

Zoo Development and Welfare Fund - 2016

The audit of financial statements of the Zoo Development and Welfare Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of income, 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 8(5) of the National Zoological Gardens Act, No.41 of 1982. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 Fund'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 Fund'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.

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 Zoo Development and Welfare Fund as at 31 December 2016 and its financial performance and cash flows for the period then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following instances of non-compliance were observed in audit.

(a) Sri Lanka Public Sector Accounting Standard 01

In terms of Section 53 of the Standard, comparative information should be disclosed in respect of the previous period for all amounts reported in financial statements. Nevertheless, the Cash Flow Statement and Notes for Accounts had not been presented accordingly.

(b) Sri Lanka Public Sector Accounting Standard 09

In terms of Section 15 of the Standard, the inventories should be measured at the lower of cost and net realizable value. However, contrary to that, it had been measured at the cost and shown in the financial statements.

(c) Sri Lanka Public Sector Accounting Standard 07

(i) In terms of Section 13 of the Standard, in the recognition of property, plant and equipment, the relevant asset should be ready to use. However, motor vehicles valued at Rs.32,542,118 which were not in use, owned by the Fund, had been brought to account as property, plant and equipment in the financial statements as at 31 December 2016 and provisions for depreciation amounting to Rs.6,508,424 had been made for the year under review. As such, the profit of the year under review had been understated by Rs.6,508,424 and the net value of property, plant and equipment as at 31 December had been overstated by Rs.26,033,694 in the financial statements.

- (ii) Six types of various assets costing Rs.25,831,545 owned by the Fund, fully depreciated at the beginning of the year under review, had been included in the value of property, plant and equipment at the end of the year under review. Moreover, action had not been taken to recognize the unusable assets specifically and to dispose them or to revalue the usable assets and to indicate the fair value thereof in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The retention money of Rs.34,978,798 payable to suppliers and contractors relating to 36 contracts by the Fund, had not been brought to account.
- (b) Expenditure of Rs.1,993,911 for the year 2016 had not been brought to account on accrual basis.
- (c) The Value Added Tax of Rs.4,988,559 relating to January 2017 had been brought to account as accrued expenditure in the year under review. As such, the profit of the year under review had been understated and the accrued expenditure, overstated by that value.
- (d) Rents and electricity charges receivable from a trade stall of the Dehiwala Zoological Gardens had been understated by Rs.874,930 and Rs.13,642 respectively in accounts.
- (e) Demurrages amounting to Rs.149,080 recoverable in terms of the agreement on the delay of lease rents from two canteens of the Dehiwala Zoological Gardens, had not been brought to account.
- (f) Even though the souvenir stall of the Pinnawala Wagolla New Zoological Gardens had been handed over from 15 June 2016, a sum of Rs.30,390 including the revenue from rents relating to July 2016 had been overstated in accounts as the revenue from rents receivable.
- (g) Four Ostriches purchased at a cost of Rs.5,000,000 in the year 2014 under the Head of the Purchase of Animals of the Department of National Zoological Gardens, had been brought to account under exhibition animals in the financial statements of the Fund as at 31 December 2016.

2.2.3 Lack of Evidence for Audit

A detailed schedule with an age analysis and confirmation of balances in respect of the creditors balance of Rs.340,982 had not been made available to Audit as at 31 December 2016.

2.3 Accounts Receivable

The trade stall near the birds park of the Dehiwala Zoological Gardens, maintained by an external party, had been closed down without paying rentals of Rs.1,540,930 and electricity charges of Rs.13,642 relating to the period from March to May 2016 and action had not been taken by the Fund for the recovery of those amounts.

