

Galle Heritage Foundation - 2015

The audit of financial statements of the Galle Heritage Foundation for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 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 statements 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 Auditing 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 misstatement 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.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 Galle Heritage Foundation as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

The Accounting Policy in respect of accounting of Government grants received to the Foundation had not been disclosed in the financial statements and grants received annually had been credited to the Accumulated Fund. Even though the value of the non-current assets acquired by utilizing these grants had been decreased as a result of being depreciated, action had not been taken to amortize those amounts from grants.

2.2.2 Lack of Evidence for Audit

Even though the conservation cost of the clock tower and the belfry located in Galle Fort amounting to Rs. 15,048,677 had been included in the accounts as assets, documentary evidence in respect of the ownership of those towers was not made available.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Foundation for the year ended 31 December 2015 had been a surplus of Rs.2,090,324 as compared with the corresponding surplus of Rs.1,760,366 for the preceding year thus indicating an improvement of Rs. 329,958 in the financial result for the year under review as compared with the preceding year. In addition to this, a continuous improvement had been shown in the contribution of the Foundation as well after adjusting the employees' remuneration and depreciation on non-current assets. The increase in the grants made by the Ministry by Rs.1,000,000 had mainly attributed to this 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, claiming her reinstatement. However, it had not been disclosed in the accounts. The Foundation had paid a sum of Rs.84,000 as lawyers' fees for this case by 31 December 2015 and the judgement had not been delivered even by the end of the year under review.

3.3 Idle and Underutilized Assets

It had been planned to open the Moon Bastion Gallery in Galle Fort for tourists during the final quarter of the year 2014. Nevertheless, it had been closed without taking necessary action to earn income for over a period of one year due to failure in opening that gallery even by March 2016.

3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

A Board of Survey had not been conducted after the year 2013 in terms of Financial Regulation 756.

4. Operating Review

4.1 Performance

The objectives of the Foundation cited in Section 3 of the Galle Heritage Foundation Act, No. 7 of 1994 are as follows.

- Promotion, preservation, conservation and development of the Galle Fort together with its historic hinterland, as a historic city centre and as an area of archaeological interest.
- Acquisition, hold, maintenance and disposal of any immovable and movable property within the Galle Fort and its historic hinterland which has historical, cultural or aesthetic value.
- Promotion of interest among the residents of the Galle Fort in the preservation of the houses, buildings and other property within the said Fort and its historic hinterland.
- Providing access to, and facilities for the enjoyment of the Galle Fort and its historic hinterland.
- Promoting the general welfare of the residents of the Galle Fort and of its historic hinterland.
- Doing all such other acts or things as may be necessary for the accomplishment of all or any of the above objectives.

The following matters were observed in the examination carried out in respect of fulfilment of the above objectives.

- (a) Construction of a toilet for local and foreign tourists and handicaps included in the Action Plan in the year under review had not been carried out in the year.
- (b) The office of the Galle Heritage Foundation had been shifted to a private building located 2 kilometres away from the Galle Fort by paying a monthly rental of Rs. 30,000 from December 2012 due to repairs of the old Kachcheri building situated in the Galle Fort. The Foundation had been hindered by this situation in the fulfilling of activities such as observation of unauthorized constructions in the Galle Fort, solving problems in respect of

conservation of old houses of occupants and Government and private buildings, providing facilities to tourists and communicating information.

4.2 Management Activities

The following observations are made.

- (a) Even though a Cabinet Memorandum had been prepared in the year 2015 for achieving objectives such as acquiring more powers and implementing a method of generating income to the Foundation by identifying the need to revise the Galle Heritage Foundation Act, No. 7 of 1994, revising of that Act had not been carried out even by March 2016.
- (b) Seventy unauthorized constructions and damages to archeological monuments inside the Galle Fort had been reported during the period from January 2010 to March 2016. About fifty instances of imposing of fines from Rs. 50,000 to Rs. 500,000 thereon had been observed. The Foundation had been hindered in fulfilling objectives cited in the Act due to reasons such as the lack of legal provisions for demolishing unauthorized constructions and the minimum level of ability in directing other Governmental institutions promptly.
- (c) The Foundation had not taken action with a clear vision in respect of the role and the responsibilities assigned to the Foundation and structural changes which should be made in the Foundation relating to the preparation of preservation plans and project reports in respect of the implementation of the Management Plan submitted by the Ministry of Cultural Affairs in the first quarter of the year 2015 to the UNESCO relating to the conservation of Galle Fort World Heritage Site.
- (d) The roof of the Post Office building with an extent of 1,500 square feet which was not preserved, situated in the Galle Fort belonging to the first part of the 17th century had been totally dilapidated since a period of 5 years. Adequate attention had not been paid up to the end of the year under review for the preservation of this building.

4.3 Operating Inefficiencies

The following observations are made.

- (a) The Procurement decision had been taken on 24 June 2015 for leasing out a canteen. As 02 months had been delayed in entering into the lease agreement, the lease rental amounting to Rs. 100,000 receivable during that period had been deprived of to the Foundation and a rent of Rs. 209,200 as well was recoverable by 31 December 2015 due to non- payment of monthly lease rentals in terms of agreements.
- (b) A balance exceeding a sum of Rs.3,500,000 in the first eight months and a balance exceeding a sum of Rs. 7,500,000 as well in the four remaining months of the year under review had been continuously maintained in a savings account. If this amount was invested as fixed deposits in the same bank, the attention of the Foundation had not been paid on the ability of earning an additional interest income of approximately Rs. 72,000.

4.4 Personnel Administration

The approved cadre of the Galle Heritage Foundation had been 19 and the vacancies as at 31 December 2015 had been 06. A retired Divisional Secretary for the post of Director with effect from 11 April 2007 and a retired female officer for the post of Administrative Officer with effect from 03 January 2006 belonging to the approved cadre of the Foundation had been appointed by extending the period annually. As a result of these appointments and vacancies of the Foundation, implementation of preservation projects, projects of generation of new income and adoption of the approved Management Plan had been delayed. As such, problems had arisen in reaching the objectives of the Foundation.

5. Accountability and Good Governance

Internal Audit

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

6. 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) **Collection of Revenue**

Updating of collection of revenue such as recovery of fees for permits, lease rent of military compartments and rental of canteen.

(b) **Accounting**

Updating of accounting for depreciation of property, plant and equipment and reporting the revaluation of assets.

(c) **Procurement Procedure**

Regularization of procurement activities such as leasing out military compartments and canteen.

(d) **Reorganizing Process**

Reorganization of the Foundation speedily in accordance with the Management Plan approved by the UNESCO.