

## **Sri Lanka Foundation - 2015**

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The audit of financial statements of the Sri Lanka Foundation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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(3) of the Sri Lanka Foundation Act, No. 31 of 1973. 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 the Financial Statements**

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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 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 judgement, 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. Subsections (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**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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##### **Sri Lanka Public Sector Accounting Standard 07**

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The following observations are made.

- (a) When the fair value of an asset differs materially from its carrying amount, those assets should be revalued and those revalued amounts should be adjusted in accounts. Nevertheless, action had not been so taken in respect of fixed assets costing Rs.82,003,907.
- (b) Even though the assets costing Rs.22,133,444 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 03.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The debtors balance of the Foundation as at 31 December of the year under review amounted to Rs.24,219,424 and out of that, balances amounting to Rs.399,578 and Rs.5,421,216 had remained without being recovered for over a period of 05 years and for a period from 01 to 04 years respectively.
- (b) When renting out the auditorium and the hostel of the Foundation to outside institutions with food, 50 per cent of the invoice value should be paid at the time of applying and the balance should be paid on the date on which facilities are obtained. Nevertheless, contrary to it, a sum of Rs.1,578,137 remained receivable for providing facilities to 16 institutions and persons on credit basis in the year under review.

### **2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances with laws, rules, regulations and management decisions were observed.

**Reference to Laws, Rules, Regulations, etc.**

**Non-compliance**

- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulations 104 and 108

The loss occurred in respect of 20 “Colour Print Cartridges” valued at Rs.189,588 had been written off from books contrary to Financial Regulations.

- (b) Section 10 of Chapter XXIV of the Establishments Code and Public Administration Circular No. 30/2008 of 31 December 2008

Even though distress loans of basic salary of 10 months subject to a maximum of Rs.250,000 only can be granted in terms of the Circular, contrary to that, distress loans ranging from Rs.250,000 to Rs.721,095 totalling Rs.2,796,061 had been granted to 08 Officers

**3. Financial Review**

**Financial Results**

According to the financial statements presented, the financial result of the Foundation for the year under review had been a deficit of Rs.16,205,810 as against the surplus of Rs.7,376,078 for the preceding year, thus indicating a deterioration of Rs.23,581,888 in the financial result of the year under review as compared with the preceding year. The decrease in other income by Rs.13,045,289 and the increase in employees remuneration by Rs.10,667,145 had impacted mainly for the above deterioration.

An analysis of financial results of the year under review and 04 preceding years revealed a surplus of Rs.11,380,440 in the year 2011. Nevertheless, it had converted to a deficit of Rs.4,083,994 in the year 2012. Moreover, it had converted again to a surplus in the year 2013 and even though that surplus had further improved in the year 2014, it had converted to a deficit of Rs.16,205,810 in the year 2015. However, after adjusting the employees’ remuneration, depreciation on the non-current assets, the contribution of Rs.85,703,420 in the year 2011 had continuously improved up to the year 2014. Nevertheless, it had deteriorated by Rs.10,151,864 in the year under review as compared with the year 2014 and amounted to Rs.112,879,959.

**4. Operating Review**

**4.1 Performance**

The main objectives in terms of Section 5 of the Sri Lanka Foundation Act, No.31 of 1973 were the promotion of an understanding and belief in the democratic way of life and the protection of human rights, the promotion of universal respect through international

understanding and the co-operation for the observance of human rights and fundamental freedom, the encouragement and promotion in furtherance thereof, of providing education and knowledge on the social progress among the public and diffusion of knowledge among them. The following matters were observed in the comparison of the Action Plan prepared for the year under review for the fulfillment of those objectives, with Performance Reports.

- (a) The activities necessary for fulfilling objectives such as democratic way of life and international understanding for the observance of fundamental freedom of all individuals had not been included in the Action Plan of the year under review.
- (b) According to the Action Plan prepared for the fulfillment of objectives such as the encouragement and promotion in furtherance thereof, of providing education and knowledge on the social progress among the public and diffusion of knowledge among them, 41 Diploma Courses, 45 Certificate Courses and 47 Workshops had been planned to be conducted by 05 Sections of the Foundation in the year under review. However, in considering the progress 25 Diploma Courses, 27 Certificate Courses and 46 Workshops had not been conducted.
- (c) Sixteen programmes not included in the Action Plan such as 08 workshops, one Diploma Course, a training programme for the Sri Lanka Air Force and 6 programmes by the Digital Film Academy and TV had been conducted in the year under review due to failure in taking action for the timely revision of the Action Plan.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Action had not been taken since the year 2006 to recover salaries and other receivables amounting to Rs.283,989 due from a Director who had served on contract basis and left the service without prior notice.
- (b) Salaries and other allowances totalling Rs.504,116 due from 14 employees who had left the service without prior notice and a sum of Rs.23,750 due from festival advances granted to 04 employees out of them as well had not been recovered.

#### **4.3 Transactions of Contentious Nature**

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A sum of Rs.3,653,000 had been given to the Foundation by a private company in the year 2014 for conducting a workshop in respect of improving consumer services and a sum of Rs.3,600,000 had been paid to 06 Consultants without conducting workshops.

#### **4.4 Identified Losses**

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The following observations are made.

- (a) According to the judgement given by the Court for a case filed against the Foundation for the termination of the service of an employee who had served on assignment basis, a sum of Rs.120,000 had been paid as compensation in the year under review.

- (b) Even though the loudspeakers of the Foundation had been damaged in carrying out constructions, action had not been taken even up to 22 August 2016 to recover from the contractor, the sum of Rs.430,465, spent in the year under review for their repairs.
- (c) An income of Rs.158,520 had been lost due to providing free of charge a double bed room of the hostel to external parties for 40 days in April, May and June of the year under review.

#### **4.5 Procurement and Contract Process**

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The contract of construction valued at Rs.48,674,388 for the new extension of 24,000 square feet to the main building should have been completed and handed over on 11 March 2015. However, the constructions had been completed and handed over on 05 November 2015 after a delay of 239 days without obtaining an extension of the period of agreement. Nevertheless, action had not been taken to recover the penalty of Rs.4,867,439 for delays, in terms of Clause 8.7 of the contract agreement.

#### **4.6 Staff Administration**

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The following observations are made.

- (a) The efficient and regular operations of the Institute had been affected due to existence of approximately 50 per cent vacancies of the posts of the Executive Grade.
- (b) A Scheme of Recruitment approved by the Department of Management Services had not been available after the year 1993 and a sum of Rs.550,000 had been paid as advances to three consultants in the years 2014 and 2016 for the formulation of a Scheme of Recruitment. Nevertheless, a Scheme of Recruitment had not been formulated and submitted even up to 30 September 2016, the date of audit.

### **5. Accountability and Good Governance**

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#### **5.1 Audit Committee**

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Recommendations of Audit and Management Committees had not been presented to the meetings of the Board of Directors in terms of Section 15 of the Public Enterprises Circular No.55 of 03 December 2010.

### **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 Chairman of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Debtors Control	Delay in the recovery of debts.
(b) Staff Administration	(i) Non-formulation of a Scheme of Recruitment.  (ii) Non-maintenance of personal files systematically.  (iii) Failure in determining the minimum qualifications, experience in service and the age limit and charges payable in the recruitment of Visiting Lecturers.  (iv) Failure in determining the minimum duration in which permanent Lecturers should be engaged in academic activities.
(c) Control of Income	(i) Non-computation of income from hostels accurately.  (ii) Providing Auditorium and Hostel facilities on credit basis.