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

The following instances of non-compliance observed in audit test checks are given below.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 138(8)(9)	Even though an officer who certify the expenditure should be responsible that the voucher is accurate and complete in every detail, a sum of Rs.841,567 had been paid for the purchase of animal food based on photocopies of slips of receipt of goods orders and goods.
(ii) Financial Regulation 237(a)(b)	A sum of Rs.113,582 had been paid without a certificate that the animal food such as vegetables, fruits, meat and forage had been supplied satisfactorily in terms of the Food Agreement and without confirming that articles had been supplied.
(iii) Financial Regulation 371 (2)(a)	Expenditure of Rs.350,695 incurred for the Ridiyagama Safari Park, Hambanthota during the year under review by the Curator in 10 instances from his personal cash, had been reimbursed without issuing Petty Cash Imprest for expenditure.
(b) Government Procurement Guidelines 2006 Guideline 5.3.4 (c)	No contract should be awarded to any contractor who has been engaged to provide consulting services for the design or preparation of bidding documents. Nevertheless, providing consultancy services for the construction and the contract of the Project on Construction of the Free Elephant Enclosure of the Dehiwala Zoological Gardens, had been awarded to the same supplier.

- (c) Institute for Construction, Training and Development
Standard Document on Tenders for Construction

Paragraphs 8.1 and 8.3 of the ICTAD/SBD/04

Even though construction works valued at Rs.50 million of the Australian Zone of the Hambanthota Safari Park should be completed without delay, only clearing of the work site had been carried out even by 09 March 2017. Further, a detailed time schedule on construction had not been submitted within 07 days from the date of commencement of works.

3. Financial Review

Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2016 had been a surplus of Rs.581,182,256 as compared with the corresponding surplus of Rs.631,057,480 for the preceding year thus indicating a deterioration of Rs.49,875,224 in the financial result of the year under review as compared with the preceding year. Even though the gross profit of the Fund had increased by Rs.28,235,006, the increase in other expenditure by Rs.80,547,567 had been the main reason for the above deterioration of the financial result.

An analysis of the financial results of the year under review and the 04 preceding years revealed that the surplus of Rs.397,537,423 in the year 2012 had continuously improved to Rs.631,057,480 as at the end of the year 2015. Nevertheless, it had decreased to Rs.581,182,256 in the year under review. However, in readjusting the employees remuneration, tax paid to the Government and depreciation for non-current assets to the financial result, the contribution which was Rs.432,641,277 in the year 2012 had continuously improved to Rs.719,861,014 as at the end of the year under review.

4. Operating Review

4.1 Performance

- (a) According to the National Zoological Gardens Act, No.41 of 1982, the objectives of the Fund are as follows.
- (i) Recruitment of officers and employees for the administration of the National Zoo Development and Welfare Fund.

- (ii) Supply of special areas for parking of motor vehicles of the persons visiting to view the Dehiwala Zoological Gardens.
- (iii) Formulation of a methodology for checking whether prohibited items are carried to the Zoological Garden.
- (iv) Formulation of welfare and incentive schemes for the employees of the Zoological Gardens.
- (v) The establishment of an Advisory Committee for providing advice to the Director on all matters and problems relating to the Zoological Gardens and to make recommendations to the Minister.
- (vi) Holding the meetings of the above Advisory Committee at least twice each year.

Action had not been taken to achieve 05 out of the said 06 objectives and only the objective of formulation of a methodology for checking whether prohibited items are carried to the Zoological Garden, had been achieved.

- (b) Number of visitors arrived at the Dehiwala National Zoological Gardens, Pinnawala Elephant Orphanage, Wagolla New Zoological Gardens and Hambanthota, Ridiyagama Safari Park, under the purview of the Department of Zoological Gardens and the income received therefrom during the year 2016 as compared with the preceding year are given below.

Zoological Gardens	Classification	2015		2016	
		Number of Visitors Arrived	Income Received (Rs.)	Number of Visitors Arrived	Income Received (Rs.)
Dehiwala Zoological Gardens	Local	1,318,185	104,052,560	1,392,217,	110,518,710
	Foreign	30,402	48,004,950	32,334	50,321,200
Pinnawala Elephant Orphanage	Local	734,699	54,730,570	666,881	49,915,190
	Foreign	362,662	765,973,750	381,105	788,248,500
Pinnawala, Wagolla New Zoological Gardens	Local	333,219	25,848,250	267,656	20,972,850
	Foreign	2,213	1,735,750	1,838	1,509,250
Hambanthota Ridiyagama Safari Park	Local	-	-	217,207	48,560,000
	Foreign	-	-	499	991,250
Total		2,781,380	1,000,345,830	2,959,737	1,071,036,950

The following observations are made in that connection.

