

Galle Heritage Foundation – 2016

The audit of financial statements of the Galle Heritage Foundation for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. 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.

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 2016 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 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 01

Even though accrual basis should be followed in the preparation of financial statements , revenue of interest on fixed deposits had been accounted on cash basis.

2.2.2 Accounting Policies

Even though according to the Sri Lanka Public Sector Accounting Standard 02 , investments which could be easily translated in to the specific cash value and short time ,with very high liquidity should be considered as cash and cash equivalents, contrary to that standard, investments on fixed deposits of 3 years had been identified as cash and cash equivalents according to the financial policy of the Foundation .

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The tax amounting to Rs.78,400 receivable for the years 2015/2016 for leasing of Sipnara canteen had not been shown in the financial statements under the revenue receivable.
- (b) The expenditure amounted to Rs.32,664,052 incurred for the conservation and improvement of the rampart which is not belonged to the property of the Foundation is included within the value of buildings of Rs.34,999,633 according to the trial balance and those expenditure had been capitalized under fixed assets as well.

- (c) Even though according to the financial statements depreciation for fixed assets relating to the year under review had been shown as Rs.278,963 , according to the calculations carried out in audit that value had been Rs.1,919,787. Thus the depreciations in the year had been under stated by Rs.1,640,824 in financial statements.

2.2.4 Unexplained Differences

A difference of Rs.3,667,218 existed relating to 20 Ledger Accounts among the balances of the Main Ledger and the balances of the trial balance presented to audit in respect of the financial statements of the year under review.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items was not made available to audit.

Item of Accounts -----	Value -----	Evidences not Made Available -----
	Rs.	
(a) Fixed Assets	38,915,163	Registers of Fixed Assets
(b) Other Accounts Receivable	1,194,048	Schedules for accounts receivable and payable Certificates on confirmation of balances , age analysis
(c) Other Accounts Payable	1,889,242	

- (d) All Journal Entries relating to the financial statements in the year under review and documentary information relating to that had not been furnished to audit and any facility had not been available to examine through the accounting system as well. Accordingly, the accuracy of the Accounts and Journal Entries was problematic in audit.

2.3 Transactions not Supported by Adequate Authority

Even though new investments amounted to Rs.12,000,000 which the maturity reached in three years had been done on 27 October 2016, the approval of the Board of Management in that connection had not been obtained.

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

Even though according to the Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No.05/2016 dated 31 March 2016, the Annual Boards of Survey should be carried out for the verification of stores , and where necessary ,for reporting on unserviceable stores, the Foundation had not taken action accordingly after the year 2013. The value of such assets amounted to Rs.38,915,163 at the end of the year under review.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Foundation for the year ended 31 December 2016 had been a surplus of Rs.3,258,813 as compared with the corresponding surplus of Rs.2,090,324 for the preceding year thus indicating an improvement of Rs. 1,168,489 in the financial result for the year under review as compared with the preceding year. The increase in the grants made by the Ministry by Rs.1,775,000 had mainly attributed to this improvement.

In the analysis of the financial results in the year under review and 4 preceding years, the surplus amounted to Rs.545,882 in the year 2012 had become a deficit of Rs.2,824,939 in the year 2013 and the surplus had increased continuously from the year 2014 to the year under review. The contribution of the Foundation had decreased in the year 2013 as compared with the year 2012 in considering the employee emoluments , and depreciation on non-current assets . The contribution of Rs.7,263,063 in the year 2014 had increased continuously up to Rs.11,151,762 by the year under review.

3.2 Legal Action Instituted against the Foundation or by 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 on 21 December 2012, claiming her reinstatement. However, it had not been disclosed in the accounts. The Foundation had paid a sum of Rs.120,000 as lawyers' fees for this case by 31 December 2016 and the judgement had not been delivered even by the end of the year under review.

4. Operating Review

4.1 Performance

The objectives of the Foundation cited in Section 03 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 observations are made in respect of achieving the above objectives.

- (a) Bottles and waste which were not disposed during a long period had been piled in several places in the compartments in the rampart and several other places and the area for the access of the upper storey in the upper side of the military compartments had been eroded and decayed.
- (b) The office of the Galle Heritage Foundation which had been maintained in the old Kachcheri building situated in the Galle Fort had been shifted to a private building away from the Galle Fort by paying a monthly rental of Rs. 30,000 from December 2012. It was an obstacle to maintain the activities of the Fort and its historic hinterland.
- (c) Even though the income of the Information Centre amounted to Rs.52,929 in the preceding year ,it had been decreased up to Rs.32,480 in the year under review by Rs.20,449.

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 October 2017.
- (b) 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.
- (c) The Galle Fort had been recognized as a World Heritage Site by the UNESCO. However, the management of the Galle Heritage Foundation had failed to implement the Management Plan which was submitted to the UNESCO for the preservation of Galle Fort and act in accordance with the guidelines of the UNESCO .
- (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 6 years. Adequate attention had not been paid up to the end of the year under review for the preservation of this building.

