had been specified that 16 paintings should be created at the rate of Rs. 95,000 per painting “by using qualitative raw materials ”, whereas specifications relating to the quality had not been prepared. An experts report on the standard of the paintings costing Rs.1,520,000 had not been obtained before the release of security of Rs.235,000.
 - (ii) Even though the Foundation had spent a sum exceeding Rs.9 million for the conservation of military compartment and the creation of paintings and sculptures, a distinct plan relating to the maintenance of the Moon Garret, protection of the paintings and sculptures and the fulfilment of the expectation of earning income had not been prepared even by the March 2015.
- (b) Out of the estimated amount of Rs.1.7 million for the conservation of military compartment situated in the Triton Watch Garret, a part of the work valued at Rs. 1.4 million had not been carried out. Since an exhibition hall had been constructed incurring a sum of Rs. 2.1 million outside the estimate and rented out for a business venture, the historical value thereof had been damaged.
- (c) For the purpose of repairing the building of the Galle Fort Information Centre, an agreement valued at of Rs. 1,996,479 had been entered into with the Galle Fort Samurdhi Force on 28 January 2014. The contract had been abandoned halfway by the Galle Fort Samurdhi Force and without obtaining work done reports/ measurement reports or the bills required in support of the amount of the work completed out of the estimated amount work, the Foundation had paid the 20 per cent advance along with the sum totatling Rs.699,295 to the Samurdhi Force.

4.5 Delayed Project.

In order to commence a boat service in collaboration with the private sector for providing opportunity to the tourists to see the beauty of the Galle Fort from the sea, a private company had been selected in the year 2011. Further, in order to implement this project a contract valued at Rs. 500,000 had been awarded to the Galle Fort Samurdhi Force to prepare the old jetty and the surrounding area so as to suit to reach the boats to the said jetty situated in the Galle Fort owned by the Port Authority. Even though the contract had been completed the boat service had not been commenced even by the March 2015.

4.6 Staff Administration

The approved staff of the Galle Heritage Foundation had been 19 and the vacancies as at 31 December 2014 had been 08. Accordingly, 03 out of the 05 posts of Project Assistants, 02 out of the 04 posts of Management Assistants and 02 out of the 04 posts of Security Guards and the post of Project Assistant (Accounting) remained vacant.

5. Accountability and Good Governance

5.1 Presentation of the Financial Statements.

According to the Public Enterprises Circular No.PED 27 dated 27 January 2005, the financial statements should be furnished to the Auditor General within 60 days from the close of the year of accounts, whereas the financial statements of the Galle Heritage Foundation had been furnished on 16 March 2015.

5.2 Action Plan

Even though the objectives to be achieved through the Capital and Recurrent expenditure included in the Action Plan prepared for the year under review had been

mentioned, the projects and the main activities relating to the achievement of the said objectives had not been furnished so as to identify them clearly.

5.3 Internal Audit

An Internal Audit Division in terms of the Financial Regulation 133 had not been established and the internal audit for the year under review had not been done even by the Internal Audit Division of the Ministry.

5. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Control of Expenditure
- (c) Procurement Procedure
- (d) Contract Administration