- (i) The number of local visitors arrived at the Pinnawala Elephant Orphanage had dropped by 67,818 or 9 per cent as compared with the preceding year and the income as well had deteriorated by Rs.4,815,380 representing 9 per cent.
- (ii) The number of foreign and local visitors arrived at the Pinnawala, Wagolla New Zoological Gardens commenced on 17 April 2015 had decreased by 65,563 and 375 representing 20 per cent and 17 per cent respectively as compared with the preceding year. Accordingly, it was observed that the overall income received therefrom had deteriorated by Rs.5,101,900 or 19 per cent as compared with the preceding year.

4.2 Management Activities

The following observations are made.

- (a) Two food stalls and one souvenir stall of the Dehiwala National Zoological Gardens and a canteen and a souvenir stall of the Ridiyagama Safari Park, Hambanthota had been leased out to the National Food Promotion Board, MILCO (Private) Limited and Wildlife Trust, deviating from the procurement process. A written lease agreement had not been entered into with relevant parties in respect of leasing out the canteen and the souvenir stall of the Ridiyagama Safari Park, Hambanthota and action had not been taken by the Fund to enter into a written lease agreement in respect of any stall leased out to the Wildlife Trust and for the recovery of lease rents therefor.
- (b) Even though the capital expenditure of Rs.45,003,804 had been incurred from the Fund during the year under review for the Wagolla Zoological Gardens and the Ridiyagama Safari Park, Hambanthota under the purview of the Department, the attention of the Management had not been paid on making legal provisions of the Act for these Zoological Gardens.

4.3 Underutilization of Funds

According to the revised estimate of the Zoo Development and Welfare Fund of the year 2016, provisions amounting to Rs.2,500,000 allocated for the expenditure on sales promotion and publicity, education and researches had not been fully utilized. Moreover, out of provisions of Rs.480,000,000 made for development activities of 04 Zoological Gardens, a sum of Rs.408,947,493 representing 85 per cent and out of provisions of Rs.30,000,000 made for the purchase of machinery and other equipment for new constructions, a sum of Rs.29,887,820 representing 99.6 per cent had been saved without being utilized.

4.4 Delayed Projects

The following observations are made.

- (a) According to the Action Plan of the year 2016, five projects on constructions valued at Rs.131,000,000 which had been planned to be completed during the year under review, had been postponed up to the year 2017. That was 27 per cent of the total capital expenditure estimate. However, these construction projects had not been included in the Action Plan of the year 2017.
- (b) According to the revised estimate and the Annual Action Plan of the year 2016, it was observed that only basic activities such as release of initial advances, design of plans, preparation of Bill of Quantities relating to 10 projects on constructions valued at Rs.107,000,000, proposed to be completed as at 31 December of the year under review, had been carried out.
- (c) According to the Action Plan of the year 2016, planning activities of the building of the new animal hospital proposed to be constructed and completed in the Dehiwala Zoological Gardens by 31 December 2016, had been completed. Nevertheless, construction works had not been commenced even by 31 December 2016.
- (d) Even though the remaining works of the Boundary wall near the Services Buildings of the Pinnawala, Wagolla New Zoological Gardens should be completed by 31 December 2016 according to the Action Plan of the year 2016, action had not been taken to complete the works of that project even by 31 December 2016.
- (e) According to the Letter of awarding of the project, dated 24 November 2016 of the Project on the Construction of the Protective Wall and the Guard Room of the Pinnawala Elephant Orphanage, initial works of the project should be commenced within 14 days from the date mentioned in the said Letter. Nevertheless, works had been commenced after elapse of 47 days from the date of the said Letter. Even though action had been taken to extend the period of the project up to 09 April 2017, project had not been completed even by 28 June 2017, the date of audit.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances ranging from 82 per cent to 100 per cent were observed between the estimated and actual expenditure in respect of 08 items for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in system and controls observed during the course of audit were brought to the notice of the Director General from time to time. Special attention is needed in respect of the maintenance of a Register of Contracts including all details relating to new constructions and development projects carried out by the Fund.