- (e) Even though plans had been made to install a CCTV system under the uplift of welfare facilities and infrastructure facilities according to the Action Plan 2016 with a view to prevent the unethical acts and other destructions could have been occurred in the Galle Fort, the necessary actions for that purpose had not been taken.
- (f) Action had been taken to begin legal actions for 06 places out of 28 un authorized constructions identified by the Urban Development Authority in Galle Fort at present and the Board of Management had failed to take any action in respect of remaining 22 un authorized constructions.

4.3 Operating Activities

The following observations are made.

- (a) Even though the “Sipnara” canteen had been rented out by the Galle Heritage Foundation from 01 September 2015 to 31 August 2016 at a monthly rent of Rs.50,000 , an income amounted to Rs.600,000 had been deprived to the Galle Heritage Foundation due to failure to pay the rent by the lessee.
- (b) Even though the Dac Easy Accounting System had been used from the year 2005 to the year 2016 for the entering of the data of the Institution , the Dac Easy Accounting System had not been used accurately in the year under review.

4.4 Procurement and Contract Procedure

Reparing of the clock tower in the Galle Fort under 2 steps at an estimate of Rs.9,203,781 such as reparing of the inside of the clock tower, reparing the wooden staircase and electrical works had been carried out by the Central Engineering Consultancy Bureau and the following observations are made in this connection.

- (a) Even though reparing had been done for the prevention of water leakage in to the clock tower by spending Rs.5,520,478 under first step , it was observed at the spot test carried out on 11 October 2017 that the walls are being decayed by the water flowed in to the clock tower in raining .
- (b) Even though a sum of Rs.340,800 had been estimated and paid for the removal of the decayed parts of the wooden staircase and to make reparing by using first class wood and to apply water based paints under the work item B-2 of the estimate, it was observed that only applying of paint for the staircase existed had been done.
- (c) Estimate of Rs.1,519,320 had been made for the electrical works under work item E of the relevant estimate of the reparing of the clock tower situated in the Galle Fort and expenditure of Rs.1,331,865 had been incurred in the year 2016. However, that electrical system was in an inoperative condition at the spot test carried out on 11 October 2017.

4.5 Delayed Projects

The activity of converting the military compartment in the Moon Garret situated in the Galle Fort to an Exhibition Gallery with colonial history, commenced in the year 2012 and a sum of Rs.11,340,426 had been spent at the end of the year under review. However, the activities of the Exhibition Gallery had not been completed. As a result of that, 12 sculptures obtained by spending Rs.3,180,000 and 16 paintings obtained by spending Rs.1,520,000 had been kept in the information Centre during the period of 3 years without being placed in the Exhibition Gallery as at year 2014. As such, 02 air condition machines which had been fixed in the Exhibition Gallery by spending Rs.684,351 in the year 2015 were in an inoperative condition by September 2017, the date of audit.

4.6 Personnel Administration

The following observations are made.

- (a) The approved cadre of the Galle Heritage Foundation had been 19 and the vacancies as at 31 December 2016 had been 08. 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 on contract basis.
- (b) Three Cultural Officers of the Ministry of Cultural Affairs had been attached for 03 posts of Development Assistants. As a result of these appointments and vacancies existed, implementation of conservation projects, generation of new income projects delayed and failure to adopt the approved Management Plan.

5. Accountability and Good Governance

5.1 Presentation of Accounts

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 presented on 29 September 2017.

5.2 Audit Committees

Interms of Paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the audit committees should be held quarterly in each year, the Galle Heritage Foundation had not established audit committees.

5.3 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 shown so as to identify them clearly.

5.4 Procurement Plan

A Procurement Plan in terms of Guideline 4.2.1 of the Government Procurement Guidelines 2006 had not been prepared by the Procurement Entity.

5.5 Budgetary Control

A budget had not been prepared for the year under review.

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 by audit queries. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a) Control of Fixed Assets	(i) Failure to maintain the Register of Fixed Assets in an updated manner. (ii) Accounting Principles followed in respect of the accounting of fixed assets had not been disclosed by the financial statements. (iii) Failure to carry out a physical examination relating to fixed assets at the end of the year. (iv) Expenses which could not be capitalized were capitalized under fixed assets.
(b) Accounting	(i) Failure to classify assets properly. (ii) Differences existed between the trial balance and the ledger. (iii) Journal Vouchers and the documents relating to that were not made available.. (iv) Failure to calculate the depreciations according to the depreciation ratio disclosed in the Account.
(c) Accounts Receivable and Payable	(i) Action had not been taken to recover the rental income in arrears (ii) Schedules of the Accounts receivable and payable had not been presented

